TWIA Fact Book

Updated: 5/8/2024

David Durden, General Manager

Table of Contents

TWIA Overview

History and Purpose

The Texas Windstorm Insurance Association (TWIA or Association) was established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the private market. The Legislature's action was a response to market constrictions along the Texas coast after several hurricanes. TWIA is governed by Texas Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

TWIA serves as a residual insurer of last resort and as such is not a direct competitor in the private market. TWIA's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes all the first-tier coastal counties and a portion of Harris County (second tier).

TWIA operates as an insurance company by issuing policies, collecting premiums, and paying losses. TWIA is composed of all property insurers authorized to engage in the business of property insurance in Texas other than insurers prevented by law from writing on a statewide basis the coverages available through the Association. TWIA is required by law to transfer its net gain from operations each year into the Catastrophe Reserve Trust Fund (CRTF), an account maintained by the Texas Comptroller dedicated to the payment of future TWIA catastrophe losses.

Mission and Vision

TWIA's mission is to provide essential property insurance to Texans when no one else will. Accompanied by a vision to be respected and trusted by our stakeholders, TWIA's mission, vision, and values are the foundation upon which the Association is built. In carrying out this purpose, TWIA facilitates commerce in the coastal counties by enabling real estate sales and residential and commercial property mortgages and by providing a means to rebuild and recover after a catastrophic event.

Vision

To be respected and trusted by our stakeholders.

Service & Respect

We are committed to serving as a reliable, credible, and respectful provider

Efficiency & Stability

We are financially stable and can be counted on to fulfill our obligations

Integrity & Accountability

We are an ethical organization that is accountable to those we serve

Coverage and Eligibility

TWIA policies provide coverage for wind and hail losses only. No other perils are covered by TWIA policies. Applications for coverage, accompanied by full or partial payment of the annual premium, may be submitted to TWIA through an agent properly licensed through the Texas Department of Insurance (TDI).

To be eligible for a TWIA policy, applicants and properties must meet certain criteria defined by the Texas Legislature. The criteria include:

- Applicants must have been denied coverage by at least one insurer in the private market,
- Properties must be located in the designated catastrophe area,
- Properties must be certified as having been built to applicable building codes,
- Properties located in specified flood zones (V zones) that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the NFIP must provide proof of flood insurance coverage, and
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Coverage Area

TWIA policies provide coverage for residential and commercial property located within the area designated by the Commissioner of Insurance. The specific counties are Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy. When the property is located inside the city limits and east of Highway 146, the following portions of Harris County are also included: La Porte, Morgan's Point, Pasadena, Seabrook, and Shoreacres.

Building Codes & Certificates of Compliance (WPI-8, WPI-8-C, or WPI-8-E)

Texas Insurance Code Chapter 2210 outlines the building code and inspection requirements for TWIA eligibility and provides for limited exceptions. In accordance with Chapter 2210, TWIA requires a Certificate of Compliance (WPI-8, WPI-8-C, or WPI-8-E) on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. TDI administers the Windstorm Inspections Program and issues all Certificates of Compliance for ongoing and completed improvements. Property owners can contact TDI before beginning construction to have a TDI-appointed qualified inspector inspect their property and certify that it is fully compliant with the applicable windstorm building code.

TWIA offers building code credits for properties that meet or exceed recent building codes. Retrofit credits are available to homes built prior to September 1, 1998, that are retrofitted with exterior opening protections that meet current windborne debris construction standards.

Insurability Guidelines

Properties must be in an insurable condition to be eligible for TWIA coverage (i.e. in good repair with no unrepaired damage or hazardous conditions). TWIA regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Current TWIA Statistics

As of March 31, 2024, TWIA policies in-force numbered 247,531 with insured building and contents coverage totaling $95.7 billion. 2023 written premiums were $653.1 million.

Funding

Since 1971, TWIA has taken in approximately $7 billion in premiums and returned more than $5.9 billion to policyholders in claim payments and claim expenses. Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. TWIA's current funding structure is, in order:

- TWIA premiums and amounts in the Catastrophe Reserve Trust Fund (CRTF)
- $500 million in Class 1 public securities
- $500 million in Class 1 member company assessments
- $250 million in Class 2 public securities
- $250 million in Class 2 member company assessments
- $250 million in Class 3 public securities
- $250 million in Class 3 member company assessments
- Reinsurance or alternative risk financing in an amount sufficient to achieve total funding not less than a 100-year hurricane season.

The Association is prohibited by statute from paying policyholder excess losses from a catastrophe year with premium and other revenue in subsequent years.

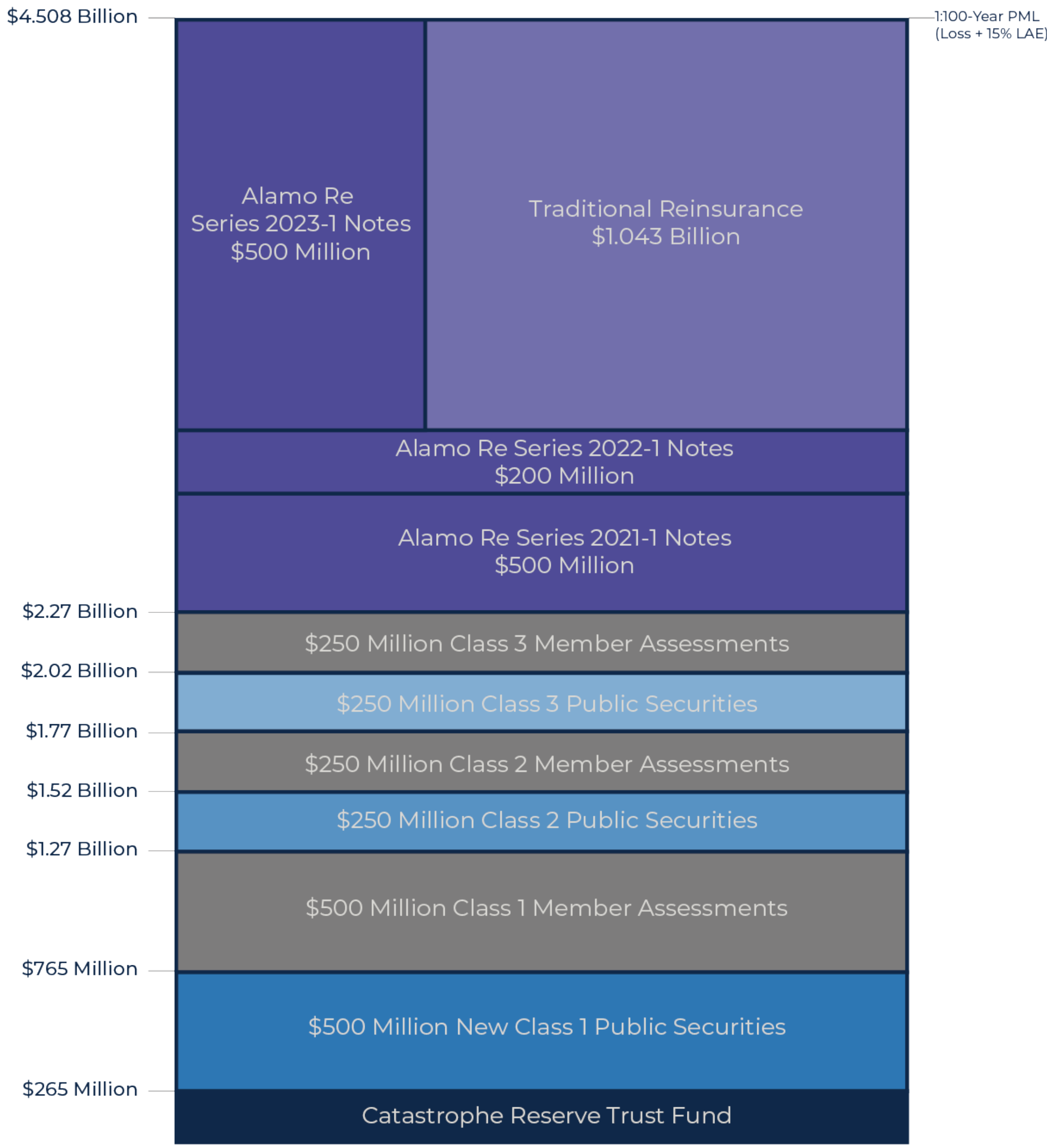
All classes of public securities are backed solely by TWIA revenues and are not obligations of the State of Texas. Class 1, 2, and 3 public securities are repaid by TWIA premiums and, if premiums and all other revenues are not sufficient, surcharges on TWIA policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property and auto insurance policies that insure property and automobiles located in the catastrophe area.

