

**Meeting of the Board of Directors  
Texas Windstorm Insurance Association  
Teleconference/Web Conference**

Moody Gardens Hotel  
Seven Hope Blvd.  
Galveston, TX 77554  
August 2, 2022  
9:00 a.m.



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

Interested parties can attend the meeting in person or listen to the meeting live by going to [www.twia.org](http://www.twia.org). Go to “About Us/Board Meetings” and click on the webinar link.

Interested parties may offer public comment in person at the Moody Gardens Hotel or virtually via Zoom Webinar.

**\*Indicates item on which General Manager believes the TWIA Board of Directors is likely to take action. However, the board may take action on any item that appears on this agenda.**

1. Call to Order 5 minutes
  - A. Welcoming Remarks – *Chandra Franklin-Womack*
  - B. Anti-Trust Statement and Conflict of Interest Disclosure – *Counsel*
  - C. Meeting Format Information – *Anna Stafford*
  
2. Approve the Minutes from Prior Board of Directors Meeting 5 minutes  
– *Chandra Franklin Womack* – **Action/Vote Likely\***
  
3. TWIA Operational Highlights – *John Polak* 10 minutes
  
4. Public Comment 60 minutes
  
5. Financial 20 minutes
  - A. Report of the Secretary/Treasurer – *Corise Morrison* – **Action/Vote Likely\***
    1. Income Statement
    2. Management Discussion and Analysis
  - B. Financial Statement Review by Staff – *Stuart Harbour*
    1. Income Statement
    2. Expense Detail
    3. Balance Sheet
    4. Cash Flow Statement
    5. Cash & Short-Term Investments
    6. Historical Data
  - C. Investment of Trust Fund Balances (Sec. 2210.4521) – *Stuart Harbour* – **Action/Vote Likely\***
  - D. Selection of Auditors/Accountants for 2022 and Authorization of Non-Audit Services – *Stuart Harbour* – **Action/Vote Likely\***
  
6. Agent Commission Study Update – *Jennifer Armstrong* – **Action/Vote Likely\*** 20 minutes

- |  |                    |
|--|--------------------|
| 7. Actuarial – <i>Jim Murphy</i>   | <i>60 minutes</i>  |
| A. Reserve Adequacy  |                    |
| B. Policy Counts/Exposures   |                    |
| C. Statutory Maximum Limits of Liability – <b>Action/Vote Likely*</b>  |                    |
| D. 2022 Hurricane Season Funding   |                    |
| E. Review of TWIA Staff Rate Adequacy Analysis and<br>Actuarial & Underwriting Committee Recommendations – <b>Action/Vote Likely*</b>  |                    |
| F. Required 2022 Annual Rate Filing – <b>Action/Vote Likely*</b>   |                    |
| 8. Internal Audit Status & Update – <i>Bruce Zaret – Weaver</i>  | <i>5 minutes</i>   |
| 9. Underwriting Operational Review – <i>Jessica Crass</i>  | <i>10 minutes</i>  |
| 10. Claims and Litigation  | <i>20 minutes</i>  |
| A. Claims Operations – <i>Dave Williams</i>  |                    |
| B. Claims Litigation – <i>David Durden</i>   |                    |
| 11. TWIA Operations  | <i>30 minutes</i>  |
| A. IT Systems Update – <i>Camron Malik</i>   |                    |
| B. Receive and Act on Recommendations from Legislative and External<br>Affairs Committee Regarding Recommendations to Legislature and<br>Biennial Report to Legislature – <i>John Polak</i> – <b>Action/Vote Likely*</b> |                    |
| C. Communications Update – <i>Jennifer Armstrong</i>   |                    |
| D. Update on RFPs for Professional Services – <i>John Polak</i>  |                    |
| E. General Manager Search Update – <i>Chandra Franklin Womack</i>  |                    |
| 12. Closed Session ( <b>Board Only</b> )   | <i>10 minutes</i>  |
| A. Personnel Issues  |                    |
| B. Legal Advice  |                    |
| 13. Consideration of Issues Related to Matters Deliberated in Closed Session<br>That May Require Action, if any, of the Board of Directors<br>– <b>Action/Vote Likely*</b>   | <i>5 minutes</i>   |
| 14. Committees – <i>Chandra Franklin – Womack</i>  | <i>5 minutes</i>   |
| 15. Future Meetings – <i>John Polak</i>  | <i>5 minutes</i>   |
| • December 13, 2022 – Omni Hotel – Corpus Christi, TX  |                    |
| • February 14, 2023 – Moody Gardens Hotel – Galveston, TX  |                    |
| 16. Adjourn  |                    |
| Estimated Total Length of Meeting  | 4 hours 30 minutes |

# 1. Anti-Trust Statement



## **ANTI-TRUST COMPLIANCE STATEMENT**

The Board of Directors of TWIA is committed to strict compliance with federal and state anti-trust laws. The anti-trust laws are designed to promote free and open competition and to penalize any activities that unreasonably lessen business rivalry. Members of the Board of Directors of TWIA may freely discuss and agree upon agenda items relating to their responsibilities as Directors including such topics as coordinating efforts regarding state or federal legislation, discussion of TWIA policy on legislative issues and methods of legislative lobbying including grass-roots lobbying, public relations, testimony before legislative committees and meetings with state and federal legislators and regulators.

Because TWIA meetings bring together competitors, any unauthorized discussion of topics prohibited by the anti-trust laws such as agreements between competitors on prices and rates, agreements to boycott third parties or agreements to divide markets or even individual insureds could lead to an inference that such an illegal agreement among participants to the discussion was in fact reached. Accordingly, the following guidelines apply to any meeting or other activity conducted under the auspices of TWIA:

- Someone on the TWIA staff shall be present at all times during meetings of the TWIA Board of Directors or other official activities such as meetings of various TWIA committees unless such meetings are for the purpose of discussing personnel matters;
- At any such meetings or official activities, there shall be no discussion of voluntary market rates, prices, discounts or other terms and conditions of sale without the General Manager or the General Counsel being present;
- There shall be no discussion of the areas in which TWIA Board members and their respective member companies will compete for the products and services that they will offer; and
- There shall be no discussion of any agreement or understanding to boycott a third party or to deal with a third party only on certain terms.

### **Texas Windstorm Insurance Association**

## **TWIA Anti-Trust Compliance Statement**

Without the prior authorization of TWIA's General Manager or its General Counsel, there shall be no discussion of agreements to deal exclusively with certain parties, requirements that purchasers of particular products or services must purchase other products or services, standard-setting, certification, statistical reporting, or codes of ethics and other self-regulatory activities.

- Only TWIA staff shall keep minutes of TWIA meetings and will immediately terminate any discussion that may violate these guidelines.
- At TWIA meetings, TWIA company representatives should adhere to the written agenda and outside of TWIA meetings should scrupulously avoid discussion of any topic that might violate these guidelines.

Severe civil and criminal penalties, including fines and imprisonment, can result from violations of the anti-trust laws. Whenever in doubt about how to apply these guidelines, the directors, members, officers and guests of TWIA should consult its General Manager and General Counsel and proceed in a conservative manner in order to avoid any actual, or apparent, violation of antitrust guidelines.

### **Texas Windstorm Insurance Association**

5700 South MoPac Expressway, Building A, Austin, Texas 78749 • P.O. Box 99090, Austin, Texas 78709-9090  
512-899-4900 / Fax 512-899-4950

## 2. Approve the Minutes



**Minutes of the Texas Windstorm Insurance Association  
Board of Directors Meeting  
Teleconference/Web Conference**

Hyatt Regency  
208 Barton Springs Road  
Austin, TX

**May 17, 2022**

The Following Board Members were Present:

- |  |                                       |
|--|---------------------------------------|
| 1. Chandra Franklin Womack (Chair)       | First Tier Coastal Representative     |
| 2. Georgia Neblett (Vice Chair)          | First Tier Coastal Representative     |
| 3. Corise Morrison (Secretary/Treasurer) | Industry Representative               |
| 4. Mike Gerik                            | Industry Representative               |
| 5. Karen Guard                           | Industry Representative               |
| 6. Tony Schrader                         | Non-Seacoast Territory Representative |
| 7. Tim Garrett                           | Non-Seacoast Territory Representative |

Absent: Ron Walenta, Peggy Gonzalez

The Following TWIA Staff, Counsel, and Agents were Present:

- |   |                        |
|---|------------------------|
| 1. John Polak, General Manager                                      | TWIA                   |
| 2. Stuart Harbour, CFO  | TWIA                   |
| 3. Dave Williams, VP Claims   | TWIA                   |
| 4. David Durden, VP Legal   | TWIA                   |
| 5. Jessica Crass, VP Underwriting                                   | TWIA                   |
| 6. Jennifer Armstrong, VP Communications<br>and Legislative Affairs | TWIA                   |
| 7. JD Lester, VP Human Resources                                    | TWIA                   |
| 8. Jim Murphy, Chief Actuary  | TWIA                   |
| 9. Amy Koehl, Senior Project Administrator                          | TWIA                   |
| 10. Anna Stafford, Legislative and External<br>Affairs Manager      | TWIA                   |
| 11. Camron Malik, Chief Information Officer                         | TWIA                   |
| 12. Mike Perkins, Association Counsel                               | Perkins Law Group PLLC |

The Following Guest Was Present:

- |                |        |
|----------------|--------|
| 1. Bruce Zaret | Weaver |
|----------------|--------|

The Following In Person Attendees Were Present:

- |                  |                               |
|------------------|-------------------------------|
| 1. Clark Thomson | Calhoun, Thomson + Matza      |
| 2. Allen Cashin  | Gallagher Re                  |
| 3. Alicia Gerte  | Gallagher Re                  |
| 4. Doug May      | Gallagher Re                  |
| 5. Joey Walker   | Gallagher Re                  |
| 6. Eric Casas    | Texas Department of Insurance |

7. David Mueckerheide
8. John Wooding

Texas Department of Insurance  
Texas Department of Insurance

The Association's Webinar Tool Attendance Report Indicates the Following Attendees Were Online:

- |                    |                          |
|--------------------|--------------------------|
| 1. Lee Alexander   | 11. Tad Delk             |
| 2. Steve Alexander | 12. Steve Evans          |
| 3. Marianne Baker  | 13. Rep. Todd Hunter     |
| 4. Sally Bakko     | 14. Xiuyu Li             |
| 5. Albert Betts    | 15. Travis McDavid       |
| 6. David Bolduc    | 16. Richard Meister      |
| 7. Caren Childers  | 17. Rep. Mayes Middleton |
| 8. Cari Christman  | 18. Clyde Neal           |
| 9. Ebony Cormier   | 19. Aaron Taylor         |
| 10. Vera Craddock  |                          |

1. Call to Order: Ms. Franklin Womack called the meeting to order at 9:01 a.m. Board members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel. Mr. Perkins presented the required conflict-of-interest disclosures on behalf of each board member. Ms. Stafford reviewed the housekeeping items.
2. Approval of Minutes: The minutes from the February 22, 2022 meetings were reviewed. Ms. Neblett moved to approve the minutes as presented. Mr. Garrett seconded the motion. The motion passed.
3. Public Comment: Ms. Stafford reviewed the written public comment received ahead of the meeting. Rep. Todd Hunter and Sally Bakko offered public comment via Zoom.
4. TWIA Operational Highlights: Mr. Polak reported the ELEVATE systems upgrade project was successfully deployed on April 18. In Q1 2022, operating expenses and net income were slightly below plan. The Wellington Residential Interest-Free 10-Pay Plan was successfully implemented ahead of the launch of ELEVATE. The Association is on track to complete all strategic initiatives by the originally scheduled deadlines. Underwriting and claim service levels exceeded turnaround time and quality standards. The Association remains below plan on litigated claims in Q1 2022.
5. Financial:
  - A. Report of the Secretary/Treasurer: Ms. Morrison reviewed the Treasurer's Report. Ms. Morrison moved to approve the report. Mr. Garrett seconded the motion. The motion passed.
  - B. Financial Statement Review by Staff: Direct written premiums for the three months ended March 31, 2022 totaled \$87.2 million, which was \$12.1 million (16.1%) above the \$75.1 million for the same period in 2021. Direct written premium was \$4.6 million (5.6%) higher than the budgeted \$82.6 million.

Policies in force as of March 31, 2022 of 194,557 were 1,353 (0.7%) lower than the budgeted number of 195,910.

The TWIA 2021-2022 reinsurance program inceptioned on June 1, 2021 and remains in effect until May 31, 2022. The gross cost associated with the \$1.93 billion in coverage was \$102.1 million compared to a budgeted cost of \$114.8 million. This reflects an overall rate-on-line (ROL) of 5.3% compared to the 5.1% ROL for the 2020 program. Ceded premiums associated with the 2021-2022 reinsurance program were fully earned during the 2021 hurricane season.

Direct premiums earned through March 2022 totaled \$98.4 million compared to \$90.6 million for the prior year (an increase of \$7.8 million or 8.7%).

Direct premium earned was \$1.3 million higher than the budget of \$97.1 million.

The one carrier (SafePoint) that signed up to participate in round five of depopulation (Weston elected to withdraw) originally selected approximately 32,000 policies for potential novation from TWIA. The agents review period closed on May 31, 2021 and approximately 31,800 policies were removed, leaving less than 200 policies for potential depopulation. Owners of the remaining policies had until January 31, 2022 to decide whether to allow their policy to transfer through depopulation or opt out and remain with TWIA. The round five novation was completed on March 1, 2022 with a total of 125 policies transferred to SafePoint.

Direct losses and LAE incurred for the three months ended March 31, 2022 totaled \$17.6 million, which was \$9.8 million above the budgeted amount. The higher than budgeted losses resulted from an increase in reserves primarily due to adverse development related to 2021 Hurricane Nicholas.

TWIA reported a YTD direct loss and LAE ratio of 17.9% versus a budgeted ratio of 8.0%. The ultimate loss and loss adjustment expense estimate for Hurricane Harvey continues to stand at \$1.67 billion.

Operating expenses for the three months ended March 31, 2022 of \$7.5 million were below budget by \$365,000 (4.6%). Notable expense items under budget include postage (\$72,000), software and hardware (\$266,000) and other services (\$72,000). The year-to-date operating expense ratio of 7.6% is below the budgeted ratio of 8.1%.

Year to date commission expense of \$13.9 million and premium taxes of \$1.6 million were over budget by \$728,000 and \$89,000 respectively as direct written premium was higher than the budgeted amount.

Gross investment income for the three months ended March 31, 2022 was \$93,000, which was \$39,000 higher than the budgeted amount of \$53,000. Short term interest rates remain at low levels but are starting to increase slightly as the Federal Reserve reacts to recent high levels of inflation. Interest expense on Class 1 bonds was on budget at \$3.7 million.

Net income for the three months ended March 31, 2022 was \$54.1 million or \$8.8 million (14.0%) below the budgeted income of \$63.0 million.

The surplus as of March 31, 2022 was \$11.0 million compared to the deficit of \$24.6 million as of December 31, 2021. The deficit improved due to the year-to-date net income of \$54.1 million. The increase in surplus was partially offset by \$13.4 million in statutory fund cost for the year-to-date CRTF accrual and an increase of \$5.1 million in non-admitted assets which consists primarily of prepaid expenses and capitalize software.

- C. Investment Plan Review: Annually, the TWIA Board of Directors reviews the adequacy and implementation of the Association's investment plan as reflected in the Statement of Investment Objectives and Guidelines. The primary focus of the investment plan is asset preservation and liquidity, along with compliance with the Texas Insurance Code and Plan of Operation of the Association.

