



TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Legislative & External Affairs Committee Meeting Public Comments

April 27, 2022



City of Galveston

OFFICE OF THE CITY MANAGER

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April 25, 2022

Mr. Michael Gerik, Chairman
Legislative & External Affairs Committee
Texas Windstorm Insurance Association Board
P.O. Box 99090
Austin, TX

Dear Chairman Gerik,

I appreciate the opportunity to provide written comments as the Texas Windstorm Insurance Association (TWIA) Legislative & External Affairs Committee begins to develop TWIA's 2022 Biennial Report to the Texas Legislature.

The City of Galveston strongly supported action by the 87th Texas Legislature to extend the work of the Windstorm Insurance Legislative Oversight Board ("Oversight Board") to allow for a thorough examination of TWIA's funding and structure and recommend substantive improvements towards providing sustainable windstorm insurance. Working in partnership with the Oversight Board, TWIA has a unique opportunity to identify structural changes that facilitates greater benefits for stakeholders and the State of Texas.

Since 1971, the TWIA role has been "the insurer of last resort" as a primary retail insurance provider in the fourteen (14) counties along the Texas coastline. Over the past 47 years, the Texas Legislature has attempted to correct a myriad of financial, adjudication, and policy problems, with the most recent major TWIA reforms occurring in 2011 and 2015. Rather than taking on another band-aid approach to correct a dysfunctional system, the TWIA Legislative & External Affairs Committee should seek examination of approaches that transition TWIA's role from primary retail insurer towards a reinsurance provider that effectively partners with the private insurance market. Part of this work includes examining how the catastrophic risk pools of other states operate to close the insurance protection gap.

The Reinsurance Association of America (RAA) identified the role of risk transfer as a solution used by the public and private sector including reinsurers, financial institutions, and government programs. In 2021, during a hearing on "21st Century Communities: Climate Change, Resilience, and Reinsurance" before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, RAA identified the Florida Hurricane Catastrophe Fund (FHCF) and Florida Citizens Property Insurance Corporation (FCPIC) as examples where risk transfer has been used. However, there are important lessons that should be considered from the Florida experience.





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Restructuring TWIA as a reinsurance provider reinsurer is an option the Texas Sunset Commission Staff Report identified as an alternative considered. The Staff Report suggests this as an option that would incentivize the private insurance market to provide more affordable windstorm insurance along the Texas coast. Under this alternative as described in the Staff Report, as a reinsurer TWIA would receive a portion of the premiums insurance companies collected and invest the funds. In the event of a catastrophic storm, TWIA would offset the risk to insurance companies by paying for claims once the claims exceed a certain cost threshold.

While the Sunset Commission Staff Report dismissed this reinsurer role alternative as an untested concept, I do not believe the alternative has been fully vetted or the advantages completely recognized. Restructuring TWIA as a reinsurance provider is an option that would incentivize the private insurance market to provide more affordable windstorm insurance along the Texas coast. The funding structure review to ensue with the Oversight Board presents an opportunity to closely examine methods and benefits to policyholders and the state by transitioning TWIA towards a reinsurer role.

As a reinsurer, TWIA could sell low cost attachments to private market insurance companies.

1. A significant number of windstorm claims processed by TWIA involve smaller claim amounts.
2. A low-cost attachment could restrict TWIA coverage to claims above \$25,000.
3. Such an arrangement would reduce the risk for the private insurance company. Moreover, TWIA could market the low-cost attachment statewide to induce greater private sector participation as well as further spread and reduce risk.
4. In addition, such an arrangement could allow private insurance companies to bundle policies (i.e. homeowners, automobile, life, and windstorm), thus providing an even more lucrative incentive.
5. By reducing risk and expanding private insurance market involvement, premiums can become more affordable for policyholders.
6. As a reinsurer, TWIA reduces their costs with administrative overhead, processing small claims, or an expensive claims adjudication process.

Coastal counties represent 34 percent of Texas' real gross product, 23.5 percent of the state's population, and 25 percent of Texas jobs. In addition, eighty (80) percent of the nation's military grade fuel and sixty (60) percent of aviation fuel is supplied by this region. Approximately, forty-two (42) percent of the nation's basic chemical ingredients required in a wide range of everyday products used by consumers and industry originates from petrochemical infrastructure operated by workers who reside in the upper Texas coast.





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The ability of coastal residents and business owners to insure their property is a critical component to maintaining economic stability and quality of life not only for coastal areas, but the entire state of Texas. Maintaining affordable windstorm coverage is essential for sustaining a workforce on the Texas coast that provide services critical industries for Texas.

TWIA should work collaboratively with the Oversight Board to develop transformative approaches for providing windstorm insurance in Texas. I urge the Legislative & External Affairs Committee to consider legislative recommendations that significantly restructure TWIA in a reinsurer role to achieve affordable quality windstorm insurance for property owners in Texas.

Again, thank you for this opportunity to provide comment as you begin your work on the 2022 Biennial Report to the Texas Legislature. We stand ready to assist TWIA staff and the Oversight Board as you evaluate and weigh alternatives and recommendations to improve TWIA and provide sustainable, affordable windstorm protection.

Sincerely,

Brian Maxwell
City Manager



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