TWIA is prohibited by statute from purchasing reinsurance from an insurer or broker that provides the catastrophe modeling TWIA uses to determine the probable maximum loss or make rate decisions. Texas Insurance Code also requires that TWIA's purchase of reinsurance above its minimum required funding level (1-in-100 probable maximum loss) be paid for by an assessment on member insurers of the Association.

2023 Hurricane Season Funding

TWIA's 2023 reinsurance program, effective June 1, 2023 to May 31, 2024, provides access to $4.508 billion in total funding. The funding program includes $1.043 billion of traditional reinsurance and $1.2 billion in catastrophe bonds placed atop the $2.27 billion of total statutory funding sources. The traditional reinsurance program provides coverage on an aggregate basis, meaning multiple hurricane events in a single season would be covered under the same reinsurance program. The current balance of the Catastrophe Reserve Trust Fund is $265 million.

TWIA's funding for the 2023 hurricane season is illustrated by the following chart:



TWIA Fast Facts[1]

2023 TWIA Premiums	$653.1 Million		
TWIA Policies In Force	247,531		
TWIA Total Insured Value	$95.7 Billion		
TWIA Registered Agents	7,610		
Employees + Contractors	225 + 29		
Operating Cost as a % of Premium	6% TWIA	11% Texas[2]	36% Plans[3]
12th Largest Allied Lines Writer in the US[4]			
2nd Largest Property Insurance Plan in the US[5]			

[1] Data as of 3/31/2024
[2] From the State of Texas Insurance Expense Exhibits for Calendar Year 2022
[3] Data for 36 US Property Insurance Plans as of 12/31/2022
[4] Based on 2022 NAIC Market Share Report (includes TWIA and Texas FAIR Plan Association as one group)
[5] Among the 36 US Property Insurance Plans

Board of Directors

Composition

TWIA is governed by a Board of Directors appointed by the Commissioner of Insurance. The Board consists of 3 public members residing in the first tier coastal counties and representing certain regions of the catastrophe area, 3 non-coastal representatives residing more than 100 miles from the coast, and 3 industry representatives actively writing and renewing windstorm and hail insurance in the first tier coastal counties. All Board members must have experience in insurance, general business or actuarial principles. Texas Insurance Code Chapter 2210 also requires coastal and inland members representing the general public, and their spouses, to meet certain financial conflicts of interest provisions.

2024 Board Members

Name	Member Representation
Chandra Franklin Womack, *Chair*	First Tier Coastal Representative
Georgia R. Neblett, *Vice Chair*	First Tier Coastal Representative
Karen Guard, *Secretary/Treasurer*	Insurance Industry Representative
Tim Garrett	Non-Seacoast Territory Representative
Michael Gerik	Insurance Industry Representative
Peggy Gonzalez	First Tier Coastal Representative
Esther Grossman	Insurance Industry Representative
Mary Keller	Non-Seacoast Territory Representative
Tony Schrader	Non-Seacoast Territory Representative

Primary Objectives

Texas Insurance Code Chapter 2210 outlines the Board's objectives: comply with Chapter 2210, the plan of operation, and commissioner rules and sound insurance principles; establish a code of conduct and performance standards; and, establish, and adhere to terms of an annual evaluation of Association management necessary to achieve the statutory purpose, Board objectives, and any performance or enterprise risk management objectives established by the Board.

Highlights

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- All Board members are unpaid volunteers appointed by the Commissioner of Insurance
- Board composition includes representation of coastal and inland residents, insurance agents, and insurance companies
- The Board conducts public meetings at least quarterly to discuss administration of the Association
- All Board meetings and teleconferences are open to the public and broadcast live at www.TWIA.org
- Archived recordings of all meetings are available on the Association's website for two years

Catastrophe Response

Background

TWIA's Catastrophe (CAT) Incident Response Plan is a dynamic document detailing the roles and responsibilities of each department in response to an incident. The CAT Plan has been activated 25 times since January 2012. High customer satisfaction survey scores and low claims cycle times demonstrate the success of TWIA's responses in each instance. The use of a corrective action program drives continuous improvement to the CAT Plan and helps to build a culture of readiness throughout the Association.

Key Elements

Key elements of the plan include the identification of roles and responsibilities for all TWIA departments, details about scalability to the size of an incident, operational guidelines and directives for TWIA's response to a catastrophe, and a corrective action program incorporating after-action reporting and improvement planning processes. The plan addresses TWIA's communication of claim filing instructions, contact information, remote facility locations, and updates on TWIA's response to stakeholders. Finally, the CAT Plan outlines the steps necessary to secure funding to pay all covered claims.

TWIA uses a resource scalability model to determine—before a storm makes landfall—how many adjusters, customer care representatives, quality analysts, inspectors, and examiners will be needed to handle the projected claim volume from an incident. Contracts to secure the number of field adjusters needed for each modeled storm scenario include performance standard requirements and liquidated damage provisions for failure to meet the resource commitments. TWIA also has a dedicated call center with scalable capacity to intake more than 100,000 claims in 30 days.