Ms. Neblett moved that the Board of Directors of the Texas Windstorm Insurance Association acknowledges its review of the adequacy and implementation of the Statement of Investment Objectives and Guidelines of the Association and accepts staff's recommendation to make no changes to the document at this time. Mr. Garrett seconded the motion. The motion passed unanimously.

- D. 2022 Storm Season Liquidity and Bond Redemption: Mr. Harbour reviewed JP Morgan's financing proposal for the 2022 windstorm credit facility. This \$500,000 line of credit will provide short term liquidity during the upcoming hurricane season. Mr. Garrett moved to adopt the resolution as presented by staff. Ms. Neblett seconded the motion. The motion passed. The form of the motion is attached to and made a part of these minutes.

On Monday, May 9<sup>th</sup>, the remaining \$177 million of outstanding 2014 TWIA bonds were officially redeemed more than two years early. All obligations have been satisfied.

- E. Financial Audit by Calhoun, Thomson + Matza: Clark Thomson from Calhoun, Thomson + Matza reviewed his firm's financial audit findings with respect to the Association's financial statements and presented the unmodified opinion rendered by the audit firm. Ms. Neblett moved to accept the audit report and statements. Mr. Garrett seconded the motion. The motion passed.

6. Actuarial:

- A. Reserve Adequacy: The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of March 31, 2022.

The ultimate loss and loss adjustment expense estimate for Hurricane Harvey has been reviewed based on information available as of March 31, 2022. The ultimate loss and loss adjustment expense estimate remains at \$1.67B, which is the same as the estimate as of December 31, 2021.

The actual ultimate costs of Hurricane Harvey may differ substantially from the Selected \$1.67B. This variability arises from the assumptions made regarding the adequacy of case reserves for open claims and the outcome of disputed claims. About 116 of the total 246 open claims are in some stage of litigation. There Remains a material risk of adverse development due to the large variability associated with outstanding disputed claims, including those claims subject to Litigation. The actuarial team will continue to monitor current case reserve Adequacy and litigation/disputes to ensure all outstanding obligations are properly reserved.

As of March 31, 2022, TWIA carried \$75.7 million in total gross loss and loss adjustment expense reserves with \$43K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. The total gross loss and loss adjustment expense reserves include reserves for Hurricane Ike, Harvey, Delta, Laura, Hanna, Nicholas and other outstanding claims. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

In the opinion of the senior actuary, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements.

- B. Policy Count/Exposures: Policy counts are up around five percent year over year and exposures are up close to ten percent year over year.
- C. 2022 Funding; Reinsurance: At its March 22, 2022 meeting, the TWIA Board of Directors set the 100-year probable maximum loss (PML) for the 2022 hurricane season at \$4.236 billion and directed staff to work with TWIA's reinsurance broker, Gallagher Re, to place \$2.036 billion in traditional reinsurance and catastrophe bonds to bring total TWIA funding up to the 100-year PML level. Since that meeting, staff has worked with Gallagher Re on a reinsurance renewal placement, including meeting virtually with many leading reinsurers. Staff is in the process of issuing new 2022 Alamo Re catastrophe bonds to replace the expiring 2019 bonds.

The final amounts for the traditional reinsurance and 2022 catastrophe bonds have not yet been determined and will be based on market conditions.

Allen Cashin and Alicia Gerte from Gallagher Re delivered their presentation to the board regarding reinsurance market conditions and discussed the reinsurance placement. Bill Dubinsky with Gallagher Securities commented on the cat bond market.

7. Internal Audit & Status: Mr. Zaret reported the status of internal audit activities. Current audits include premium taxes, actuarial, vendor management, information security, business continuity of operations – information technology, reinsurance, findings follow up audit and model audit rule. Upcoming audits include HR and payroll, business continuity of operations – business processes and plan of operation.
8. Underwriting:
  - A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within ten days. Staff is surpassing this standard with over 98% of transactions processed within ten days. Over 85% of applications/renewals were processed within one day. Quality assurance results on underwriting decisions continue to exceed established goals. Telephone service response times and service quality scores continue to meet expectations. Underwriting is operating below budget, largely due to managing headcount and more efficient use of virtual and aerial inspections.

Standard audits were completed for a sample of agencies doing business with TWIA in the third quarter of 2021 to verify compliance with the declination of coverage and flood insurance requirements. One policy is currently not compliant with the flood insurance requirement and staff are working with the agency to bring that policy into compliance. Standard audits were completed for a sample of agencies doing business with TWIA in the fourth quarter of 2021 to verify compliance with the declination of coverage and flood insurance requirements.

All agencies have completed their responses. Ninety-four percent of policies reviewed were compliant with the requirement for proof of declination of coverage. Staff are working with the agencies to bring the remaining policies into compliance. Three percent of the policies/properties selected for review required flood insurance. Only one policy is not currently compliant with the flood insurance requirement and staff are working with the agency to bring that policy into compliance. All agents audited have an active property and casualty insurance license.

Standard audits were completed for a sample of agencies doing business with TWIA in the first quarter of 2022 to verify compliance with the declination of coverage and flood insurance requirements. Eighty percent of agencies have completed their responses. Staff are pursuing a response from the remaining agencies and escalating issues as necessary. Of the agencies who have responded, 89% of policies reviewed were compliant with the requirement for proof of declination of coverage. Staff are working with the agencies to bring the remaining policies into compliance. Three percent of the policies/properties selected for review required flood insurance. Of the agencies who have responded to date, only one policy is not currently compliant with the flood insurance requirement and staff are working with the agency to bring that policy into compliance. All agents audited have an active property and casualty insurance license. The sample selection of agencies and policies for the second quarter 2022 audits are underway.

- B. Depopulation: The sixth round of depopulation is beginning. Safepoint is the only participant. They have submitted their offers, which is around 3,200. Agents have until the end of the month to review the offers with transfers occurring next March.

#### 9. Claims:

- A. Claims Operations: Mr. Williams reported claims cycle times are looking good and claims are down overall. Currently, there are 218 Harvey claims that are still open. Hopefully there will be 100 or less open Harvey claims by the end of the year.
- B. Litigation Report: Six new claims in suit were received and 45 were closed for the first quarter of 2022. New TWIA claims with letters of representation numbered 115 for the quarter and 79 were closed. The Furlow Law Firm and the Baker Law Firm hold the majority of the suits.

#### 10. TWIA Operations:

- A. IT Systems Update: The TWIA ELEVATE program completed user acceptance testing (UAT) and went live on April 18<sup>th</sup>. The deployment included upgraded policy, billing and claims systems with new portals for agents and policyholders. In addition, the system was programmed to allow migration of policies on renewal. The release was a success and completed the technology roadmap to put the organization on a modern platform which will improve operational efficiency, enable self-service for policyholders and provide an improved experience for agents.

Staff is now looking towards future enhancements and defect fixes. The first of the production support releases is scheduled for mid-May and will address any issues that were missed in testing and identified during deployment. All other infrastructure, operations and support efforts are on track with excellent quality.

- B. RFPs for Professional Services: TDI reviewed the Association's RFP processes. Staff has received their final report and Mr. Durden is charged with making the

adjustments necessary to the current process. Staff expects to have those changes in place and report back on it at the August board meeting.

- C. Expert Panel Guidelines; Contract Renewal: Staff is in the process of updating the statement of work with Accenture. Technology and processes to support the program aren't changing. Staff is going with a three-year contract.
- D. Communications Update: As of April 18<sup>th</sup>, the Association has effectively implemented all applicable legislation passed during the 87<sup>th</sup> Legislative Session. During the Q1 2022, efforts continued to be focused primarily on coordinating with TDI on the 10-day grace period rules for premium payments required by House Bill 2920 as part of the ELEVATE systems upgrade project.

In Q1, 2022, post pandemic coastal outreach planning began. Staff has been invited to four local coastal hurricane preparedness events in the coming months.

The Agent Advisory Group held their Q1 2022 meeting on February 14<sup>th</sup>. The next meeting is scheduled for May 2.

- E. General Manager Retirement and Search for New General Manager: Mr. Polak will be retiring by the end of the year. Ms. Franklin Womack will implement a search committee to find a new general manager. There will be meetings concerning the search and the committee will want input from stakeholders. Ms. Franklin Womack proposed asking Ms. Lester to reach out to search firms and gauge their interest and pricing. Ms. Franklin Womack will choose the search firm and Mr. Gerik, Ms. Gonzalez and Ms. Franklin Womack will make up the search committee. They will make the recommendations to the board members on the candidates presented. Mr. Garrett moved that the board chair be authorized to engage a search firm to help with the location of general manager candidates and communicate the information through the committee and ultimately to the board. Ms. Neblett seconded the motion. The motion passed.

11. Closed Session: There was no closed session.

12. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: There was nothing to consider.

13. Committees: The new committee will commence work with respect to the general manger search.

14. Future Meetings:

- August 2, 2022 – Moody Gardens Hotel – Galveston, TX
- December 2022 – TBD

15. Adjourn: The meeting adjourned at 10:59 a.m.

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Prepared by: Amy Koehl  
Senior Project Administrator

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Approved by: Chandra Franklin Womack  
TWIA Chair

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Approved by: Georgia Neblett  
TWIA Vice Chair

### 3. TWIA Operational Highlights

# 2022 TWIA Enterprise Scorecard

Reporting YTD as of June 30, 2022

	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	8.2%		8.4%	-0.2%	
Net Income <sup>1</sup>	\$91.0 M		\$61.7 M	\$29.3 M	
Enterprise Projects	96%		90%	6%	
Policy Administration	100%		90%	10%	
Claims Handling	97%		90%	7%	
Litigated Claims	0.00%		0.50%	-0.50%	
Complaints	20		22	-2	

## Reference Data

Policies In-Force	197,474
Exposures In-Force	\$63.2 billion
Written Premiums YTD	\$225.6 million
Claims Received YTD	2,722
Losses Incurred YTD <sup>2</sup>	\$16.5 million

<sup>2</sup> Excludes IBNR

<sup>1</sup> Net Income equals YTD 2022 net income reduced by YTD monthly principal prepayments on public securities.

## Key Quarterly Activities

- Secured \$4.236 billion in total funding for the 2022 hurricane season.
- Saved more than \$16 million in interest through 2024 through early redemption of the 2014 bonds.
- Submitted the 2022 Annual Report Card and Catastrophe Incident Response Plan to the Legislature and Insurance Commissioner as required on June 1.
- Remain below plan on operating expenses and above plan on net income in Q2 2022.
- On track to complete all strategic initiatives by the scheduled deadlines.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels.
- Remain below plan on litigated claims and complaints in Q2 2022.

## 5. Financial

### 5A. Report of the Secretary/Treasurer

#### 5A1. Income Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION		
Statutory Income Statement - Treasurer's Report		
for the six months ended June 30,		
(000's omitted)		
	2022	2021
<b>Direct Premiums Written</b>	<u>\$ 225,574</u>	<u>\$ 194,109</u>
<b>Premiums Earned:</b>		
Direct Premiums Earned	\$ 201,722	\$ 183,462
Ceded Reinsurance Premiums	(20,472)	(16,677)
Ceded Reinsurance Premiums - Depopulation	-	-
Net Premiums Earned	<u>181,251</u>	<u>166,785</u>
<b>Deductions:</b>		
Direct Losses and LAE Incurred	32,238	(7,866)
Direct Losses and LAE Incurred - Harvey	-	(20,000)
Direct Losses and LAE Incurred - Ike & Dolly	-	-
Ceded Losses and LAE Incurred - Depopulation	(3)	61
Operating Expenses	16,479	14,517
Commission Expense	36,060	31,030
Ceding commissions / brokerage	(4,612)	(2,171)
Ceding commissions / brokerage - Depopulation	-	-
Premium / Maintenance Tax	4,186	3,609
Total Deductions	<u>84,348</u>	<u>19,180</u>
<b>Net Underwriting Gain or (Loss)</b>	<u>96,903</u>	<u>147,605</u>
<b>Other Income or (Expense):</b>		
Gross Investment Income	459	154
CRTF Funds Received	-	-
Member Assessment Income	-	-
Interest Expense on Class 1 Bonds	(5,192)	(9,372)
Debt Issuance & Other Investment Expenses	(938)	(924)
Interest Expense on Short Term Debt	(229)	-
Miscellaneous Income (Expense)	-	-
Total Other Income or (Expense)	<u>(5,900)</u>	<u>(10,143)</u>
<b>Net Income (Loss)</b>	<u>\$ 91,002</u>	<u>\$ 137,462</u>
<b>Surplus (Deficit) Account:</b>		
Beginning Surplus (Deficit)	\$ (24,584)	\$ (160,451)
Net Income (Loss)	91,002	137,462
Change in Provision for Reinsurance	-	-
Change in nonadmitted assets	(1,874)	(6,371)
Other	-	-
Statutory Fund Cost	(53,150)	(51,338)
Ending Surplus (Deficit)	<u>\$ 11,393</u>	<u>\$ (80,697)</u>

## 5A2. Management Discussion and Analysis

**Texas Windstorm Insurance Association**  
**Management's Discussion and Analysis of Financial Results for the**  
**Six Months Ended June 30, 2022**

**Direct Written Premium:**

- Direct written premiums for the six months ended June 30, 2022 totaled \$225.6 million, which was \$31.5 million (16.2%) above the \$194.1 million for the same period in 2021. Direct written premium was \$11.0 million (5.1%) higher than the budgeted \$214.5 million.
- Policies in force as of June 30, 2022 of 197,474 were 471 (0.2%) lower than the budgeted number of 197,945.

**Reinsurance Costs**

- The TWIA 2022-2023 reinsurance program was successfully placed on June 1, 2022 and will remain in effect until May 31, 2023. The gross premium cost associated with the \$2.036 billion in coverage including CAT Bond costs was \$122.8 million compared to a budgeted cost of \$102.1 million. The net cost of the reinsurance program after ceding commission was \$118.2 million. Reinsurance premiums ceded are recognized over the hurricane season beginning June 1 and ending on November 30 of each year.

**Direct Premiums Earned:**

- Direct premiums earned through June 2022 totaled \$201.7 million compared to \$183.5 million for the prior year (an increase of \$18.3 million or 10.0%).
- Direct premium earned was \$3.7 million higher than the budget of \$198.0 million.

**Depopulation Program:**

- The one carrier (SafePoint) that signed up to participate in round 6 of depopulation selected approximately 32,000 policies for potential novation from TWIA. The agents review period closed on May 31, 2022 with a total of 79 policies still eligible for transfer. Owners of the remaining 79 policies will make their decision regarding potential transfer to SafePoint following the close of hurricane season.

**Loss and Loss Adjustment Expense Incurred:**

- Direct losses and LAE incurred for the six months ended June 30, 2022 totaled \$32.2 million which was \$26.3 million below the budgeted amount. A relatively mild spring storm season was the primary cause for the better than budgeted results. This savings was slightly offset by adverse development associated with the 2021 Hurricane Nicholas.
- TWIA reported a YTD direct loss & LAE ratio of 16.0% versus a budgeted ratio of 29.6%.
- The ultimate loss and loss adjustment expense estimate for Hurricane Harvey continues to stand at \$1.67 billion.

**Operating Expenses:**

- Operating expenses for the six months ended June 30, 2022 of \$16.5 million were under budget by \$144,000 (0.9%).
- Notable expense items under budget included software and hardware (\$348,000), recruiting (\$108,000), postage (\$106,000), and rental and maintenance (\$140,000). These amounts were partially offset by over budget expenses in contractor and temporary help (\$263,000) and IT consulting services (\$218,000).
- The year-to date operating expense ratio of 8.2% was slightly below the budgeted 8.4%.

**Commission Expense and Premium Taxes:**

- Year-to-date Commission expense of \$36.0 million and Premium taxes of \$4.2 million were over budget by \$1.7 million and \$196,000 respectively as Direct Written premium was higher than the budgeted amount.

**Other Income (Expense):**

- Gross investment income for the six months ended June 30, 2022 was \$459,000 which was \$356,000 higher than the budgeted amount of \$103,000. Interest rates on short term government backed securities remain at relatively low levels but have increased above 1% as the Federal Reserve raises interest rates to combat recent high levels of inflation.
- Interest expense on Class 1 bonds was \$2.1 million lower than the budgeted amount. The early redemption of the remaining \$177 million of Class 1 bonds was completed on May 9, 2022.

**Net Income**

- Net income for the six months ended June 30, 2022 was \$91.0 million or \$29.3 million (47.6%) above the budgeted income of \$61.7 million.

**Surplus/(Deficit):**

- The surplus as of June 30, 2022 was \$11.4 million compared to the deficit of \$24.6 million as of December 31, 2021. The deficit improved due to the year-to-date net income of \$91.0 million. The improvement in the deficit was partially offset by \$53.1 million in statutory fund cost for the year-to-date CRTF accrual and an increase of \$1.9 million in non-admitted assets which consists primarily of prepaid expenses and capitalized software.

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## 5B. Financial Statement Review by Staff

5B1. Income Statement

5B2. Expense Statement

5B3. Balance Sheet

5B4. Cash Flow Statement

5B5. Cash & Short Term Investments

5B6. Historical Data

**TEXAS WINDSTORM INSURANCE ASSOCIATION**  
**Statutory Income Statement (000's omitted)**  
**for the six months ended June 30,**

	Actuals - 2022	Budget - 2022	Variance - 2022	Actuals - 2021
<b>Premiums Written:</b>				
Direct	\$ 225,574	\$ 214,546	\$ 11,028	\$ 194,109
Ceded	(122,830)	(102,064)	(20,766)	(100,064)
Ceded - Depopulation	-	-	-	-
Net	<u>102,745</u>	<u>112,482</u>	<u>(9,738)</u>	<u>94,045</u>
<b>Premiums Earned:</b>				
Direct	\$ 201,722	\$ 197,985	\$ 3,737	\$ 183,462
Ceded	(20,472)	(17,011)	(3,461)	(16,677)
Ceded - Depopulation	-	-	-	-
Net	<u>181,251</u>	<u>180,974</u>	<u>276</u>	<u>166,785</u>
<b>Deductions:</b>				
Direct Losses and LAE Incurred	32,238	58,540	(26,302)	(7,866)
Direct Losses and LAE Incurred - Harvey	-	-	-	(20,000)
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	(3)	-	(3)	61
Operating Expenses	16,479	16,623	(144)	14,517
Commission Expense	36,060	34,327	1,733	31,030
Ceding commissions / brokerage	(4,612)	(2,365)	(2,248)	(2,171)
Ceding commissions / brokerage - Depopulation	0	0	0	-
Premium / Maintenance Tax	4,186	3,991	196	3,609
Total Deductions	<u>84,348</u>	<u>111,117</u>	<u>(26,769)</u>	<u>19,180</u>
<b>Net Underwriting Gain or (Loss)</b>	<u>96,903</u>	<u>69,858</u>	<u>27,045</u>	<u>147,605</u>
<b>Other Income or (Expense):</b>				
Gross Investment Income	459	103	356	154
Interest Expense on Class 1 Bonds	(5,192)	(7,301)	2,109	(9,372)
Debt Issuance/Maintenance & Other Investment Expenses	(938)	(991)	53	(924)
Interest Expense on Short Term Debt	(229)	-	(229)	-
Miscellaneous Income (Expense)	-	-	-	-
Total Other Income or (Expense)	<u>(5,900)</u>	<u>(8,190)</u>	<u>2,290</u>	<u>(10,143)</u>
<b>Net Income (Loss)</b>	<u>\$ 91,002</u>	<u>\$ 61,668</u>	<u>\$ 29,334</u>	<u>\$ 137,462</u>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	(24,584)	(24,584)	-	(160,451)
Net Income (Loss)	91,002	61,668	29,334	137,462
Change in Provision for Reinsurance	-	-	-	-
Change in nonadmitted assets	(1,874)	(2,902)	1,028	(6,371)
Other	-	-	-	-
Statutory Fund Cost	(53,150)	(31,313)	(21,837)	(51,338)
Ending Surplus (Deficit)	<u>\$ 11,393</u>	<u>\$ 2,868</u>	<u>\$ 8,526</u>	<u>\$ (80,697)</u>
<b>Key Operating Ratios:</b>				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	16.0%	29.6%	(13.6%)	(4.3%)
Hurricane Harvey	0.0%	0.0%	0.0%	(10.9%)
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	<u>16.0%</u>	<u>29.6%</u>	<u>(13.6%)</u>	<u>(15.2%)</u>
UW Expense Ratio:				
Acquisition	17.8%	17.9%	(0.0%)	17.8%
Non Acquisition	8.2%	8.4%	(0.2%)	7.9%
UW Expense Ratio	<u>26.0%</u>	<u>26.3%</u>	<u>(0.2%)</u>	<u>25.8%</u>
Combined Ratio	<u>42.0%</u>	<u>55.8%</u>	<u>(13.8%)</u>	<u>10.6%</u>

<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>					
<b>Statutory Expense Report (000's omitted)</b>					
<b>for the six months ended June 30,</b>					
Description	Actuals - 2022	Budget - 2022	Variance - 2022	Actuals - 2021	
Personnel Expenses					
Salaries & Wages - Permanent	\$ 6,901	\$ 7,002	\$ (101)	\$ 6,750	
Contractor & Temporary Help	4,809	7,334	(2,524)	4,954	
Payroll Taxes	504	566	(61)	516	
Employee Benefits	2,540	2,468	71	2,474	
Recruiting, Training & Other	119	164	(45)	87	
Subtotal	<u>\$ 14,873</u>	<u>\$ 17,534</u>	<u>\$ (2,661)</u>	<u>\$ 14,782</u>	
Professional & Consulting Services					
Legal	\$ 210	\$ 277	\$ (67)	\$ 236	
Accounting & Auditing	150	206	(56)	163	
Information Technology	1,590	1,841	(251)	2,792	
Actuarial Services	25	39	(14)	39	
Ombudsman Program	113	112	1	110	
Surveys & Inspections	640	656	(16)	641	
Disaster Recovery Services	119	145	(25)	164	
Other Services (1)	2,495	2,465	30	2,470	
Subtotal	<u>\$ 5,342</u>	<u>\$ 5,740</u>	<u>\$ (398)</u>	<u>\$ 6,615</u>	
Hardware/Software Purchases & Licensing	\$ 1,841	\$ 2,224	\$ (383)	\$ 1,722	
Rental & Maintenance - Office/Equipment	605	759	(154)	655	
Travel Expenses	50	117	(67)	5	
Postage, Telephone and Express	390	511	(121)	456	
Capital Management Expenses	6	9	(2)	9	
Depreciation	641	534	106	14	
Other Operating Expenses	760	809	(49)	525	
Total Operating Expenses	<u>\$ 24,507</u>	<u>\$ 28,236</u>	<u>\$ (3,730)</u>	<u>\$ 24,782</u>	
Capitalization of Fixed Assets	(1,533)	(2,489)	956	(3,780)	
Reimbursement of Depop Servicing Expense	(4)	(6)	2	(15)	
Allocation To ULAE	(6,355)	(8,951)	2,597	(6,331)	
Allocation To Investing & Other Expense	(136)	(167)	31	(138)	
Net Operating Expense - UW Operations	<u>\$ 16,479</u>	<u>\$ 16,623</u>	<u>\$ (144)</u>	<u>\$ 14,517</u>	

(1) Summary Details for Other Services:

<u>VENDOR</u>	<u>Amount</u>	<u>Department</u>
Accenture LLP	\$ 1,079	Expert Panel
AON Re Inc	\$ 300	Actuary
Marshall & Swift/Boeckh	\$ 284	UW
Clear Point Claims LLC	\$ 205	UW
Xactware Solutions Inc	\$ 138	Claims
EagleView Technologies Inc	\$ 115	Claims
ISO Services Inc	\$ 100	Claims
Risk Management Solutions Inc	\$ 66	Expert Panel
Iron Mountain Records Management	\$ 40	Operations
LYNX Services LLC	\$ 38	Claims
Insurity LLC	\$ 32	Claims
ADP Inc	\$ 23	HR
*Other Outside Services below \$20K	\$ 76	Various departments
<b>Total Other Services</b>	<u><u>\$ 2,495</u></u>	

TEXAS WINDSTORM INSURANCE ASSOCIATION		1
Statutory Balance Sheet (000's omitted)		2
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	<b>June-22</b>	<b>December-21</b>
<b>Admitted Assets</b>		
Cash and short term investments:		
Unrestricted	\$ 416,292	\$ 424,825
Restricted - Funds Held at TTSTC	-	69,002
Restricted - Funds Held at TTSTC (Non Admitted)	-	-
Total cash and short term investments	<u>416,292</u>	<u>493,827</u>
Premiums receivable & other	8,953	3,108
Assessment receivable	-	-
Amounts recoverable from reinsurers	-	-
<b>Total admitted assets</b>	<b><u>\$ 425,246</u></b>	<b><u>\$ 496,935</u></b>
<b>Liabilities, Surplus and other funds</b>		
<b>Liabilities:</b>		
Loss and Loss adjustment expenses	\$ 70,422	\$ 77,585
Underwriting expenses payable	16,550	12,540
Unearned premiums, net of ceded unearned premiums	124,019	202,525
Ceded reinsurance premiums payable	102,301	25,951
Short Term Debt	24,118	-
Interest Payable on Short Term Debt	92	-
Principal Outstanding on Class 1 Pre Event Bonds	-	177,000
Interest Payable on Class 1 Pre Event Bonds	-	7,301
Provision for reinsurance	-	-
Other payables	23,200	18,617
Statutory fund payable	53,150	-
<b>Total liabilities</b>	<b><u>413,852</u></b>	<b><u>521,519</u></b>
<b>Surplus and others funds</b>		
Unassigned surplus	11,393	(24,584)
<b>Total liabilities, surplus and other funds</b>	<b><u>\$ 425,246</u></b>	<b><u>\$ 496,935</u></b>
<b>Balance in CRTF</b>	<b><u>\$ 184,621</u></b>	<b><u>\$ 182,712</u></b>
<b>Balance in CRTF including Statutory fund payable</b>	<b><u>\$ 237,772</u></b>	<b><u>\$ 182,712</u></b>

1	<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>			1	
2	<b>Statement of Cash Flows (000's omitted)</b>			2	
3	<b>for the six months ended June 30,</b>			3	
4				4	
5		<u>Actuals - 2022</u>	<u>Budget - 2022</u>	<u>Variance - 2022</u>	5
6					6
7	<b>Cash flows from operating activities:</b>				7
8	Premiums collected, net of reinsurance	\$ 179,023	\$ 256,987	\$ (77,964)	8
9	Losses and loss adjustment expense paid	(39,398)	(50,303)	10,905	9
10	Underwriting expenses paid	(49,191)	(51,732)	2,541	10
11	CRTF funds received	-	-	-	11
12	Member assessment received	-	-	-	12
13	Other	(1,092)	-	(1,092)	13
14	Net cash provided by operating activities	<u>89,342</u>	<u>154,952</u>	<u>(65,610)</u>	14
15	<b>Cash flows from nonoperating activities:</b>				15
16	Statutory fund paid	-	(66,385)	66,385	16
17	Other	-	-	-	17
18	Net cash provided by nonoperating activities	<u>-</u>	<u>(66,385)</u>	<u>66,385</u>	18
19	<b>Cash flows from investing activities:</b>				19
20	Sales and maturities of investments	-	-	-	20
21	Net investment income	(13,995)	(8,190)	(5,805)	21
22	Net cash provided by investing activities	<u>(13,995)</u>	<u>(8,190)</u>	<u>(5,805)</u>	22
23	<b>Cash flows from financing activities:</b>				23
24	Borrowed funds	-	-	-	24
25	Borrowed funds repaid	(152,882)	-	(152,882)	25
26	Net cash provided by financing activities	<u>(152,882)</u>	<u>-</u>	<u>(152,882)</u>	26
27					27
28	Net increase (decrease) in cash and short-term investments	(77,535)	80,377	(157,911)	28
29	Cash and short-term investments, Beginning	493,827	493,827	-	29
30	Cash and short-term investments, Ending	<u>\$ 416,292</u>	<u>\$ 574,204</u>	<u>\$ (157,911)</u>	30
31					31

Texas Windstorm Insurance Association  
Unrestricted Cash and Short Term Investments (\$ in 000's)  
June 30, 2022

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Average Daily Balance for the Quarter	Investment Income during the Quarter	Average Annual Yield	Total Deposit % of TWIA's Portfolio	N.A. Bank Credit Rating	N.A. Tier 1 Capital Ratio	N.A. Regulatory Capital	Are funds in excess of the N.A. Regulatory Capital? > .2% of N.A. Reg Capital
<b>Balances as of 6/30/2022:</b>							< 40%	Superior or Strong	> 10%	> \$25B	
Bank of America, Operating	162	143,201	143,363	148,154	66	0.18%	34%	Superior	13.1%	\$180	No
BlackRock Liquidity Funds (1)	0	119,535	119,535	98,729	36	0.14%	29%	N/A	N/A	N/A	N/A
Citibank	199	16,988	17,187	16,988	0	0.01%	4%	Superior	13.7%	\$150	No
JP Morgan Chase	13,353	0	13,353	0	0	0.00%	3%	Superior	15.9%	\$264	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	122,853	122,853	132,852	109	0.33%	30%	N/A	N/A	N/A	N/A
<b>Total of all financial institutions</b>	<b>13,714</b>	<b>402,578</b>	<b>416,292</b>	<b>396,722</b>	<b>211</b>	<b>0.21%</b>	<b>100%</b>				
<b>Balances as of 3/31/2022:</b>											
Bank of America, Operating	162	142,069	142,231	146,537	64	0.18%	33%	Superior	13.5%	\$183	No
BlackRock Liquidity Funds (1)	0	115,027	115,027	111,367	1	0.00%	27%	N/A	N/A	N/A	N/A
Citibank	199	16,988	17,187	16,988	0	0.01%	4%	Superior	14.1%	\$150	No
JP Morgan Chase	16,329	0	16,329	0	0		4%	Superior	16.9%	\$267	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	137,744	137,744	137,744	2	0.01%	32%	N/A	N/A	N/A	N/A
<b>Total of all financial institutions</b>	<b>17,953</b>	<b>406,872</b>	<b>424,825</b>	<b>414,195</b>	<b>69</b>	<b>0.07%</b>	<b>100%</b>				

(1) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.

(2) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.

(3) Balances in non-interest bearing accounts have increased to reduce bank charges as rates for earnings credits have generally exceeded yields on short-term investments.

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of March 31, 2022. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.