Ongoing Improvements

Since 2011, TWIA has continuously improved the CAT Plan. The 2024 CAT Plan will look to address stakeholder feedback from recent storms and include lessons learned from Association testing, training, and exercises. Built into the Association's annual CAT Plan review process is a Corrective Action Program (CAP) which is designed to identify gaps and deficiencies in planning. Annual enterprise-wide tests of the CAT Plan are conducted and consistently show a high level of Association readiness. A Multi-Year Strategic Testing and Exercise Plan (MYSTEP) is in place to guide future testing, training, and exercises.

Highlights

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- Detailed, proactive, enterprise-wide planning
- Defined roles and responsibilities for all departments
- Increased scalability, including call center, staffing, and other resource models
- Regular testing, training, and exercises
- Metrics evaluating performance in real time
- Multiple options for claim reporting

Claims Dispute Resolution

Background

Texas Insurance Code Chapter 2210 outlines the judicial remedies available to TWIA policyholders, including appraisal for disputes arising over the amount of a loss and Alternative Dispute Resolution (ADR) and litigation for disputes regarding coverage of damages. TWIA claims are not subject to Texas Insurance Code Chapters 541 (Unfair Settlement Practices) and 542 (Prompt Payment of Claims Act), and Business Commerce Code Chapter 17 (Deceptive Trade Practices Act).

Key Elements

If a policyholder disputes the amount TWIA will pay for an accepted loss, the policyholder must work with TWIA to resolve any disputes or request appraisal. The policyholder has 60 days after receiving TWIA's claim decision to request appraisal. Policyholders with replacement cost coverage have up to 545 days to provide proof of repairs to recoup the recoverable depreciation on their claim and 30 days to request appraisal after receiving TWIA's replacement cost payment.

If a policyholder disputes TWIA's decision to partially or fully deny coverage for a claim, they must provide notification that they intend to bring suit against TWIA. The policyholder has two years after receipt of a claim decision to notify TWIA of their intent to file suit. TWIA provides the policyholder with a form they can use for this purpose at the time of the coverage decision. As a prerequisite to filing suit, TWIA has the option to require a policyholder to submit the dispute to ADR. Mediation is the primary form of dispute resolution TWIA uses. All appraisal and mediation costs and expenses are shared equally by both parties.

Preventing Disputed Claims

TWIA remains committed to preventing unnecessary disputes and litigation through the use of quality assurance programs and feedback from customer satisfaction surveys, continued focus on improving communication with policyholders, and management's regular review of potential and reported disputed claims.

TWIA also offers a supplemental payment process, which allows policyholders to provide TWIA with new information about their claim so the Association may re-evaluate the claim decision for the purposes of issuing additional payment. Policyholders do not have to engage in the appraisal process or file a lawsuit to request a supplemental payment. 76% of all appraisal requests to date have been resolved without requiring the policyholder to proceed with the formal appraisal process.

Highlights

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- Approximately 4% of all TWIA claims involve a dispute
- State law requires disputes over the accepted portion of a TWIA claim to be resolved through appraisal
- The policyholder has 60 days after a claim decision to request appraisal
- Approximately 88% of all disputed claims involve an appraisal request
- State law does not eliminate the policyholder's right to file a lawsuit
- The policyholder has two years after a claim decision to file a Notice of Intent to Sue (litigation) form
- Only 0.44% of all claims involve a lawsuit

Depopulation

Background

Legislation passed in 2015 authorized TWIA to develop depopulation programs to assist TWIA policyholders in obtaining coverage from the private insurance market and to reduce its exposure following a period of policy growth between 2005-2015. Under TWIA's depopulation programs, participating insurers must file rates with and have forms approved by the Texas Department of Insurance (TDI) and sign Nondisclosure (NDA) and Participation Agreements (PA) to obtain electronic access to TWIA policyholder data.

Voluntary Market Depopulation Program

Approved insurers participating in the Voluntary Market Depopulation Program must approach the agent of record for a policy to make offers of coverage at least 60 days prior to policy renewal. Acceptance of any offers is strictly voluntary, and no changes will take place unless the agent and policyholder affirmatively accept the participating insurer's offer. Participating insurers may make offers of coverage at any time throughout the year. Currently, one carrier is actively participating in the Voluntary Program.

Assumption Reinsurance Depopulation Program

The Assumption Reinsurance Depopulation Program is, with notable exceptions, modeled after take-out programs in Florida and Louisiana. Interested carriers must be reviewed by TDI and TWIA to identify the policies they would like to assume. Agents review and approve or reject any offers from the carriers. Policyholders who receive offers must take action to remain with the Association within a sixty-day period or have their policy automatically assumed by the carrier. Agents and policyholders may not make depopulation decisions during hurricane season.

The last active round of the Assumption Program was Round 6 (2022-2023), which ended on March 1, 2023, with 46 policies transferring to the one participating carrier. There will be no Round 7 or 8 of the Assumption Program as no carriers submitted applications to participate in the programs.

The first six rounds of the program are outlined below:

Assumption Reinsurance Depopulation Program						
Program Year	2016-17	2017-18	2018-19	2019-20	2021-22	2022-23
Participating Carriers	4	3	2	2	1	1
Carrier Selections	102,171	109,356	75,039	64,380	32,318	31,959
Agent-Approved Offers	18,047	3,091	3,967	1,866	210	79
Policies Assumed	11,164	1,634	2,080	1,002	125	46

Highlights

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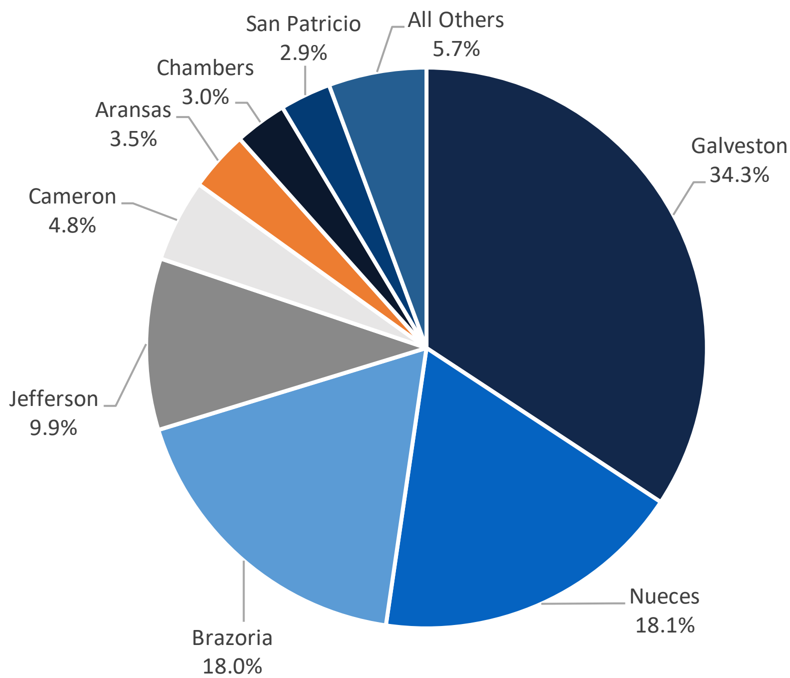
- Depopulation involves helping TWIA policyholders find coverage in the private insurance market
- TWIA has two depopulation programs: Voluntary Market and Assumption Reinsurance
- Participation in any depopulation program is strictly voluntary
- TWIA has facilitated the transfer of more than 20,000 policies into the private market since 2015
- Policies have been transferred to four carriers through the Voluntary Program