TEXAS WINDSTORM INSURANCE ASSOCIATION												
HISTORICAL DATA												
1971 - 2022												
(\$ with 000's omitted)												
YEAR	GROSS						NET				CRTF BALANCE END OF PERIOD	
	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES		WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED	UNDERWRITING GAIN (LOSS)		
			RESID	COMML								
1971	\$ 278,710	13,415			\$ 2,393	\$ 92	\$ 868	\$ 92	\$ 385	\$ 391		
1972	739,983	33,577			4,138	214	3,468	214	849	2,405		
1973	1,017,048	45,743			4,286	1,427	4,288	1,427	1,099	1,763		
1974	1,064,772	45,901			4,512	452	4,378	452	1,106	2,819		
1975	1,169,763	46,365			6,036	592	5,263	592	1,417	3,254		
1976	1,387,252	48,747			8,130	231	6,953	231	1,878	4,844		
1977	1,616,220	51,382			9,922	203	9,080	203	2,258	6,619		
1978	1,633,521	48,820			10,523	296	10,249	296	2,329	7,624		
1979	1,816,410	46,128			11,045	2,370	11,039	2,370	2,178	6,490		
1980	1,936,388	43,613			9,675	14,217	10,245	14,217	2,079	(6,051)		
1981	2,105,244	42,495			9,137	2,715	9,313	2,715	2,097	4,501		
1982	2,285,594	51,034			8,641	982	9,106	982	2,095	6,029		
1983	2,165,231	44,894			6,900	157,112	7,585	157,112	1,937	(151,463)		
1984	3,178,079	51,311			9,450	1,294	7,989	1,294	2,493	4,202		
1985	4,061,660	57,181			18,232	1,510	3,534	1,510	3,638	(1,614)		
1986	4,510,378	60,028			20,987	1,202	5,229	1,202	3,997	30		
1987	4,401,486	57,976			20,532	2,555	4,931	2,555	4,091	(1,715)		
1988	4,266,615	56,773	-5.4%	-15.0%	19,061	2,509	3,551	2,509	4,066	(3,024)		
1989	4,236,600	55,401	-	-	18,066	14,176	5,330	14,176	4,037	(12,883)		
1990	4,248,611	56,155	3.1%	-2.1%	18,244	1,590	16,761	1,590	4,171	11,000		
1991	4,346,209	54,145	25.0%	-2.0%	20,504	1,783	7,167	1,783	4,343	1,042		
1992	5,155,790	55,471	-20% (I)/-75% (B)	-22.9%	11,495	1,321	11,495	1,321	4,220	(1,527)		
1993	6,500,165	56,921	30.0%	-	19,377	4,778	123,515	4,778	5,161	113,576		
1994	7,645,176	63,348	-	-	26,545	1,572	25,692	1,572	6,982	17,138	124,847	
1995	8,828,140	69,807	25.0%	-	32,419	4,033	29,019	4,033	8,119	16,864	151,284	
1996	10,001,843	72,977	-	-	40,359	1,484	37,153	1,484	10,627	25,042	179,020	
1997	10,907,937	75,361	-	-	42,463	4,133	41,045	4,133	11,038	25,874	216,896	
1998	11,633,935	77,261	0.2%	-3.0%	44,411	27,235	28,256	27,235	12,181	(11,160)	238,221	
1999	11,972,502	75,947	-9.4%	-	44,581	11,320	28,702	11,320	11,524	5,858	250,403	
2000	12,052,604	73,815	8.7%	9.0%	48,012	7,937	28,470	7,937	11,681	8,852	268,563	
2001	13,249,407	77,022	18.5%	4.0%	54,631	8,011	31,112	8,011	12,936	10,165	280,063	
2002	16,003,048	85,668	-	5.0%	72,968	32,359	44,516	32,359	16,584	(4,427)	303,185	
2003	18,824,457	96,420	-	10.0%	87,987	24,955	51,702	24,955	19,682	7,065	305,599	
2004	20,796,656	103,503	9.6%	10.0%	102,384	6,115	52,230	6,115	21,911	24,204	308,729	
2005	23,263,934	109,693	-	10.0%	113,928	178,370	65,438	178,370	25,277	(138,209)	311,508	
2006	38,313,022	143,999	3.1%	13.4%	196,833	5,188	85,467	5,188	37,138	43,141	361,823	
2007	58,641,546	216,008	4.2%	3.7%	315,139	17,985	135,843	17,985	51,768	66,090	388,542	
2008	58,585,060	215,537	8.2%	5.4%	331,049	2,587,123	(138,560)	1,117,123	53,759	(1,309,442)	-	
2009	61,700,891	230,545	12.3%	15.6%	382,342	(486,314)	389,600	(183,974)	87,899	485,675	-	
2010	67,452,357	242,664	-	-	385,550	555,025	351,730	252,685	85,598	13,447	76,334	
2011	71,083,333	255,945	5.0%	5.0%	403,748	202,539	321,781	202,539	81,665	37,577	146,650	
2012	74,186,949	266,726	5.0%	5.0%	443,480	401,873	321,122	401,873	93,583	(174,334)	178,902	
2013	76,921,369	270,814	5.0%	5.0%	472,739	30,975	295,130	30,975	100,524	163,631	186,184	
2014	78,763,302	275,626	5.0%	5.0%	494,036	(13,994)	367,555	(13,994)	109,189	272,360	216,813	
2015	78,551,742	272,219	5.0%	5.0%	503,824	178,886	377,594	178,886	114,973	83,736	487,170	
2016	73,393,573	254,346	5.0%	5.0%	487,354	38,669	370,404	38,625	109,756	222,023	587,860	
2017	65,023,810	231,567	-	-	423,074	1,476,861	347,354	1,475,302	97,878	(1,225,826)	1,220	
2018	58,041,760	202,208	5.0%	5.0%	395,552	175,718	301,515	175,998	96,399	29,118	5,986	
2019	55,189,815	189,203	-	-	372,017	113,513	287,477	113,398	92,415	81,664	122,496	
2020	55,009,638	184,890	-	-	369,600	118,669	261,574	118,470	90,594	52,510	179,174	
2021	59,543,596	193,002	-	-	395,113	19,026	276,372	19,048	95,623	161,701	182,712	
2022	63,155,926	197,474	5.0%	5.0%	225,574	32,238	181,251	32,234	52,114	96,903	184,621	
TOTAL*					<b>7,578,998</b>	<b>5,975,124</b>	<b>5,270,398</b>	<b>4,503,506</b>	<b>1,681,341</b>	<b>(914,448)</b>		

\*2022 data through 6/30/2022.

## 5C. Investment of Trust Fund Balances



## MEMORANDUM

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DATE: July 11, 2022  
TO: John Polak, General Manager  
FROM: Stuart Harbour  
RE: **Investment of Trust Fund Balances (Sec. 2210.4521)**

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SB 900 added the following requirement regarding the Catastrophe Reserve Trust Fund (CRTF):

Sec. 2210.4521. INVESTMENT OF TRUST FUND BALANCES.

(a) The comptroller shall invest in accordance with the investment standard described by Section 404.024(j), Government Code, the portion of the trust fund balance that exceeds the amount of the sufficient balance determined under Subsection (b). The comptroller's investment of that portion of the balance is not subject to any other limitation or other requirement provided by Section 404.024, Government Code.

**(b) At least once each 12-month period, the board of directors shall determine a balance for the trust fund that the board considers to be sufficient to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section**

**2210.452(a). [Emphasis added]** After determining that sufficient balance, the board shall provide notice of the sufficient balance to the comptroller.

TWIA Board of Directors last reviewed this provision as required in 2021 at the August Board of Directors Meeting.

This statutory provision requires the Comptroller to invest excess CRTF funds in a less restrictive manner using a “prudent investor” standard and it requires the TWIA board to provide an annual notification to the Comptroller regarding the excess funds/sufficient balance amount in the CRTF. The CRTF Balance is approximately \$184.6 M as of June 30, 2022. The CRTF is utilized for funding losses and expenses in excess of current year premiums and other revenue. Since there is a reasonable possibility that all of the funds in the CRTF may be required to be utilized in the event of a catastrophic event, TWIA staff believes that all the funds in the CRTF are necessary to meet the potential cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a). Thus, there are **no excess funds** in the CRTF at this time to be invested by the Comptroller under the prudent investor standard set forth in Chapter 424 of the Government Code.



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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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Suggested language for a resolution by the TWIA board of directors at the August 2, 2022 meeting is as follows:

**Resolved, that based on association staff analysis and recommendation the Board of Directors hereby determines that at this time the entire balance of the Catastrophe Reserve Trust Fund is required to be kept available to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a) of the Texas Insurance Code. Thus, staff is directed to notify the Texas Comptroller's Office that the fund balance does not exceed the sufficient balance as defined in statute.**

Please let me know if you have any questions or would like to discuss this matter.

Thank you,  
Stuart Harbour  
Chief Financial Officer

5D. Selection of Auditors/Accountants for  
2022 and Authorization of  
Non-Audit Services



## MEMORANDUM

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DATE: July 11, 2022  
TO: John Polak, General Manager  
FROM: Stuart Harbour, Chief Financial Officer  
RE: **Selection of Auditors/Accountants for 2022 and Authorization of Non-Audit Services**

---

Each year the association retains an accounting firm to conduct an audit of the association's financial statements as of and for the year ended December 31. Pursuant to an RFP process in 2021, Calhoun Thomson + Matza ("CTM") was selected to continue in their role as the association's independent auditor. I have attached the Statutory and GASB engagement letters from CTM for use in connection with the audit of the association's 2022 financial statements. Counsel has reviewed the letters and reports that they are the same as last year with no changes in terms or fee amounts. Staff recommends to the Board of Directors that the engagements be approved and the letters executed. Staff also requests authority to use CTM as needed over the coming year for assistance with certain tax related items and for non-audit services associated with the issuance of catastrophe bonds. Resolution language follows.

**The Board of Directors of the association acting as the audit committee authorizes and directs that the firm of Calhoun, Thomson + Matza be engaged to conduct the upcoming annual audits of the association's financial statements on the terms set forth in the Statutory and GASB engagement letters included in the board book. The staff of the association is further authorized to engage Calhoun, Thomson + Matza to provide permitted tax related non-audit services and certain non-audit services in connection with the issuance of catastrophe bonds during the coming year as needed.**

Please let me know if you have any questions or would like to discuss this matter.

**Agreement to provide services**

June 21, 2022

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
5700 S. Mopac Expressway  
Building A  
Austin, Texas 78749

Dear Ms. Franklin-Womack:

This agreement to provide services (the “Agreement”) is intended to describe the nature and scope of our services.

**Statutory Audit**

As agreed, Calhoun, Thomson + Matza, LLP (“CTM” or “we”) will audit the statutory statement of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the “Association” or “you”) as of December 31, 2022 and the related statutory statements of income, changes in surplus and other funds, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of the Association’s management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding the Association’s assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

Also, the supplementary information accompanying the statutory financial statements, as listed below, which are presented to comply with the National Association of Insurance Commissioners’ Accounting Practices and Procedures Manual and Texas state law, will be subjected to the auditing procedures applied in our audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and our auditors’ report will provide an opinion on it in relation to the statutory financial statements as a whole.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
Page 2

- Summary Investment Schedule as of December 31, 2022.
- Supplemental Investment Risk Interrogatories as of December 31, 2022.
- Reinsurance Interrogatories as of December 31, 2022.

You acknowledge and understand your responsibility for the preparation of the supplementary information in accordance with the applicable criteria. You also agree to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information. You also agree to present the supplementary information with the audited financial statements, or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and our report thereon.

Our responsibility is to express an opinion on the statutory financial statements based on our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We are also responsible for communicating with those charged with governance what our responsibilities are under generally accepted auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit. The term “those charged with governance” is defined as the person(s) with responsibility for overseeing the strategic direction of the Association and obligations related to the accountability of the Association, including overseeing the financial reporting process. For the Association, we agree that the Audit Committee meets that definition.

At the conclusion of our audit, we will submit to you a report containing our opinion as to whether the statutory financial statements, taken as a whole, are fairly presented based on accounting principles prescribed or permitted by the Texas Department of Insurance. If, during the course of our work, it appears for any reason that we will not be in a position to render an unqualified opinion on the statutory financial statements, or that our report will require an explanatory paragraph, we will discuss this with you. It is possible that, because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

We will design our audit, in accordance with auditing standards generally accepted in the United States of America, to obtain reasonable assurance about whether the statutory financial statements are free of material misstatements, whether caused by

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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error or fraud. Our work will be based primarily upon selected tests of evidence supporting the amounts and disclosures in the statutory financial statements and, therefore, will not include a detailed check of all of the Association's transactions for the period. Accordingly, an audit performed in accordance with auditing standards generally accepted in the United States of America is not a guarantee of the accuracy of the statutory financial statements, and there is a risk that material errors or fraud may exist and not be detected by us. Also, an audit is not designed to detect errors or fraud that are immaterial to the statutory financial statements. However, we will promptly inform you of any material errors or any fraud, whether material or not, that come to our attention. We will also inform you of possible illegal acts that come to our attention. In addition, during the course of our audit, statutory financial statement misstatements may be identified, either through our audit procedures or through communication by the Association's employees to us, and we will bring these misstatements to your attention as proposed adjustments. Management is responsible for recording such adjustments in the statutory financial statements, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the Association's files; or otherwise concluding and confirming in a representation letter provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the statutory financial statements taken as a whole. At the conclusion of our audit we will communicate to those charged with governance all such uncorrected misstatements.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we are responsible for ensuring that you are aware of any significant deficiencies or material weaknesses that come to our attention during our engagement.

CTM is retaining the Association as a client in reliance on information obtained during the course of our continuing client reacceptance procedures. Clark Thomson has been assigned the role of engagement partner and is responsible for directing the engagement and issuing the appropriate report on the Association's statutory financial statements.

### **Responsibility to Communicate with the Audit Committee**

Although the objective of our audit of the statutory financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit, we will communicate reportable conditions to you to the extent they come to our attention.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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We will report to you, in writing, the following matters:

1. Audit adjustments detected during the audit that could, in our judgment, either individually or in aggregate have a significant effect on the Association's financial reports. Audit adjustments, whether or not recorded by the Association, are proposed corrections of the financial statements that may not have been detected except through the auditing procedures.
2. Uncorrected misstatements aggregated during the current engagement that were determined by management to be immaterial.
3. Any disagreements with management or other serious difficulties encountered during the audit.
4. Any other matter that is required to be communicated by generally accepted auditing standards.

We will also read the minutes of Audit Committee meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management.

#### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail transmission. As e-mails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that e-mails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure or communication of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, the Association agrees that we shall have no liability for any loss or damage from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

#### **Ownership of Working Papers**

The working papers prepared in conjunction with our audit are the property of our Firm, constitute confidential information, and will be retained by us in accordance with our Firm's policies and procedures. However, we may be required to make certain working papers available to State insurance regulators pursuant to authority given them by law

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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or regulation. Access to the requested working papers will be provided to the State insurance regulators pursuant to a request under Chapter 401 of the Texas Insurance Code.

### **Reproduction of Audit Report**

If the Association plans any reproduction or publication of our report, or any portion of it, copies of masters' or printers' proofs of the entire document, or if there is no proof, a copy of the entire document in its final form, should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

### **Posting of Audit Report and Statutory Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the statutory financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the statutory financial statements and audit report on your Web site and the signed version of the statutory financial statements and audit report provided to management by CTM.

### **Review of Documents for Sale of Securities**

The audited statutory financial statements and our report thereon should not be provided or otherwise made available to recipients of any document to be used in connection with the sale of securities (including securities offerings on the Internet) without first submitting copies of the document to us in sufficient time for our review and written approval. If, in our professional judgment, the circumstances require, we may withhold our written approval.

### **Management Representations and Indemnification**

As required by auditing standards generally accepted in the United States of America, we will request certain written representations from the Association's management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations.