Distribution by County

Distribution of Insured Limits by County

as of 03/31/2024



County	Insured Limits*	Percentage
Galveston	$34,005,190,600	34.3%
Nueces	$17,920,539,000	18.1%
Brazoria	$17,829,691,000	18.0%
Jefferson	$9,813,494,800	9.9%
Cameron	$4,717,896,900	4.8%
Aransas	$3,453,039,800	3.5%
Chambers	$2,988,862,600	3.0%
San Patricio	$2,919,416,000	2.9%
Harris	$1,794,758,600	1.8%
Matagorda	$1,744,891,500	1.8%
Calhoun	$1,474,318,200	1.5%
Kleberg	$322,174,600	0.3%
Willacy	$132,040,000	0.1%
Refugio	$133,044,900	0.1%
Kenedy	$6,853,300	0.0%
All Counties	**$99,256,211,800**	**100.0%**

*Insured limits include building and contents.

Highlights

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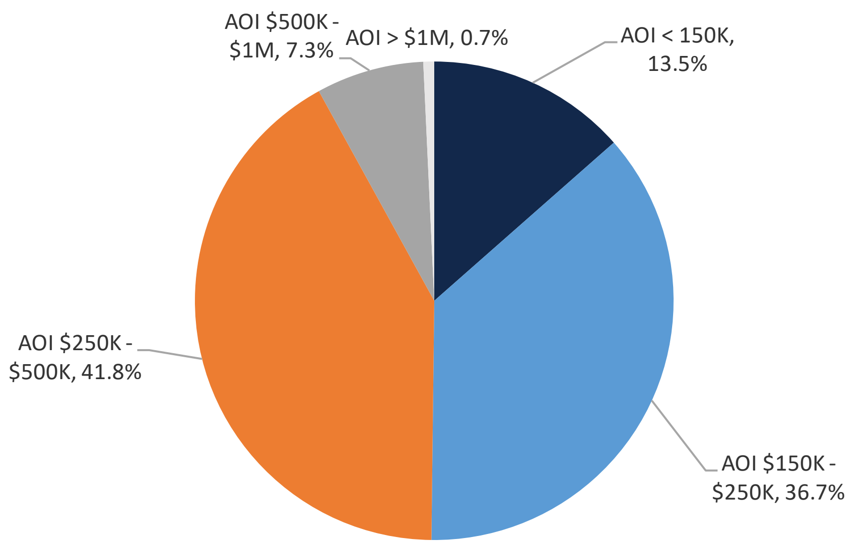
- Total limits insured by TWIA as of 03/31/2024 are approximately $99.3 billion
- More than 50% of TWIA's exposures are in Galveston and Nueces counties
- Brazoria (18.0%), Jefferson (9.9%), and Cameron (4.8%) counties are the next largest areas of exposure

Distribution by Amount of Insurance

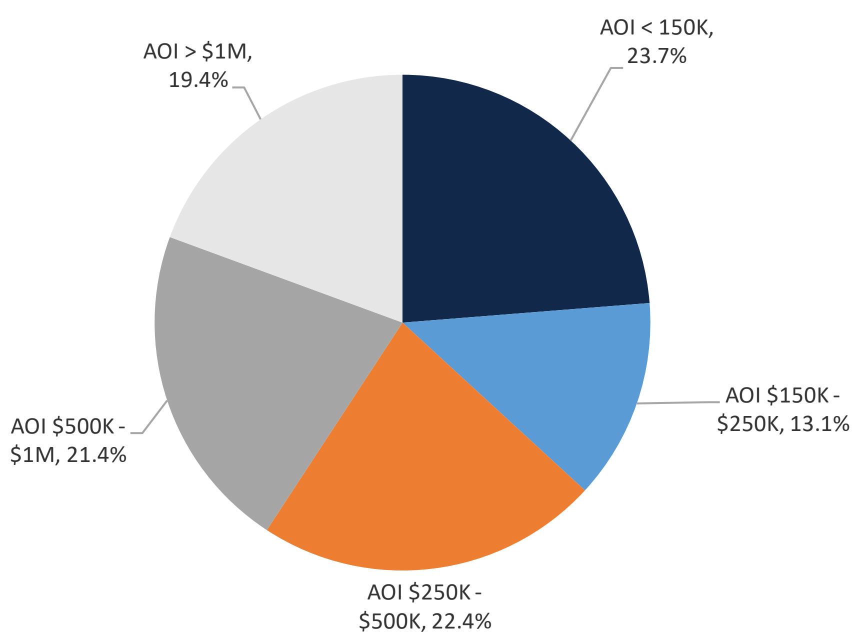
Distribution by Amount of Insurance (AOI) for Residential Structures

as of 03/31/2024



Distribution by Amount of Insurance (AOI) for Non-Residential Structures

as of 03/31/2024



Highlights

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- TWIA insures 233,421 residential structures with an average amount of insurance of $287,364
- 92.0% of residential structures have limits less than $500,000
- 1,710 (0.7%) residential structures have limits greater than $1 million
- TWIA insures 17,140 non-residential (commercial and governmental) structures with an average amount of insurance of $696,535
- Only 3,324 (19.4%) non-residential structures have limits greater than $1 million

Eligibility for TWIA Coverage

Background

To obtain or continue windstorm and hail coverage through the Texas Windstorm Insurance Association (TWIA), property must meet certain requirements established by the Texas Legislature. These requirements are outlined in Texas Insurance Code Chapter 2210.

Requirements

In order to be eligible for a TWIA policy, applicants and properties must meet the following criteria:

- Properties must be located in the area designated by the Commissioner of Insurance, which currently includes all 14 first-tier coastal counties (Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy) and parts of Harris County east of Highway 146;
- Applicants must have been denied coverage by at least one insurer authorized to engage in the business of and writing windstorm and hail coverage in the designated area;
- Properties must be certified by the Texas Department of Insurance as having been built to applicable building codes, with limited exceptions;
- Properties located in flood zones V, VE, or V1-30 that were constructed, altered, remodeled, or enlarged on or after September 1, 2009 and that can obtain flood insurance through the NFIP must provide proof of flood insurance coverage; and
- Properties must meet all other Association underwriting requirements, including maintaining the structure in an insurable condition – in good repair, with no unrepaired damage or hazardous conditions.

TWIA regularly inspects properties as part of its underwriting process to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property. Properties may be inspected physically by a vendor or remotely with high-quality aerial imagery and risk management reports. Policies may be reevaluated at any time to ensure continued compliance with all eligibility requirements.

Highlights

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- Eligibility requirements are set out in Texas Insurance Code Chapter 2210.
- Properties must be located in the catastrophe area designated by the Commissioner of Insurance.
- Applicants must have received a declination from at least one authorized carrier.
- Structures built, altered, remodeled, enlarged, repaired or to which additions are made on or after January 1, 1988, with some exceptions, must obtain a Certificate of Compliance.
- Properties located in a V flood zone must have flood insurance.
- Properties must meet all other Association underwriting requirements.

Funding

Authority & Legislation

Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. TWIA's funding sources, as outlined in statute, provide a combination of public securities and member company assessments and requires total funding in an amount not less than the probable maximum loss for the Association for a catastrophe year with a probability of one in 100.

The different sources of funding available to pay TWIA losses are, in order:

- TWIA premiums and other revenue
- Available reserves and amounts in the Catastrophe Reserve Trust Fund (CRTF)
- Up to $500 million in Class 1 public securities
- Up to $500 million in Class 1 member company assessments
- Up to $250 million in Class 2 public securities
- Up to $250 million in Class 2 member company assessments
- Up to $250 million in Class 3 public securities
- Up to $250 million in Class 3 member company assessments
- Reinsurance or alternative risk financing in an amount sufficient to achieve total funding not less than a 100-year hurricane season

TWIA is prohibited from paying excess losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years.

All Classes of public securities are backed solely by TWIA revenues and are not obligations of the State of Texas. Class 1, 2, and 3 public securities are repaid by TWIA premiums and surcharges on TWIA policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property and auto policies.

TWIA is prohibited from purchasing reinsurance from an insurer or broker that provides the catastrophe modeling TWIA uses to determine the probable maximum loss or make rate decisions. Texas Insurance Code also requires TWIA's purchase of reinsurance above its minimum required funding level (1-in-100 probable maximum loss) be paid for by an assessment on member companies.

Highlights

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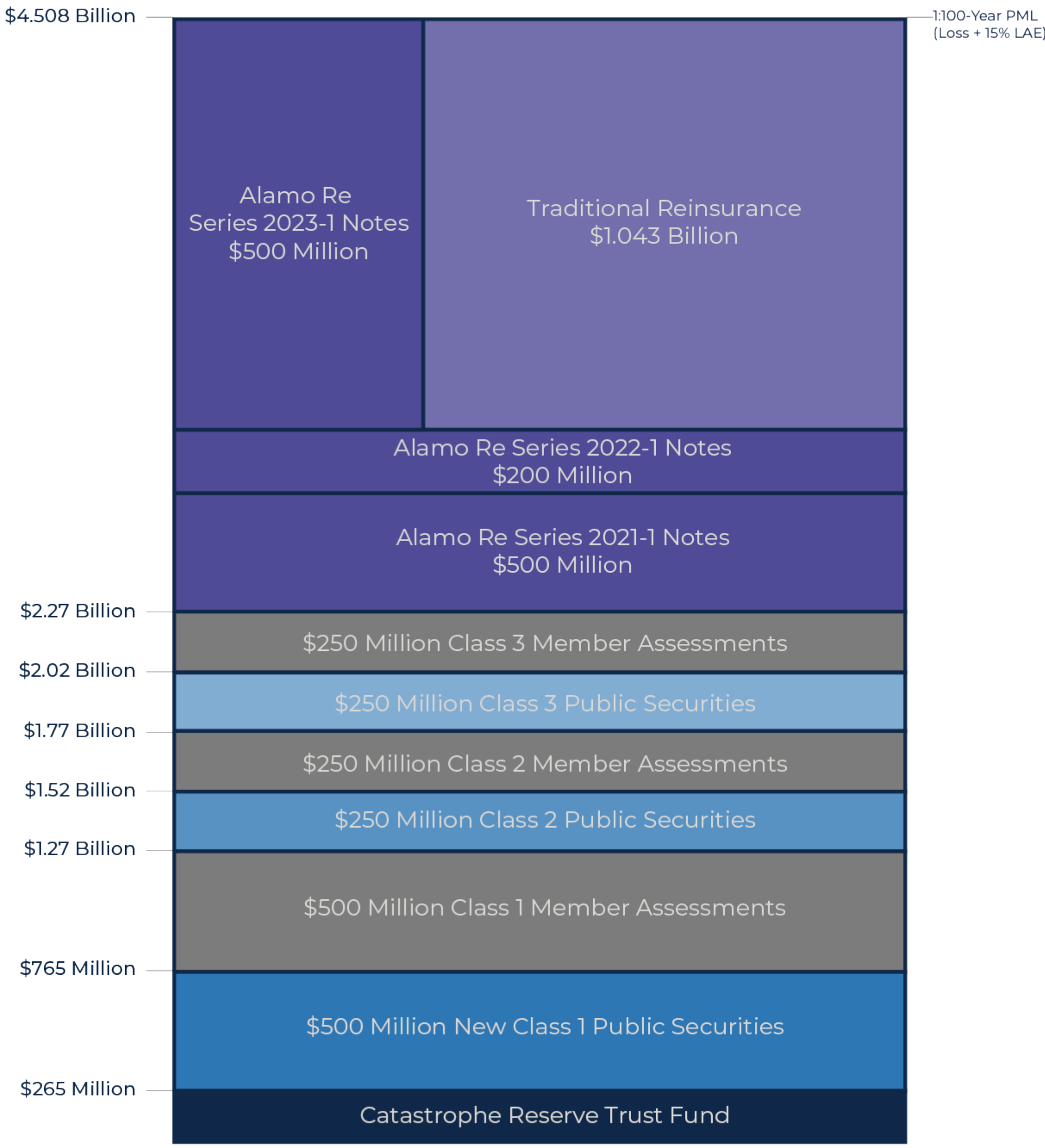
- TWIA has access to $4.508 billion for the 2023 hurricane season
- The total balance of the CRTF is $265 million
- Funding consists of premiums, the CRTF, public securities, company assessments, and reinsurance
- Statute prohibits TWIA from paying policyholder losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years
- Class 1 public securities can be issued pre-event or post-event by statute
- Reinsurance purchased above the minimum required funding level is repaid by member company assessments