### **Availability of Records and Personnel**

The Association agrees that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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related parties), that all material information will be disclosed to us, and that we will have the full cooperation of, and unrestricted access to, the Association's personnel during the course of the engagement.

You also agree to ensure that any third party valuation reports and/or actuarial reports that the Association provides to us to support amounts or disclosures in the statutory financial statements a) indicate the purpose for which they were intended, which is consistent with your actual use of such reports; and b) do not contain any restrictive language that would preclude us from using such reports as audit evidence.

### **Assistance by the Association's Personnel and Internet Access**

We also ask that the Association's personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to the Association's employees and/or customers should be provided to us. In addition, we ask that the Association provides high-speed Internet access to our engagement team, if practicable, while working on the Association's premises. This assistance will serve to facilitate the progress of our work and minimize costs to the Association.

### **Other Services**

We are always available to meet with you or other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting the Association. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your director's meetings.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the Association in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence. In addition, if you hire one of our personnel, you agree to pay us a fee of 20% of that individual's base compensation at your Association 90 days from the first day of employment.

Provisions of the National Association of Insurance Commissioners' Model Audit Rule also require the Association's audit committee to pre-approve all permissible non-attest services. We agree not to perform any services without audit committee pre-approval and you agree to implement appropriate policies and procedures to ensure that the

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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audit committee pre-approves any services that we or other independent auditors are asked to perform.

### **Dispute Resolution Procedure**

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the “Dispute”), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the “AAA”).

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys’ fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties.

Any Dispute not resolved first by mediation between the parties (or if the mediation process is waived as provided herein) shall be decided by binding arbitration. The arbitration proceeding shall take place in Austin, Texas, unless the parties agree in writing to a different locale. The arbitration shall be governed by the provisions of the laws of the state in which the arbitration is to take place (except if there is no applicable state law providing for such arbitration, then the Federal Arbitration Act shall apply) and the substantive law of such state shall be applied without reference to conflicts of law rules. In any arbitration instituted hereunder, the proceedings shall proceed in accordance with the then current Arbitration Rules for Professional Accounting and Related Disputes of the AAA, except that the Arbitration Panel (as defined below) shall permit discovery that is consistent with the scope of discovery typically permitted by the

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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Federal Rules of Civil Procedure and/or is otherwise customary in light of the complexity of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

The arbitration shall be conducted before a panel of three persons, one selected by each party, and the third selected by the two party-selected arbitrators (the "Arbitration Panel"). The party-selected arbitrators shall be treated as neutrals. The Arbitration Panel shall have no authority to award non-monetary or equitable relief, but nothing herein shall be construed as a prohibition against a party from pursuing non-monetary or equitable relief in a state or federal court. The parties also waive the right to punitive damages and the arbitrators shall have no authority to award such damages or any other damages that are not strictly compensatory in nature. In rendering their award, the Arbitration Panel shall issue in writing findings of fact and conclusions of law. The Arbitration Panel shall not have authority to grant an award that is not supported by substantial evidence or that is based on an error of law, and such absence of substantial evidence or such error of law may be reviewed on appeal to vacate an award based on the standard of review otherwise applicable in the Federal Appellate Court responsible for the jurisdiction in which the arbitration is venued, and without regard to any heightened standard of review otherwise applicable to an arbitration decision rendered by the AAA. The confidentiality provisions applicable to mediation shall also apply to arbitration. The award issued by the Arbitration Panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. No payment of any award or posting of any bond of any kind whatsoever is required to be made or posted until such Dispute is finally determined.

In no event shall a demand for arbitration be made after the date on which the initiation of the legal or equitable proceeding on the same Dispute would be barred by the applicable statute of limitations or repose. For the purposes of applying the statute of limitations or repose, receipt of a written demand for arbitration by the AAA shall be deemed the initiation of the legal or equitable proceeding based on such Dispute.

### **Fees**

Our charges to the Association for the audit services described above will be \$75,000 all-inclusive except for out-of-town travel to Board meetings (if attendance is requested).

Our hourly rates are as follows:

Partner	\$225
Senior Manager	\$175
Senior Associate	\$135
Audit Associate	\$115

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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This engagement includes only those services specifically described in this letter; any additional services not specified herein will be agreed to in a separate letter. Reasonable costs and time spent in legal matters or proceedings arising from our engagement (other than litigation to which we are a party), such as subpoenas, testimony, or consultation involving private litigation or arbitration, or government regulatory inquiries at your request or by subpoena, will be billed to the Association separately and the Association agrees to pay the same.

Bills will be rendered on a semi-monthly or other periodic basis, with payment terms of net due upon receipt. If payments are not received promptly, we reserve the right to stop work on the engagement.

If we elect to terminate our services for nonpayment, or for any other reason provided for in this letter, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all of our time expended, and to reimburse us for all of our out-of-pocket expenses and internal charges incurred, through the date of termination.

### **Miscellaneous**

This Agreement is only intended to cover the services specified herein, although we look forward to many more years of pleasant association with the Association. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services.

Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the Association hereby authorizes CTM to participate in this electronic confirmation process through the third party's Web site (e.g., by entering the Association's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that CTM shall have no liability in connection therewith.

Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
June 21, 2022  
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This Agreement may be transmitted in electronic format and shall not be denied legal effect solely because it was formed or transmitted, in whole or in part, by electronic record; however, this Agreement must then remain capable of being retained and accurately reproduced, from time to time, by electronic record by the parties to this Agreement and all other persons or entities required by law. An electronically transmitted signature to this Agreement will be deemed an acceptable original for purposes of consummating this Agreement and binding the party providing such electronic signature.

### **Assignability**

This Agreement is nonassignable.

### **Entire Agreement**

This Agreement constitutes the entire agreement between the parties hereto with regard to the subject matter hereof and supersedes all other agreements relating to the subject matter hereof. There are no agreements, understandings, specific restrictions, warranties or representations relating to said subject matter between the parties other than those set forth herein or herein provided.

### **Amendment and Modification**

This Agreement may only be amended or modified by the mutual written agreement of the parties.

### **Public Information**

Notwithstanding any provision herein to the contrary, the parties hereby acknowledge and agree that TWIA is subject to the Texas Public Information Act, Tex. Gov't Code §552.001 et seq. ("Public Information Act") and Attorney General Opinions issued under that statute and must comply with the provisions of Texas law including the Public Information Act. Within three (3) days of receipt, CTM will refer to TWIA any third party requests, received directly by CTM, for information to which CTM has access as a result of or in the course of performing services under this Agreement.

### **Confidential Information and Subpoenas**

CTM will not disclose to anyone, directly or indirectly, any work-papers, data, databases, materials, information or reports in any form that are designated as confidential or that are or could be construed as confidential or subject to restrictions on disclosure under applicable law ("Confidential Information") and received from TWIA or such Confidential Information to which CTM has access as a result of or in the course

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
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of performing services under this Agreement without the prior written consent of TWIA. This confidentiality provision does not apply to information required to be disclosed by law, legal process, and applicable professional standards or to information disclosed in connection with litigation relating to the Agreement or CTM's performance. Each party will protect the confidentiality of the Confidential Information in the same manner that it protects the confidentiality of its own proprietary and confidential information of like kind. Nothing in this Agreement shall prohibit or limit either party's use or disclosure of information (including, but not limited to, ideas, concepts, know-how, techniques, and methodologies) (i) previously known to it without obligation of confidence, (ii) independently developed by it, (iii) acquired by it from a third party which is not, to its knowledge, under an obligation of confidence with respect to such information, or (iv) which is or becomes publicly available through no breach of the Agreement. In the event either party receives a subpoena or other validly issued administrative or judicial process requesting Confidential Information, it shall provide prompt notice to the other of such receipt. The party receiving the subpoena shall thereafter be entitled to comply with such subpoena or other process to the extent permitted by law.

Very truly yours,

  
Acknowledged:

By \_\_\_\_\_  
Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee

Date \_\_\_\_\_

(Please sign and return to us one copy; retain the other copy for your files)

**Agreement to provide services**

June 21, 2022

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
5700 S. Mopac Expressway  
Building A  
Austin, Texas 78749

Dear Ms. Franklin-Womack:

This agreement to provide services (the "Agreement") is intended to describe the nature and scope of our services.

**Audit**

As agreed, Calhoun, Thomson + Matza, LLP ("CTM" or "we") will audit the statement of net position of Texas Windstorm Insurance Association (the "Association" or "you") as of December 31, 2022 and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of your Association's management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding Association assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

Also, the supplementary information accompanying the financial statements, as listed below, will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditors' report will not provide an opinion or any assurance on such supplementary information.

- Management's discussion and analysis
- Schedule of changes in net pension liability and related ratio's
- Schedule of employer contributions

You acknowledge and understand your responsibility for the preparation of the supplementary information in accordance with the applicable criteria. You also agree to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information. You also agree to present the supplementary information with the audited financial statements, or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary

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information no later than the date of issuance of the supplementary information and our report thereon.

Our responsibility is to express an opinion on the financial statements based on our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We are also responsible for communicating with those charged with governance what our responsibilities are under generally accepted auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit. The term “those charged with governance” is defined as the person(s) with responsibility for overseeing the strategic direction of the Association and obligations related to the accountability of the Association, including overseeing the financial reporting process. For the Association, we agree that the Board of Directors meets that definition.

At the conclusion of our audit, we will submit to you a report containing our opinion as to whether the financial statements, taken as a whole, are fairly presented based on accounting principles generally accepted in the United States of America. If, during the course of our work, it appears for any reason that we will not be in a position to render an unqualified opinion on the financial statements, or that our report will require an explanatory paragraph, we will discuss this with you. It is possible that, because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

We will design our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Our work will be based primarily upon selected tests of evidence supporting the amounts and disclosures in the financial statements and, therefore, will not include a detailed check of all of your Association’s transactions for the period. Accordingly, an audit performed in accordance with auditing standards generally accepted in the United States of America is not a guarantee of the accuracy of the financial statements, and there is a risk that material errors or fraud may exist and not be detected by us. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. However, we will promptly inform you of any material errors or any fraud, whether material or not, that come to our attention. We will also inform you of possible illegal acts that come to our attention. In addition, during the course of our audit, financial statement misstatements may be identified, either through our audit procedures or through communication by your employees to us, and we will bring these misstatements to your attention as proposed adjustments. Management is responsible for recording such adjustments in the financial statements, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the Association’s files; or otherwise concluding and confirming in a representation letter provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the financial statements taken as a whole. At the conclusion of our audit we will communicate to those charged with governance all such uncorrected misstatements.

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An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we are responsible for ensuring that you are aware of any significant deficiencies or material weaknesses that come to our attention during our engagement.

CTM is retaining the Association as a client in reliance on information obtained during the course of our continuing client reacceptance procedures. Clark Thomson has been assigned the role of engagement partner and is responsible for directing the engagement and issuing the appropriate report on the Association's financial statements.

#### **Responsibility to Communicate with the Audit Committee**

Although the objective of our audit of the financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit, we will communicate reportable conditions to you to the extent they come to our attention.

We will report to you, in writing, the following matters:

1. Audit adjustments detected during the audit that could, in our judgment, either individually or in aggregate have a significant effect on the Association's financial reports. Audit adjustments, whether or not recorded by the Association, are proposed corrections of the financial statements that may not have been detected except through the auditing procedures.
2. Uncorrected misstatements aggregated during the current engagement that were determined by management to be immaterial.
3. Any disagreements with management or other serious difficulties encountered during the audit.
4. Any other matter that is required to be communicated by generally accepted auditing standards.

We will also read the minutes of Audit Committee meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management.

#### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via email. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot

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ensure that emails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of email, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

#### **Ownership of Working Papers**

The working papers prepared in conjunction with our audit are the property of our Firm, constitute confidential information, and will be retained by us in accordance with our Firm's policies and procedures. However, we may be required to make certain working papers available to State insurance regulators pursuant to authority given them by law or regulation. Access to the requested working papers will be provided to the State insurance regulators pursuant to a request under Chapter 401 of the Texas Insurance Code.

#### **Reproduction of Audit Report**

If the Association plans any reproduction or publication of our report, or any portion of it, copies of masters' or printers' proofs of the entire document, or if there is no proof, a copy of the entire document in its final form, should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit report provided to management by CTM. You also agree to indemnify CTM from any and all claims that may arise from any differences between the electronic and signed versions.

#### **Review of Documents for Sale of Securities**

The audited financial statements and our report thereon should not be provided or otherwise made available to recipients of any document to be used in connection with the sale of securities (including securities offerings on the Internet) without first submitting copies of the document to us in sufficient time for our review and written approval. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Management Representations and Indemnification**

As required by auditing standards generally accepted in the United States of America, we will request certain written representations from management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of

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such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations.

#### **Availability of Records and Personnel**

You agree that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to related parties), that all material information will be disclosed to us, and that we will have the full cooperation of, and unrestricted access to, your personnel during the course of the engagement.

You also agree to ensure that any third party valuation reports that you provide to us to support amounts or disclosures in the financial statements a) indicate the purpose for which they were intended, which is consistent with your actual use of such reports; and b) do not contain any restrictive language that would preclude us from using such reports as audit evidence.

#### **Assistance by Your Personnel and Internet Access**

We also ask that your personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to Association employees and/or customers should be provided to us. In addition, we ask that you provide high-speed Internet access to our engagement team, if practicable, while working on the Association's premises. This assistance will serve to facilitate the progress of our work and minimize costs to you.

#### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Association. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your directors' meetings.

#### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Association in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence. In addition, if you hire one of our personnel, you agree to pay us a fee of 20% of that individual's base compensation at your Association 90 days from the first day of employment.

#### **Dispute Resolution Procedure**

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the "Dispute"), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such

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parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the "AAA").

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys' fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties.

Any Dispute not resolved first by mediation between the parties (or if the mediation process is waived as provided herein) shall be decided by binding arbitration. The arbitration proceeding shall take place in Austin, Texas, unless the parties agree in writing to a different locale. The arbitration shall be governed by the provisions of the laws of the state in which the arbitration is to take place (except if there is no applicable state law providing for such arbitration, then the Federal Arbitration Act shall apply) and the substantive law of such state shall be applied without reference to conflicts of law rules. In any arbitration instituted hereunder, the proceedings shall proceed in accordance with the then current Arbitration Rules for Professional Accounting and Related Disputes of the AAA, except that the Arbitration Panel (as defined below) shall permit discovery that is consistent with the scope of discovery typically permitted by the Federal Rules of Civil Procedure and/or is otherwise customary in light of the complexity of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

The arbitration shall be conducted before a panel of three persons, one selected by each party, and the third selected by the two party-selected arbitrators (the "Arbitration Panel"). The party-selected arbitrators shall be treated as neutrals. The Arbitration Panel shall have no authority to award non-monetary or equitable relief, but nothing herein shall be construed as a prohibition against a party from pursuing non-monetary or equitable relief in a state or federal court. The parties also waive the right to punitive damages and the arbitrators shall have no authority to award such damages or any other damages that are not strictly compensatory in nature. In rendering their award, the Arbitration Panel shall issue in writing findings of fact and conclusions of law. The Arbitration Panel shall not have authority to grant an award that is not supported by substantial evidence or that is based on an error of law, and such absence of substantial evidence or such error of law may be reviewed on appeal to vacate an award based on the standard of review otherwise applicable in the Federal Appellate Court responsible for the jurisdiction in which the arbitration is venued, and without regard to any heightened standard of review otherwise applicable to an arbitration decision rendered by the AAA. The confidentiality provisions

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applicable to mediation shall also apply to arbitration. The award issued by the Arbitration Panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. No payment of any award or posting of any bond of any kind whatsoever is required to be made or posted until such Dispute is finally determined.