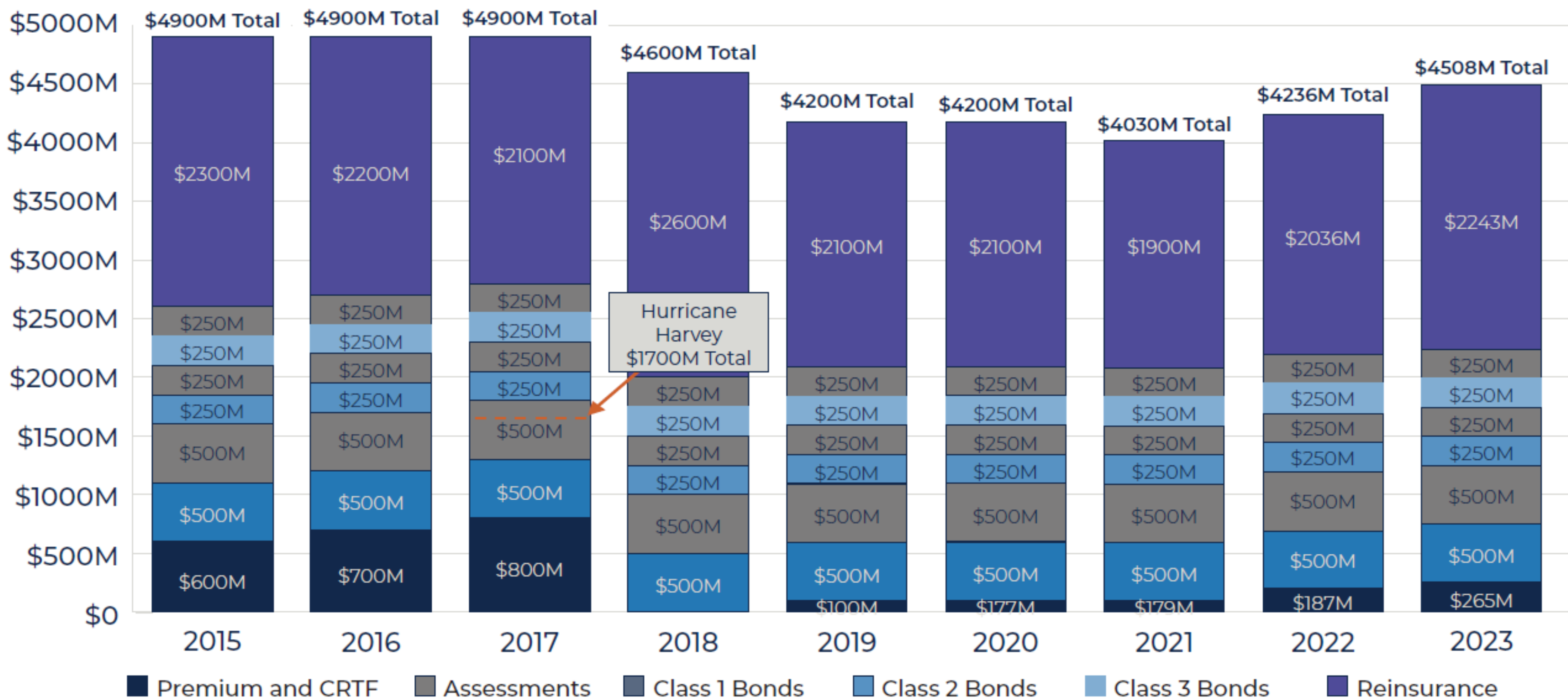
2023 Hurricane Season Funding

TWIA's 2023 catastrophe funding program, effective June 1, 2023 to May 31, 2024, provides access to $4.508 billion in total funding, an amount that meets the statutory minimum funding requirement. The reinsurance program includes $1.043 billion of traditional reinsurance and $1.2 billion in new and previously outstanding catastrophe bonds placed atop the $2.27 billion of total statutory funding sources. The traditional reinsurance program provides coverage on an aggregate basis, meaning multiple hurricane events would be covered under the same reinsurance program. The current CRTF balance is $265 million.

TWIA's funding for the 2023 hurricane season is illustrated by the chart below.



Historical Funding Comparison



2015 Funding incorporates changes enacted by Senate Bill 900 (84th Legislative Session)

2015-2016 Funding incorporates bond funding sources that differ from prior years

2018 Funding was impacted by the depletion of the CRTF to pay losses from Hurricane Harvey

2019 Funding includes approximately $100 M in the CRTF from 2018 net gains from operations

2020 Funding includes a $56.2 M contribution from 2019 net gains from operations, bringing the CRTF balance to $177 M

2021 Funding does not include a CRTF contribution due to the repayment of Class 1 bonds used for Hurricane Harvey

2023 Funding is effective from June 1, 2023 – May 31, 2024

Class 1 Public Securities

Statutory Authority

Texas Insurance Code Chapter 2210 authorizes the issuance of up to $500 million in Class 1 public securities per catastrophe year to finance the payment of insured losses. The public securities may be issued either before (pre-event) or after (post-event) a storm event. TWIA's funding structure provides for the use of Class 1 public securities to pay storm losses after exhausting its reserves and the Catastrophe Reserve Trust Fund (CRTF) and before using the other sources of funding outlined in statute.

In the event storm losses exceed TWIA reserves and the CRTF, the TWIA Board of Directors must direct the Association to request approval from the Commissioner of Insurance and the Texas Public Finance Authority (TPFA) to issue Class 1 public securities in an amount necessary for the payment of the storm losses.

2014 Pre-Event Bonds

In 2014, TWIA received approval to issue $500 million in Class 1 pre-event bonds ("Series 2014 Bonds") to provide funds for the payment of future storm losses. The bonds were issued by TPFA on behalf of TWIA on September 30, 2014, with a 10-year term for repayment at a blended interest rate of 8.03%. TWIA used $449 million of the bond proceeds to pay storm losses and related expenses from Hurricane Harvey; $51 million was retained for debt reserve funds.

At the direction of the Board, TWIA completed an early redemption of the $177 million remaining on the bonds in May 2022. The Association redirected funds that would have been deposited into the CRTF to complete the early redemption of the bonds. The early repayment of the bonds will save the Association more than $16 million in interest payments through 2024.

Line of Credit Usage

TWIA has secured a $500 million line of credit for the past four hurricane seasons (2019-2022) to provide immediate funding for the payment of catastrophic losses as a less expensive alternative to the issuance of pre-event bonds. If the line of credit is needed for the immediate payment of storm losses, it would be repaid from the proceeds of newly issued Class 1 post-event bonds. TWIA secured a new line of credit for the 2023 hurricane season, effective June 1, 2023.