In no event shall a demand for arbitration be made after the date on which the initiation of the legal or equitable proceeding on the same Dispute would be barred by the applicable statute of limitations or repose. For the purposes of applying the statute of limitations or repose, receipt of a written demand for arbitration by the AAA shall be deemed the initiation of the legal or equitable proceeding based on such Dispute.

### **Fees**

Our charges to the Association for the audit services described above will be \$13,525 all-inclusive except for out-of-town travel to Board meetings (if attendance is requested).

Our hourly rates are as follows:

Partner	\$225
Senior Manager	\$175
Senior Associate	\$135
Audit Associate	\$115

This engagement includes only those services specifically described in this Agreement; any additional services not specified herein will be agreed to in a separate letter. In the event you request us to, or we are required to, respond to a subpoena, court order, government regulatory inquiries, or other legal process against the Association or its management for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this or any prior engagements, you agree to compensate us for all time we expend in connection with such response, at our regular rates, and to reimburse us for all related out-of-pocket costs that we incur.

Bills will be rendered on a semi-monthly or other periodic basis, with payment terms of net due upon receipt. If payments are not received promptly, we reserve the right to stop work on the engagement.

If we elect to terminate our services for nonpayment, or for any other reason provided for in this Agreement, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all of our time expended, and to reimburse us for all of our out-of-pocket expenses and internal charges incurred, through the date of termination.

### **Miscellaneous**

This Agreement is only intended to cover the services specified herein, although we look forward to many more years of pleasant association with the Association. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services.

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Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the Association hereby authorizes CTM to participate in this electronic confirmation process through the third party's Web site (e.g., by entering the Association's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that CTM shall have no liability in connection therewith.

Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

This Agreement may be transmitted in electronic format and shall not be denied legal effect solely because it was formed or transmitted, in whole or in part, by electronic record; however, this Agreement must then remain capable of being retained and accurately reproduced, from time to time, by electronic record by the parties to this Agreement and all other persons or entities required by law. An electronically transmitted signature to this Agreement will be deemed an acceptable original for purposes of consummating this Agreement and binding the party providing such electronic signature.

#### **Assignability**

This Agreement is nonassignable.

#### **Entire Agreement**

This Agreement constitutes the entire agreement between the parties hereto with regard to the subject matter hereof and supersedes all other agreements relating to the subject matter hereof. There are no agreements, understandings, specific restrictions, warranties or representations relating to said subject matter between the parties other than those set forth herein or herein provided.

#### **Amendment and Modification**

This Agreement may only be amended or modified by the mutual written agreement of the parties.

#### **Public Information**

Notwithstanding any provision herein to the contrary, the parties hereby acknowledge and agree that TWIA is subject to the Texas Public Information Act, Tex. Gov't Code §552.001 et seq. ("Public Information Act") and Attorney General Opinions issued under that statute and must comply with the provisions of Texas law including the Public Information Act. Within three (3)

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days of receipt, CTM will refer to TWIA any third party requests, received directly by CTM, for information to which CTM has access as a result of or in the course of performing services under this Agreement.

**Confidential Information and Subpoenas**

CTM will not disclose to anyone, directly or indirectly, any work-papers, data, databases, materials, information or reports in any form that are designated as confidential or that are or could be construed as confidential or subject to restrictions on disclosure under applicable law (“Confidential Information”) and received from TWIA or such Confidential Information to which CTM has access as a result of or in the course of performing services under this Agreement without the prior written consent of TWIA. This confidentiality provision does not apply to information required to be disclosed by law, legal process, and applicable professional standards or to information disclosed in connection with litigation relating to the Agreement or CTM’s performance. Each party will protect the confidentiality of the Confidential Information in the same manner that it protects the confidentiality of its own proprietary and confidential information of like kind. Nothing in this Agreement shall prohibit or limit either party’s use or disclosure of information (including, but not limited to, ideas, concepts, know-how, techniques, and methodologies) (i) previously known to it without obligation of confidence, (ii) independently developed by it, (iii) acquired by it from a third party which is not, to its knowledge, under an obligation of confidence with respect to such information, or (iv) which is or becomes publicly available through no breach of the Agreement. In the event either party receives a subpoena or other validly issued administrative or judicial process requesting Confidential Information, it shall provide prompt notice to the other of such receipt. The party receiving the subpoena shall thereafter be entitled to comply with such subpoena or other process to the extent permitted by law.

Very truly yours,

  
Acknowledged:

By \_\_\_\_\_  
Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee

Date \_\_\_\_\_

(Please sign and return to us one copy; retain the other copy for your files)

## 6. Agent Commission Study Update



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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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# Agent Commission Study

August 2022 TWIA Board of Directors

# Agenda

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- **Changes Since the December 2021 Report**
- **Executive Summary**
- **Decisions Needed**
- **Key Information to Facilitate Discussion**

# Changes Since the Last Report

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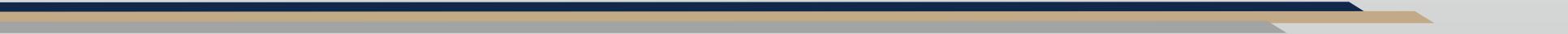
- Refined the study objectives
- Added staff recommendations for next steps
- Completed industry comparison and interviews with other plans
- Updated post-ELEVATE user behavior and system usage data with initial, available data
- Included additional post-ELEVATE agent feedback

**December 2021 Report on pages 67-146:**

**<https://www.twia.org/wp-content/uploads/TWIA-Board-of-Directors-Meeting-Materials-December-7-2021.pdf>**

OVERVIEW

# EXECUTIVE SUMMARY



# Objectives

01



## **Provide an accurate picture of agent workflows**

Provide, to the extent possible, an accurate and complete picture of normalized agent system usage and workflows

02



## **Address the Sunset recommendation**

Collect agent feedback and usage data on the process changes required by Sunset legislation and enhanced with ELEVATE to enable the Board to evaluate a separate renewal commission as recommended by the Commission

03



## **Provide information sufficient for a filing**

Provide sufficient information for a TDI filing in the event the Board decides to make a recommendation to the Commissioner

# Recommendations

01



## **Allow time for agents to adjust workflows**

Provide 12 months post-ELEVATE implementation for the system to mature and for agents to adjust their processes and workflows

02



## **Analyze 12 months of renewal data**

Analyze at least 12 months of renewal data for insights into post-ELEVATE system usage and user behavior

03



## **Evaluate workflows in new systems in April**

Replicate IIAT studies to see how long it takes to issue new business and renewals in new system – begin studies 12 months after implementation

# Components

01



## Component #1 – Industry Comparisons

- Summary Beach and FAIR Plan Commission Data
- Interviews with Gulf Coast Beach Plans
- Summary Private Market Commission Data

02



## Component #2 – System Usage Data

- Pre-ELEVATE Data
- Immediate Post-ELEVATE Implementation Data
- Longer Term Post-ELEVATE Implementation Data

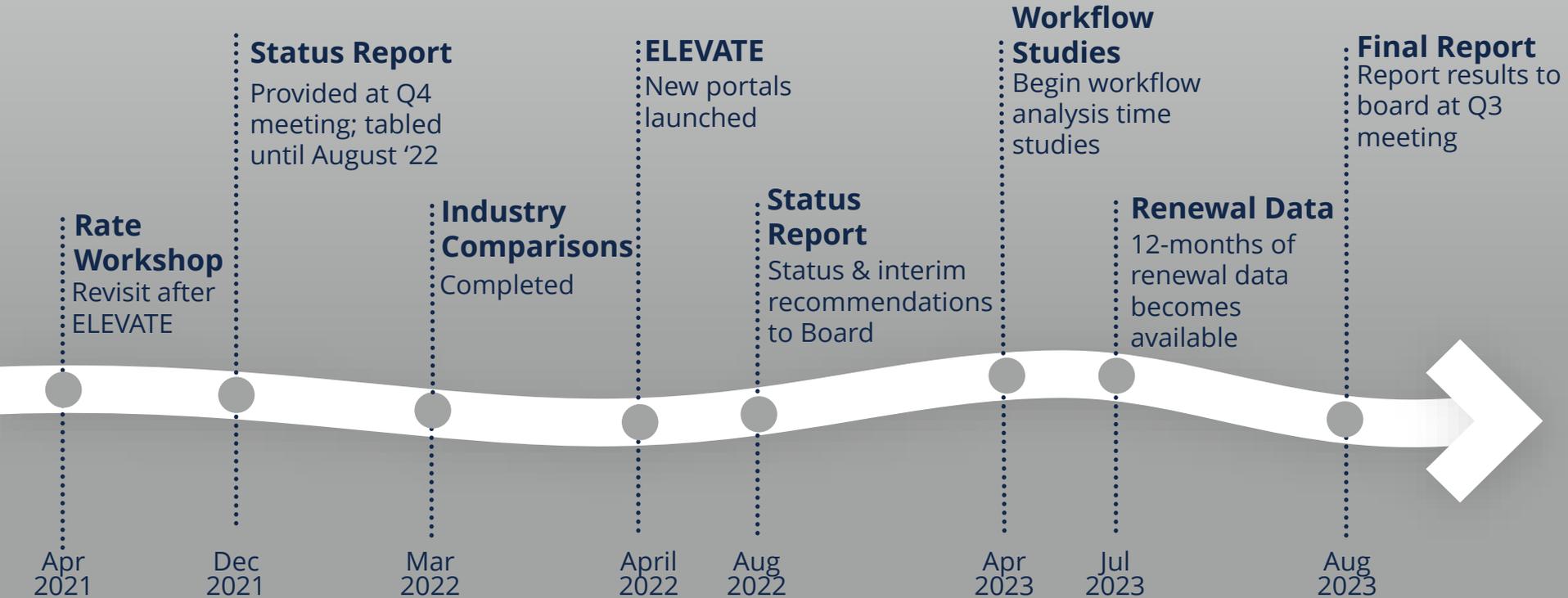
03



## Component #3 – Agent Feedback

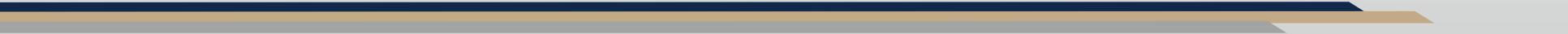
- Pre-ELEVATE AAG Workflow & Claims Surveys
- Post-ELEVATE AAG Feedback
- Historical Workflow Analysis Time Study Reports
- Updated Workflow Analysis Time Studies

# Timeline



Private and Residual Property Market

# INDUSTRY COMPARISONS



# Key Takeaways

01



## 10% is most common commission in other Plans

- Most Beach and FAIR Plans have a 10% commission rate
- Five plans have different commissions for renewals and new business

02



## Interviewed Gulf Coast Plans and N. Carolina

- FL and NC both have binding authority for agents and some degree of integration with agency management systems

03



## Commission rates in other markets vary widely

- Commissions range from 26.5% to 7.6% in private market sample\*
- NFIP is 15% on first \$2,000 in premium; 5% on excess of \$2,000

# Plan Comparisons

Agent Requirements, Service and Product Offerings	Alabama	Florida	Louisiana	Miss.	North Carolina	TWIA
Commission Rate	8%	8.1% R / 12% C	10%	12% NB / 10% R	13%	16%
Commission Last Changed	~2008	~2000	N/A	~2006	1990s	1992
Declination Required		✓				✓
Companion Policy Required	✓			✓	✓	
Replacement Cost Estimate Required	✓	✓	✓	✓		✓
Flood Insurance Required	✓			✓		✓
Building Code Certification Required				✓		✓
Payment Required to Issue Policy				✓	✓	✓
Agents Have Binding Authority		✓	✓		✓	
Credit Cards Accepted	✓		✓		✓	✓
Integration with Agency Management Systems		✓			✓	
Other Agent Requirements	✓	✓			✓	11

# Commission Rates in Other Markets

Sample of Private Market Commission Rates	
Company Name	Commission Rate
AIG	17.70%
Allstate	13.20%
Chubb Group	17.10%
Markel	18.00%
Metropolitan Lloyd's	7.60%
Nationwide	13.90%
QBE Insurance Corporation	15.30%
QBE Specialty	15.30%
Safeco Insurance	15.40%
State Auto Property & Casualty Insurance	16.50%
State Farm Lloyds	10.70%
Texas Farm Bureau	11.70%
Travelers	15.40%
UPC	18.20%
Weston	26.50%
Zurich	22.00%
<b>Average Commission Rate</b>	<b>16.15%</b>

National Flood Insurance Program	
Direct Servicing Agent Program	Commission Rate
First \$2,000 Premium	15%
Excess of \$2,000	5%
Write Your Own Program	Commission Allowance
Percentage of Written Premium	15%

System and Process Changes and System Usage Data

# **TWIA SYSTEM & PROCESS DATA**

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# Key Takeaways

01



## Renewal process changes in 2020 and 2022

- Period of adjustment is typically needed before processes and workflows normalize
- Very little renewal data from the new system is available this early in the migration process

02



## No change in policyholders renewing directly

- The percentage of policyholders paying directly to renew their policies remains the same.
- Agents now have the ability to edit offers before they are submitted to policyholders.

03



## Modest increases in digital payments

- Small increases in usage of electronic payment options after ELEVATE

# Sunset Requirements vs. ELEVATE Changes

## Sunset Requirements & Dates of Completion

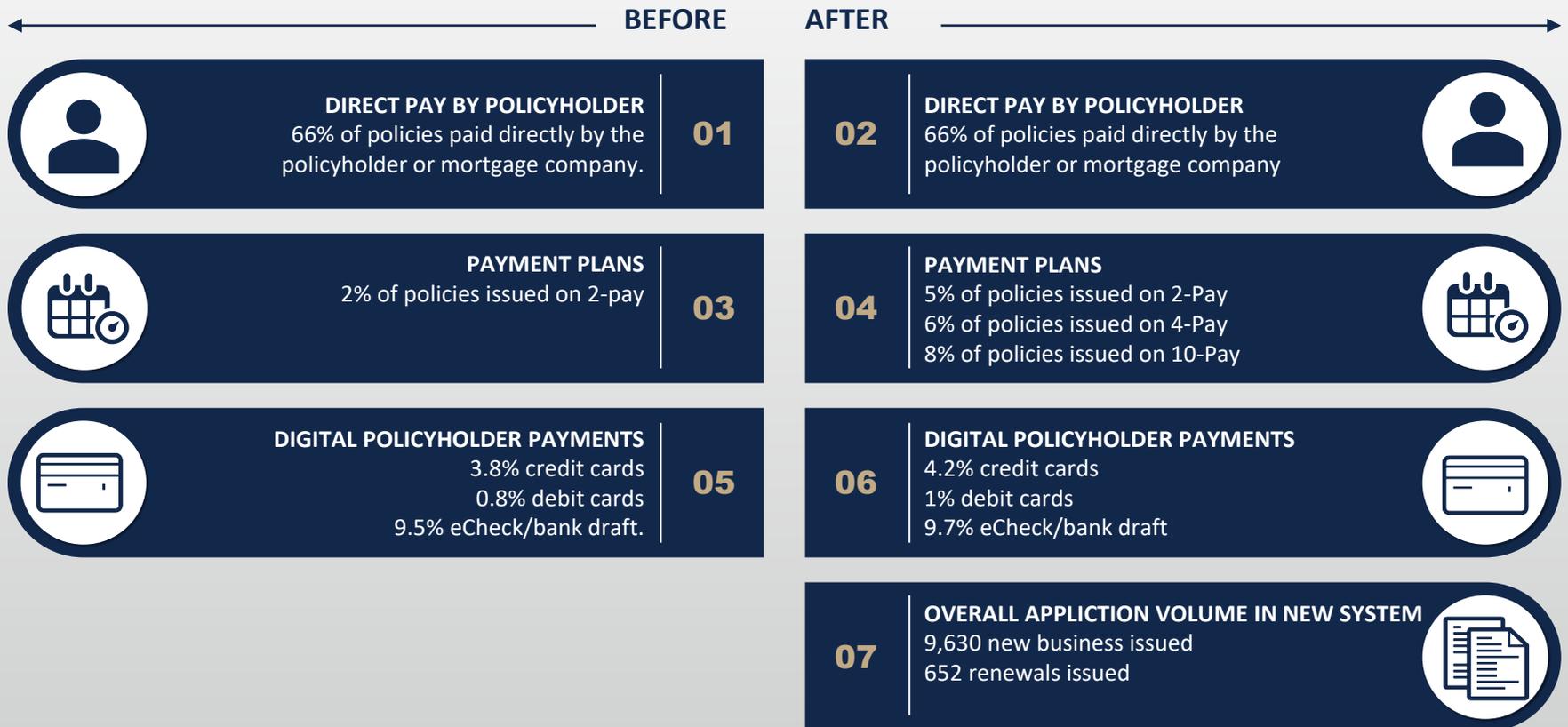
- Offer [customers] policy renewal unless new information is necessary – 1/2020
- Accept installment premium payments – 11/2020
- Accept credit card payments – 11/2020
- Directly bill customers for premiums for the new renewal process – 1/2020

## ELEVATE Changes

- Provides online access for policyholders to pay renewals
- Affords agents the opportunity to edit renewals before offer submitted to policyholder
- Offers additional payment plan options (full pay, 2-pay, 4-pay, 10-pay)
- Adds real-time processing for policyholders' credit card payments

Effective April 2022 for New Business and July 2022 for Renewals.