Highlights

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- Public securities (or bonds) represent money borrowed from investors that is repaid over time
- Class 1 bonds are repaid with TWIA premiums and, if necessary, policyholder surcharges
- $500 million in Class 1 public securities were issued in 2014 to provide immediate claims-paying capacity
- $449 million of the 2014 bond proceeds were used to pay Hurricane Harvey (2017) losses
- Early repayment of the bonds will save TWIA more than $16 million in interest through 2024

Catastrophe Bonds

Definition

A catastrophe bond is a form of collateralized reinsurance in which one or more investors provide the funding for the reinsurance amount in exchange for risk-based interest payments. Unlike traditional reinsurance in which the reinsurer contractually promises to pay a certain amount in the event of a defined loss, collateralized reinsurance requires that the reinsurer deposit that amount into an account that is accessed by the reinsured at the time of loss. This requirement is designed to eliminate credit risk and ensure the reinsurance proceeds are available at the time of loss.

Coverage

The catastrophe bond reinsurance issued in 2021, 2022, and 2023 by Alamo Re, a special purpose insurer, will reimburse TWIA for $1.2 billion in actual, aggregate losses. These losses could be the result of one or multiple catastrophic events in a year. The attachment points and premium costs of the catastrophe bonds may be adjusted each year to reflect changes in TWIA's funding requirements and the expected losses of its insurance portfolio. Losses are reimbursed to TWIA on an indemnity basis, which means that the reinsurance pays actual losses as they are incurred by TWIA, rather than basing the payments on a formula or some other criteria. This is the same basis as TWIA's traditional reinsurance.

Structure

The structure of TWIA's catastrophe bonds is different from traditional reinsurance in that the reinsurer, Alamo Re, is a special purpose reinsurer that only insures specific losses for TWIA. Alamo Re raises the collateral by selling bonds to investors and depositing those funds in trust accounts. TWIA is entitled to receive the proceeds from the trust accounts in the event of a qualifying loss. In the absence of a loss, the proceeds are returned to investors at the end of the bond's term.

Highlights

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- 2023-24 catastrophe bonds provide $1.2 billion in coverage
- 100% collateralized with U.S. Treasury money market funds
- Staggered 3-year terms
- Adjustable coverage each year
- Supplements but does not replace traditional reinsurance
- Provides coverage consistent with traditional reinsurance
- Diversifies and expands claims-paying capacity
- More cost-effective for overall reinsurance program

TWIA Rates

Overview

TWIA rates are a factor in determining the amount of premium charged to each TWIA policyholder. Adequate rates help ensure TWIA can meet its financial obligations. TWIA is required to make an annual rate filing with the Texas Department of Insurance (TDI) by August 15 of each year. The amount of the rate filing is set by the TWIA Board of Directors who consider the Association's current rate needs along with feedback from key stakeholders. Recent legislative changes require the Board to vote by a two-thirds majority to submit a rate increase for an annual or non-annual filing. All rate increase filings are subject to review and approval by the Commissioner of Insurance.

TWIA calculates its premiums based on a number of different rating factors, including the amount of insurance requested, construction type, deductible amount, and optional added coverages. Premiums may change annually based on changes in coverage, such as the amount of insurance provided by the policy. Premium credits may be available for items certified as being built to recent windstorm building codes. TWIA does not use credit scoring or territorial rating.

Rate Adequacy

State law requires TWIA rates be reasonable, adequate, not unfairly discriminatory, and non-confiscatory as to any class of insurer. When determining TWIA's current indicated rate needs, actuarial staff consider actual and modeled windstorm losses, operational expenses, repayment of any outstanding bonds, and a reasonable provision for contribution to the Catastrophe Reserve Trust Fund. TWIA's 2023 actuarial analysis found the Association's rates to be inadequate by 20% for residential policies and 22% for commercial policies. Current TWIA rates are uniform throughout the 14 first tier coastal counties.

Recent Rate Changes

At its August 2023 meeting, the TWIA Board voted to direct staff to file a 0% rate change with TDI for residential and commercial policies issued or renewed on or after January 1, 2024. A recommendation by the Board's Actuarial & Underwriting Committee to file for a rate increase of 5% for residential policies and 8% for commercial policies received a 5 to 4 vote and did not meet the statutory requirement that a rate increase filing receive a two-thirds vote of the Board. The rate filing was submitted to TDI on August 14, 2023.

Highlights

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- TWIA Rates must be filed with TDI annually by August 15
- The amount of a rate filing is set by the TWIA Board of Directors
- TWIA's rate adequacy analysis must be posted to its website 14 days prior to the Board's vote on a rate filing
- All filings for a rate increase are subject to review and approval by the Commissioner of Insurance
- 2023 actuarial analysis indicates TWIA's residential and commercial rates are inadequate by approximately 20% and 22%, respectively

TWIA Ratemaking Process

Statutory Requirements

Association rates are required to be reasonable, adequate, not unfairly discriminatory, and non-confiscatory as to any class of insurer. TWIA's rates must consider past and projected Association losses, operating expenses, and sound actuarial principles. TWIA is required to make an annual rate filing with the Texas Department of Insurance (TDI) on or before August 15 of each year. The amount of the rate filing is set by the TWIA Board of Directors who consider the Association's current indicated rate needs and feedback from key stakeholders. Recent legislative changes require the Board to vote by a two-thirds majority to submit a rate increase for an annual or non-annual filing. All rate increase filings are subject to review and approval by the Commissioner of Insurance.

Rate Adequacy Analysis

In preparation for TWIA's annual rate filing, TWIA actuarial staff conducts a rate adequacy analysis using standard actuarial industry methodologies. The analysis compares TWIA's current rate level to the expected costs for providing property insurance for the upcoming year. As windstorm and hail event frequency and severity are difficult to predict from year to year, the actual costs of providing property coverage for a specific year may differ substantially from the indicated required rate level. The analysis includes factors for actual and modeled windstorm losses, operational expenses, reinsurance costs, repayment of any outstanding bonds, and a reasonable provision for contribution to the Catastrophe Reserve Trust Fund (CRTF). TWIA's 2023 actuarial analysis found the Association's rates to be inadequate by 20% for residential policies and 22% for commercial policies.

Relationship between Ratemaking and Funding

TWIA's ratemaking process focuses on rate adequacy and is separate and distinct from the Association's annual process for securing sufficient available funding for potential catastrophic weather losses. TWIA's funding structure provides the sources of funds to pay claims in a single storm season. In contrast, adequate rates provide for sufficient revenue to support TWIA's funding structure and to satisfy its financial obligations over a long period of time, including replenishing the CRTF and the payment of debt service for any pre- and post-event public securities issued to fund catastrophe losses.