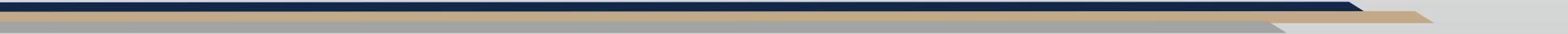
# Before vs. After ELEVATE: Payment Data



- Pre-ELEVATE Payment Plan data is as of 9/30/2021. Data isn't available past this point now that new system is live.
- All other Pre-ELEVATE data is through 4/17/2022
- Post-ELEVATE data is 4/18/2022-6/30/2022

Workflow Analysis, Agent Surveys, and Agent Advisory Group Feedback

# **AGENT FEEDBACK**



# Key Takeaways

01



## **AAG requests year to adapt processes**

- Agents request a reasonable period post-implementation, without major changes, to adapt their processes and make a fair comparison between TWIA processes and the private market

02



## **Sought feedback via surveys and meetings**

- Obtained information on agent activity pre-ELEVATE, most issues identified were scheduled to be addressed with system implementation or training
- Surveyed agents on their involvement in the claims process

03



## **Repeat and replicate IIAT studies**

- Most issues in IIAT's 2018 report have been addressed
- Staff recommends repeating this in April 2023 and including exclusive agents to see if there are differences

# Agent Feedback Overview

## What is the AAG?

The Agent Advisory Group (AAG) represents both independent and exclusive agents of varying sized books of business across different geographic areas in the coverage area. It was created to foster the exchange of ideas and solicit feedback on TWIA's activities and operational processes affecting agents.

We estimate that approximately one-third of our policies are represented by independent agents.

Among the largest agents, however, it is roughly evenly split between exclusive and independent.

In April 2021, the Board directed staff to evaluate agent activities after ELEVATE and in December 2021 tabled the discussion of agent commissions until August 2022. Between December and the launch of ELEVATE, we surveyed agents about processes unique to TWIA and how they assist clients with claims. We collected general feedback through discussion in AAG meetings before and after implementation of the new system.

# Summary of AAG Feedback

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- **AAG members offered feedback about the impact of process and system changes to agents relative to commissions:**
  - Last year the AAG advised that it was premature to discuss or consider a change to the commission structure prior to the release and successful implementation of the ELEVATE project, which would result in substantial changes for agents and bring TWIA processes more in line with the voluntary market.
  - Now that ELEVATE has deployed, agents are in the process of understanding the full impact of TWIA's system and process changes on individual agency workflows and they are working to modify their internal processes to adapt accordingly.
  - The preferred approach is to allow for a reasonable period of adjustment, without additional major changes, after the ELEVATE implementation in order to fairly compare ELEVATE with the systems and practices used in the voluntary market.
- **AAG agents have asked for a year post-ELEVATE deployment.**

# Summary of Survey Information Collected

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- **Pre-ELEVATE survey of unique activities, processes and interactions unique to TWIA**
  - Of the issues identified in the survey 44% were addressed in ELEVATE, 19% via training, 18% would require legislative action, leaving 19% outstanding
  - General estimates of processing time for different types of policies were also collected (next slide)
- **Pre-ELEVATE survey about level of agent involvement in the TWIA claims process**
  - 50% of agents reported always filing claims on behalf of clients while another 40% reported sometimes filing claims on behalf of clients
  - Only 30% reported feeling extremely confident working in Claims Center; opportunities for education exist to address some concerns reported such as suggestions for more communications about claims activities
  - Full results in Appendix 4

# Policy Processing Time by Policy Type

Policy Type	Median Length of Time (Minutes)	Time Range* (Minutes)
New TWIA Policy	34	5 – 90
TWIA Renewal Policy	28	0 – 62.5
New Flood Policy	15	5 – 30
Flood Renewal Policy	5	0 – 10
New Companion Policy	15	5 – 37.5
Companion Renewal Policy	5	0 – 15

\*Zero-minute responses were accompanied by comments referring to the automatic renewal process.

# Workflow Analysis Time Studies

## Independent Insurance Agents of Texas (IIAT) Reports

IIAT has completed several reports, the most recent in 2018, evaluating the time and steps required to process applications in TWIA's systems. Summaries and the full reports were provided to the Board in December.

Recommend working with IIAT to repeat their 2018 study and replicating the study with exclusive agents.

Recommend starting studies in April 2023 allowing agents time to adapt processes and providing the most accurate picture of user behavior

IIAT's 2018 report concluded that the changes benefited TWIA more than agents.

Issues identified included:

- quoting process,
- policy searches,
- payment options, and
- TWIA-specific requirements such as WPI-8s and flood insurance

Over 60% were addressed before or with the implementation of ELEVATE

# Recommendations

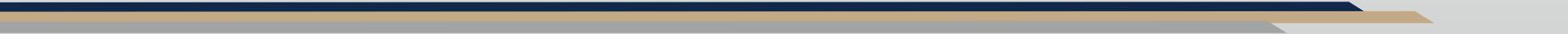
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**Based on the limited availability of renewal data this early in the migration process and the need for agents to adapt their processes to our system and process changes, staff recommends:**

- Performing a workflow analysis study with IIAT and exclusive agents beginning in April 2023,**
- Collecting 12-months of renewal data available in July 2023, and**
- Providing the results of those efforts to the Board in a follow up report in August or December 2023.**

Agent Commission Study

# APPENDICES



## Appendix 1: Texas Insurance Code 2210.203 (d)

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*The commissioner, after receiving a recommendation from the board of directors, shall approve a commission structure for payment of an agent who submits an application for coverage to the association on behalf of a person who has an insurable interest in insurable property. The commission structure adopted by the commissioner must be fair and reasonable, taking into consideration the amount of work performed by an agent in submitting an application to the association and the prevailing commission structure in the private windstorm market.*

# Appendix 2: Related Sunset Recommendation

- **Sunset Advisory Commission staff recommended TWIA establish separate agent commission rates for new business and policy renewals following the implementation of changes that streamline the renewal process**

- *“Separate rates for new applications and renewals would better allow TWIA to compensate insurance agents in a manner commensurate with the work required.”\**

- **TWIA Response:**

- *“TWIA has implemented the [changes that streamline the renewal process]. Staff intends to collect agent feedback and data on the utilization of the new payment methods by policyholders for a reasonable period following implementation to make a report to the Board regarding the efficacy of the four new processes. This data will be necessary for the Board of Directors to make an informed recommendation to the Commissioner regarding separate commission rates for new and renewal business.”*

## Renewal Process Changes Required by Sunset

2.1 Require TWIA to automatically offer policy renewal unless new information is necessary

2.2 Authorize TWIA to accept installment premium payments

2.3 Authorize TWIA to accept credit card payments

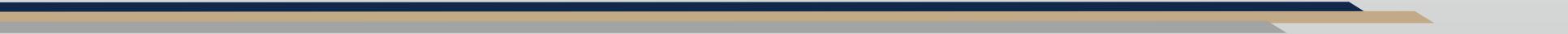
2.5 Direct TWIA to directly bill customers for premiums for automatic renewal

Link to Sunset Advisory Commission Staff Report with Final Results:

<https://www.sunset.texas.gov/public/uploads/files/reports/Texas%20Winstorm%20Insurance%20Association%20Staff%20Report%20with%20Final%20Results.pdf>

Background and Historical Information

# **APPENDIX 3: BACKGROUND**



# Historical Commission Rates

		TWIA Commission Rates		
Date	Coastal	Beach	Notes	
5/14/71	13%	7%	Beach defined as on an island or within 2500 feet of tidal waters; initial premium rates 150% / 300% of Manual Extended Coverage (EC) rates	
5/1/72	18%	7%	Coastal premium rates reduced to 110%	
11/2/72	20%	7%	Coastal premium rates reduced to 100%	
3/15/73	20%	7%	Premium rates reduced to 90% / 270%	
12/29/77	10%	4%	Commission change by TCPIA	
2/1/78	20%	7%	Commission change suspended	
9/1/78	16%	5%	Compromise between TCPIA, IIAT, and ICAT approved by SBI	
1/8/92	16%		Premium rates set to 90% for all areas	

# TWIA Requirements

Actions TWIA Requires to Issue a Policy	Statutory	Plan of Operation	TWIA
Complete agent registration process			✓
Obtain basic insurance risk characteristics			✓
Obtain proof of voluntary market declination	✓	✓	
Obtain flood insurance, if required	✓	✓	
Obtain required windstorm certifications	✓	✓	
Submit replacement cost estimator			✓
Provide name and limits of companion carrier			✓
Meet basic underwriting criteria	✓	✓	
Remit payment prior to policy issuance	✓	✓	
Submit applications electronically			✓

This chart reflects TWIA requirements only and not all activity or effort required by agents to complete each action.

# Evolution of TWIA System & Process Changes

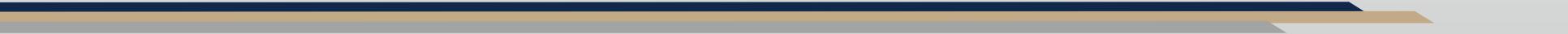
	Pre-2015 Policy Center	Policy Center 2015-Present	ELEVATE April 2022
Applications and Endorsements	US Mail from: <ul style="list-style-type: none"> <li>• Agent</li> </ul>	Electronically from: <ul style="list-style-type: none"> <li>• Agent</li> </ul>	Electronically from: <ul style="list-style-type: none"> <li>• Agent</li> </ul>
Renewal Processing	US Mail from: <ul style="list-style-type: none"> <li>• Agent Only</li> <li>• Application required for renewal</li> </ul>	Electronic Payment from: <ul style="list-style-type: none"> <li>• Agent or Policyholder</li> </ul> US Mail from: <ul style="list-style-type: none"> <li>• Agent, Policyholder, or Mortgagee</li> <li>• 2020 no application needed (just payment)</li> </ul>	Electronically from: <ul style="list-style-type: none"> <li>• Agent or Policyholder</li> </ul> US Mail from: <ul style="list-style-type: none"> <li>• Policyholder</li> <li>• Agent</li> <li>• Mortgagee</li> </ul>
Receipt of Premium	US Mail: <ul style="list-style-type: none"> <li>• Paper Check (agent only)</li> </ul>	Electronically from: <ul style="list-style-type: none"> <li>• Agent</li> <li>• Premium Finance</li> <li>• Policyholder credit card/eCheck (2020)</li> </ul> US Mail <ul style="list-style-type: none"> <li>• Agent</li> <li>• Policyholder</li> </ul>	Electronically from: <ul style="list-style-type: none"> <li>• Agent</li> <li>• Policyholder</li> </ul> US Mail from: <ul style="list-style-type: none"> <li>• Policyholder</li> <li>• Mortgagee</li> </ul>
Replacement Cost Estimator (MSB)	Agent completed and printed out to send in with paper applications	Required at NB (outside of system) Required on Renewal if changes 2019- Began “Prefill for New Business” for residential	Integrated into ELEVATE

# Evolution of TWIA System & Process Changes

	Pre-2015 Policy Center	Policy Center 2015-Present	ELEVATE April 2022
Payment Plans	Full Premium needed in order to issue a policy	2020 statute changed and allowed for credit cards and installment plans System limitation allowed for only a 2-pay plan and Credit cards in a separate system	Full Pay, 2 pay, 4 pay and 10 pay. Real time credit card and electronic pay for Policyholders
Inspections	Agent inspected-photos Some physical inspections by TWIA 100% manual review of inspections by an underwriter	Aerial images on 100% of NB and Renewals  Machine learning to allocate resources Some secondary modifiers	Aerial images on 100% of NB and Renewals  Machine learning to allocate resources Some secondary modifiers
Manual Intervention by an Underwriter & Impact to TWIA Workload	100% intervention by UW  Impact: <ul style="list-style-type: none"> <li>Seasonal backlog</li> <li>Approx. 50% issued within 14 days</li> </ul>	20% reviewed by UW  Impact: <ul style="list-style-type: none"> <li>Zero Backlogs</li> <li>95% issued within 10 days</li> </ul>	8% reviewed by UW  Impact: <ul style="list-style-type: none"> <li>Zero backlogs</li> <li>95% issued within 5 days</li> </ul>
Policy Delivery Method	US Mail to: <ul style="list-style-type: none"> <li>Agent Only</li> </ul>	Electronically to: <ul style="list-style-type: none"> <li>Agent</li> </ul> US Mail to: <ul style="list-style-type: none"> <li>Policyholder &amp; Mortgagee</li> </ul>	Electronically to: <ul style="list-style-type: none"> <li>Agent, Policyholder, or Mortgagee</li> </ul> US Mail to: <ul style="list-style-type: none"> <li>Policyholder</li> </ul>

February 2022 AAG AGENT CLAIMS INVOLVEMENT SURVEY

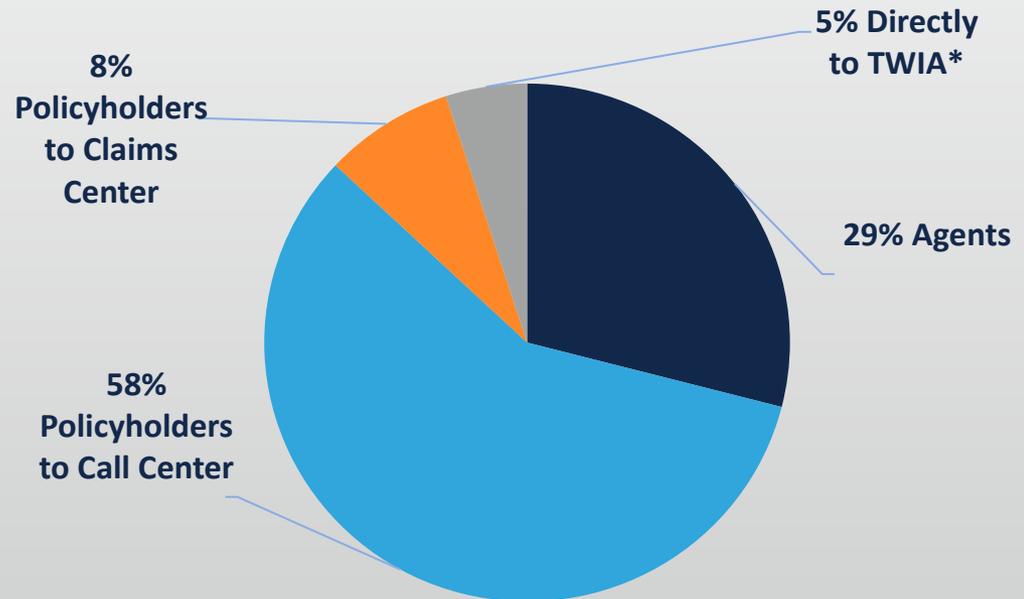
# **APPENDIX 4: SURVEY RESULTS**



# TWIA Claims Reporting Stats 2016 – 2021

- **TWIA received 123,396 claims total between 2016 and 2021.**
- **Claims reported by Agents using Claims Center (2016-2021):**
  - The top 25 agencies reported 26% of (or 31,805) claims.
  - The top 10 agencies reported 16% of (or 19,540) claims.
  - USAA was the #1 reporter with 5% of (or 5,995) claims.