Highlights

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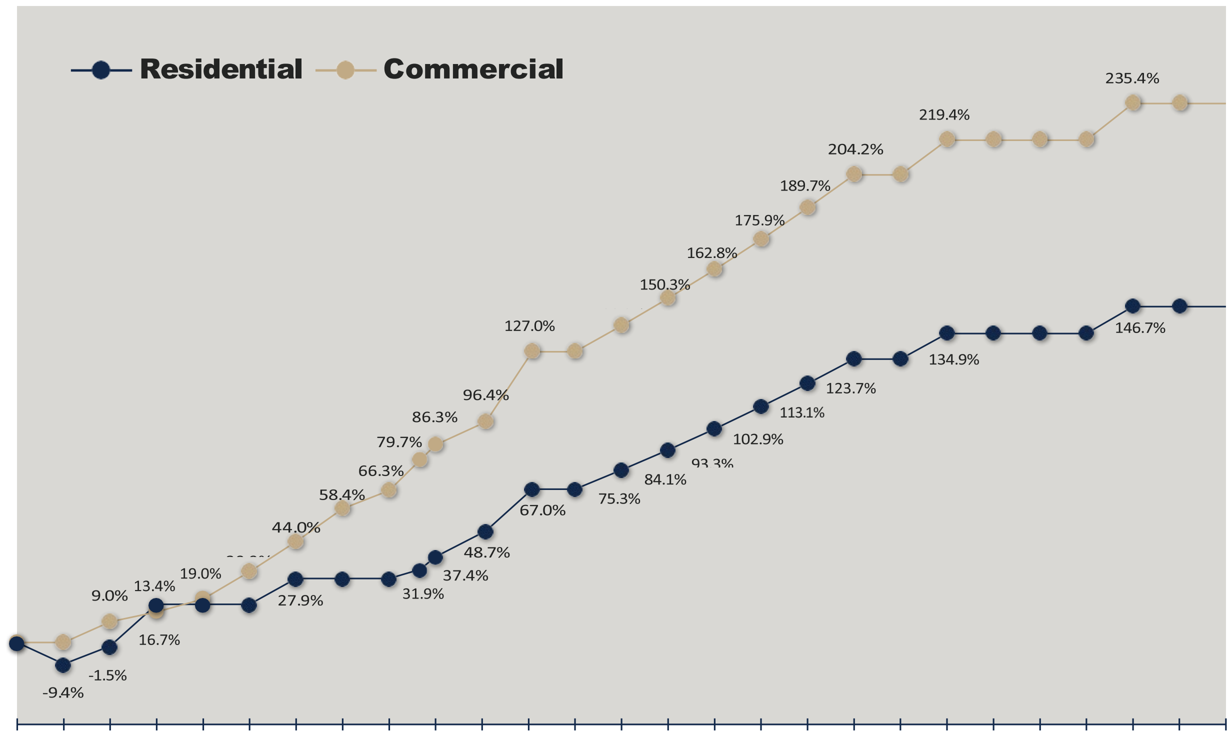
- TWIA's rates must be reasonable, adequate, non-discriminatory, and non-confiscatory as to any class of insurer
- TWIA's actuarial methodology employs standard industry modeling to simulate 10,000 probable storm events
- Adequate rates provide sustainability for the Association's funding structure over time
- In contrast, TWIA's funding structure only provides the sources and amounts for a single storm season
- 2023 actuarial analysis indicates TWIA's residential and commercial rates are inadequate by approximately 20% and 22%, respectively

TWIA Historical Rate Exhibit (1999-2024)

History of Rate Changes

Year	Residential	Commercial
1999	-9.4%	0.0%
2000	8.7%	9.0%
2001	18.5%	4.0%
2002	0.0%	5.0%
2003	0.0%	10.0%
2004	9.6%	10.0%
2005	0.0%	10.0%
2006	0.0%	5.0%
2006 (Sep)	3.1%	8.0%
2007	4.2%	3.7%
2008 (Feb)	8.2%	5.4%
2009 (Feb)	12.3%	15.6%
2010	0.0%	0.0%
2011	5.0%	5.0%
2012	5.0%	5.0%
2013	5.0%	5.0%
2014	5.0%	5.0%
2015	5.0%	5.0%
2016	5.0%	5.0%
2017	0.0%	0.0%
2018	5.0%	5.0%
2019	0.0%	0.0%
2020	0.0%	0.0%
2021	0.0%	0.0%
2022	5.0%	5.0%
2023	0.0%	0.0%
2024	0.0%	0.0%

Cumulative Rate Increases as a Percentage of Premium (Base Year: 1998)



Notes

Cumulative Residential Change	+146.7%
Cumulative Commercial Change	+235.4%
Average Annual Residential Change	+3.7%
Average Annual Commercial Change	+5.0%

Windstorm Certification Requirements

Background

The Texas Insurance Code Chapter 2210, states that TWIA may not insure a structure unless it complies with the applicable building code standards in effect on the date the construction, alteration, remodeling, enlargement, repair of, or addition to the structure begins. A structure must have a Certificate of Compliance (WPI-8, WPI-8-E, or WPI-8-C) which certifies that the structure meets the windstorm building code requirements. Without a Certificate of Compliance, TWIA lacks evidence the structure conforms to the applicable building code, and it may be considered uninsurable and ineligible for coverage with TWIA, with limited exceptions. TDI administers the Windstorm Inspection Program and issues all Certificates of Compliance.

Obtaining a Certificate of Compliance (WPI-8 or WPI-8-E)

Ongoing Improvements

To obtain a WPI-8 for an ongoing improvement, a property owner should notify TDI prior to beginning repairs or construction. Inspections of ongoing improvements may be performed by a TDI-appointed qualified inspector. Some types of repairs may be minor or involve only a small portion of the structure and do not require a WPI-8. TDI's website provides a list of repairs that do not require an inspection.

Completed Improvements

A person lacking a WPI-8 for a completed improvement may apply to TDI for a WPI-8-E. A TDI-appointed qualified inspector or Texas-licensed engineer may certify compliance with the applicable windstorm building code. The inspector or engineer will need to submit certain information to TDI about the completed improvement for TDI to issue the Certificate of Compliance (WPI-8-E).

Exceptions to the Windstorm Certification Requirements

Texas law identifies some exceptions for residential structures lacking a Certificate of Compliance.

- Residential properties with construction from 1988 to June 19, 2009 that are not certified may still be eligible for TWIA coverage. These properties must pay a 15% surcharge based on, and in addition to, their policy premium amount.
- Residential properties insured on/after June 19, 2009 by an insurer in the private market and that are non-renewed or cancelled by the insurer and missing a required WPI-8 at the time of policy non-renewal/cancellation may be eligible for TWIA coverage.

Highlights

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- TDI administers the Windstorm Inspection Program and issues all Certificates of Compliance (WPI-8 and WPI-8-E)
- TWIA issued Certificates of Compliance for completed improvements (WPI-8-C) from January 1, 2017 to May 31, 2020
- WPI-8-Cs issued by TWIA remain valid.
- All new structures, alterations, or repairs to existing structures must have Certificates of Compliance, with limited exceptions
- TDI resources:
  tdi.texas.gov/wind
  (800) 248-6032
  windstorm@tdi.texas.gov
- TWIA resources:
  twia.org/windstorm-certification
  (800) 231-5360
  agentservices@twia.org