Percentage of TWIA Claims Reported by Method  
(2016 – 2021)



\*Includes claims reported by US mail, fax, or some other method.

# TWIA & Agent Involvement in Claims

- **To build, maintain, serve, and grow relationships with clients, agents want to be involved in claims at three key points:**
  - Before reporting a claim
  - When reporting a claim
  - After reporting a claim

**Clients believe that “agents will ‘watch their back’ in the claims process to make sure they were handled properly, fairly, and equitably by the insurance company.”**

*2017 Agency Consulting Group Study*

# Key Points of Agent Involvement

## Before Reporting

- Help client understand exposures and avoid gaps in coverage
- Identify loss control efforts to implement to help mitigate risk
- Monitor carriers' claim processes and procedures
- Advise client on how to report claims, including time limits for reporting

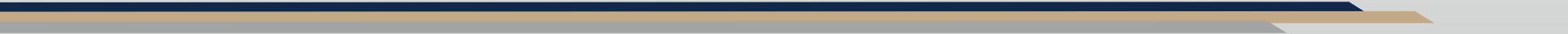
## When Reporting

- Create process to report claims promptly
- Advise on how to report claim and review policy coverage and carrier contacts
- Sets expectations about the claims process, timelines, and dispute options
- Explain agent role and provide contacts for further questions

## After Reporting

- Access carrier systems for claim information
- Follow up with clients and insurers on reported claims
- Guide the client and keep them informed through the claim process
- Advocate on behalf of clients for a fair claim resolution
- Take steps to avoid E&O claims

# SURVEY RESULTS



# Agent Involvement in the Claims Process Survey

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## **Purpose of Survey:**

- **Collect feedback from agency employees on their level of involvement in the TWIA claims process**
- **Will include information in the Agent Commission Study presented to the Board**

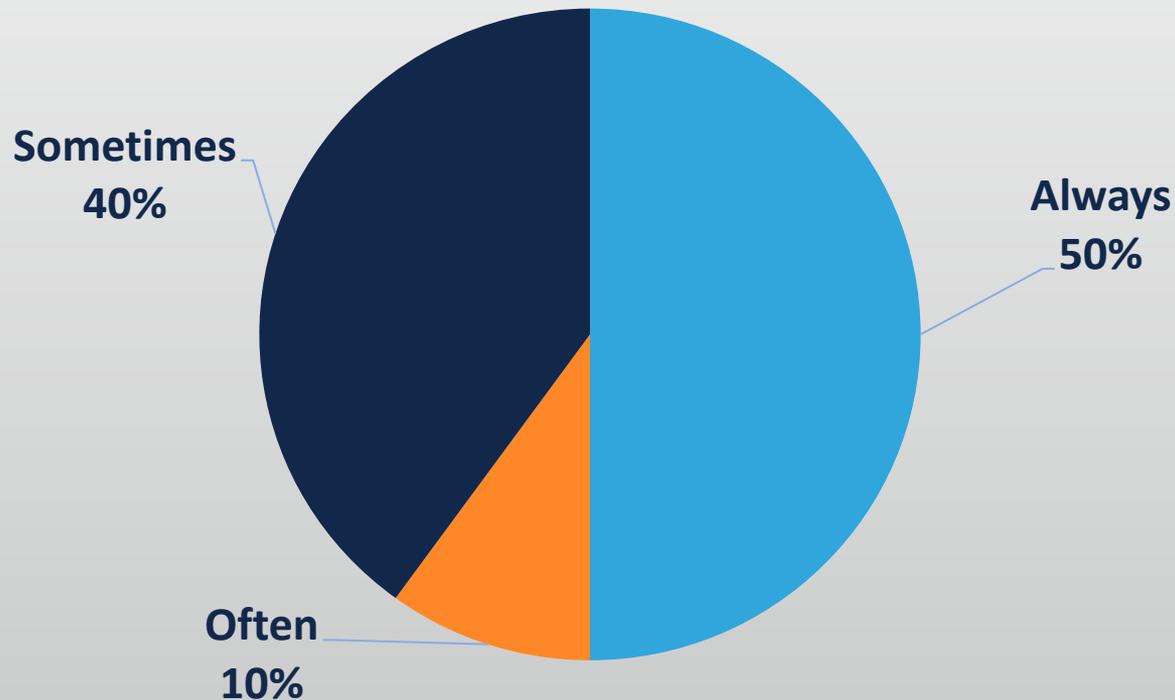
# Survey by the Numbers

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- **13 total questions, including nine multiple choice and four open-ended**
  - Multiple choice questions included optional free form to explain answers
- **9 agencies surveyed**
- **10 responses received**

# Agent Involvement in Claims Reporting

How frequently do you report TWIA claims on behalf of your clients?



# Agent Comments and Concerns

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- **Preference for email notifications**
- **Concerns about delays in the claims process**
- **Requests for more information about TWIA's interactions with the policyholder**
- **Suggestions for more communications about claim-related activities**
- **Would like to interact with personnel assigned to the claim**
- **Concerns about adjusters communicating incorrect coverage information**

# Opportunities for Education

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- **Navigating and finding information in Claims Center**
  - Only 30% felt extremely confident working in Claims Center
- **Locating information about the windstorm certification process and requirements**
- **Educating condo associations and unit owners about the claims process**

## 7. Actuarial

### 7A. Reserve Adequacy



## MEMORANDUM

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DATE: July 12, 2022

TO: James C. Murphy, FCAS, MAAA  
Chief Actuary | Vice President, Enterprise Analytics

FROM: Xiuyu Li, ACAS, MAAA  
Senior Actuary | Manager, Actuarial Analysis

RE: Reserve Adequacy as of June 30, 2022

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The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of June 30, 2022.

The ultimate loss and loss adjustment expense estimate for Hurricane Harvey has been reviewed based on information available to me as of June 30, 2022. The ultimate loss and loss adjustment expense estimate remains at \$1.67B, which is the same as the estimate as of March 31, 2022.

The actual ultimate costs of Hurricane Harvey may differ substantially from the selected \$1.67B. This variability arises from the assumptions we made regarding the adequacy of case reserves for open claims and the outcome of disputed claims. About 76 of the total 192 open claims are in some stage of litigation as of June 30, 2022. There remains a material risk of adverse development due to the large variability associated with outstanding disputed claims, including those claims subject to litigation. The Actuarial team will continue to monitor current case reserve adequacy and litigation/disputes to ensure all outstanding obligations are properly reserved.

As of June 30, 2022, TWIA carried \$70.5 million in total gross loss and loss adjustment expense reserves with \$40K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. The total gross loss and loss adjustment expense reserves include the reserves for Hurricane Ike, Harvey, Delta, Laura, Hanna, Nicholas, and other outstanding claims. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

In my opinion, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles, and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.



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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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The complete actuarial analysis is available on request.

XL

## 7B. Policy Count/Exposures

**Texas Windstorm Insurance Association**  
**Statistical Report**  
As of June 30, 2022



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	6/30/21	6/30/22	Actual	Percentage	6/30/21	6/30/22	Actual	Percentage	6/30/21	6/30/22	Actual	Percentage
Aransas	5,326	5,857	531	10.00%	1,825,306,153	2,102,674,217	\$277,368,064	15.20%	6,743,477	8,235,392	\$1,491,915	22.10%
Brazoria	29,329	31,324	1,995	6.80%	8,689,323,900	9,713,429,792	\$1,024,105,892	11.80%	27,767,363	32,077,847	\$4,310,484	15.50%
Calhoun	3,597	3,842	245	6.80%	994,471,901	1,103,436,027	\$108,964,126	11.00%	3,586,306	4,188,457	\$602,151	16.80%
Cameron	9,745	9,353	-392	-4.00%	2,860,500,569	3,028,529,099	\$168,028,530	5.90%	8,670,977	9,676,511	\$1,005,534	11.60%
Chambers	3,926	4,299	373	9.50%	1,345,524,399	1,538,024,225	\$192,499,826	14.30%	4,120,742	4,949,511	\$828,769	20.10%
Galveston	60,192	65,010	4,818	8.00%	20,546,916,098	23,316,744,296	\$2,769,828,198	13.50%	72,567,408	85,057,470	\$12,490,062	17.20%
Harris	3,492	3,725	233	6.70%	1,090,577,042	1,303,712,257	\$213,135,215	19.50%	2,453,133	3,569,942	\$1,116,809	45.50%
Jefferson	24,592	24,266	-326	-1.30%	5,812,684,907	5,995,597,689	\$182,912,782	3.10%	21,080,445	22,434,339	\$1,353,894	6.40%
Kenedy	18	22	4	22.20%	3,309,126	5,574,741	\$2,265,615	68.50%	21,364	31,425	\$10,061	47.10%
Kleberg	732	690	-42	-5.70%	165,672,998	165,626,743	-\$46,255	0.00%	607,128	652,669	\$45,541	7.50%
Matagorda	4,309	4,600	291	6.80%	1,115,274,643	1,247,184,539	\$131,909,896	11.80%	3,859,839	4,503,803	\$643,964	16.70%
Nueces	36,702	37,858	1,156	3.10%	10,680,052,194	11,747,770,802	\$1,067,718,608	10.00%	36,511,206	43,180,631	\$6,669,425	18.30%
Refugio	322	319	-3	-0.90%	93,138,047	93,896,769	\$758,722	0.80%	327,370	375,929	\$48,559	14.80%
San Patricio	5,565	5,979	414	7.40%	1,542,617,744	1,702,422,202	\$159,804,458	10.40%	5,465,912	6,243,292	\$777,380	14.20%
Willacy	338	330	-8	-2.40%	89,412,760	91,302,632	\$1,889,872	2.10%	326,359	397,664	\$71,305	21.80%
<b>Total</b>	<b>188,185</b>	<b>197,474</b>	<b>9,289</b>	<b>4.90%</b>	<b>56,854,782,481</b>	<b>63,155,926,030</b>	<b>\$6,301,143,549</b>	<b>11.10%</b>	<b>194,109,029</b>	<b>225,574,882</b>	<b>\$31,465,853</b>	<b>16.20%</b>

**Texas Windstorm Insurance Association**  
Quarterly Liability Report  
As of June 30, 2022



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Aransas</b>										
Commercial	146	224	295	390	1,207,686	1,515,001	262,732,282	6,074,215	326	609
Manufactured Home	65	101	65	102	106,213	161,676	9,538,244	0	159	160
Residential	1,731	2,881	1,801	2,998	3,963,592	6,558,715	1,830,403,691	154,981,612	5,372	5,593
Total	1,942	3,206	2,161	3,490	5,277,491	8,235,392	2,102,674,217	161,055,827	5,857	6,362
<b>Brazoria</b>										
Commercial	241	384	334	598	1,381,135	2,609,659	395,121,161	9,525,794	682	1,101
Manufactured Home	62	103	62	103	114,009	188,659	12,640,042	0	183	183
Residential	9,337	15,809	9,513	16,092	17,440,081	29,279,529	9,305,668,589	1,209,040,096	30,459	31,024
SUM:	9,640	16,296	9,909	16,793	18,935,225	32,077,847	9,713,429,792	1,218,565,890	31,324	32,308
<b>Calhoun</b>										
Commercial	57	103	78	198	421,910	686,344	118,235,344	2,443,840	191	407
Manufactured Home	26	37	26	37	41,055	59,089	4,351,496	0	75	75
Residential	1,121	1,822	1,184	1,934	2,169,103	3,443,024	980,849,187	79,953,488	3,576	3,832
SUM:	1,204	1,962	1,288	2,169	2,632,068	4,188,457	1,103,436,027	82,397,328	3,842	4,314
<b>Cameron</b>										
Commercial	226	413	533	808	2,775,144	3,955,697	1,206,022,519	7,921,355	680	1,445
Manufactured Home	19	30	19	30	20,129	33,477	2,726,416	0	59	59
Residential	2,613	4,335	2,637	4,372	3,404,145	5,687,337	1,819,780,164	180,224,850	8,614	8,694
SUM:	2,858	4,778	3,189	5,210	6,199,418	9,676,511	3,028,529,099	188,146,205	9,353	10,198

**Texas Windstorm Insurance Association**  
 Quarterly Liability Report  
 As of June 30, 2022



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Chambers</b>										
Commercial	38	61	47	72	164,727	286,579	54,955,481	574,900	100	142
Manufactured Home	14	27	14	27	23,412	46,824	3,638,443	0	53	53
Residential	1,356	2,238	1,409	2,328	2,838,989	4,616,108	1,479,430,301	197,569,351	4,146	4,331
SUM:	1,408	2,326	1,470	2,427	3,027,128	4,949,511	1,538,024,225	198,144,251	4,299	4,526
<b>Galveston</b>										
Commercial	782	1,256	1,298	2,155	9,834,892	16,278,730	2,672,102,950	57,653,615	2,078	3,676
Manufactured Home	83	121	83	121	137,420	182,511	13,502,548	0	215	216
Residential	19,834	33,320	20,173	33,951	41,740,144	68,596,229	20,631,138,798	2,299,374,663	62,717	63,950
SUM:	20,699	34,697	21,554	36,227	51,712,456	85,057,470	23,316,744,296	2,357,028,278	65,010	67,842
<b>Harris</b>										
Commercial	23	35	129	152	772,539	913,213	129,763,394	3,569,625	61	206
Manufactured Home	1	1	1	1	524	495	192,000	0	4	4
Residential	1,190	1,904	1,199	1,920	1,624,957	2,656,234	1,173,756,863	154,073,966	3,660	3,703
SUM:	1,214	1,940	1,329	2,073	2,398,020	3,569,942	1,303,712,257	157,643,591	3,725	3,913
<b>Jefferson</b>										
Commercial	206	326	285	451	1,100,189	1,813,852	295,006,309	8,047,204	609	945
Manufactured Home	20	28	20	28	40,605	56,568	3,226,650	0	42	42
Residential	7,897	12,492	8,010	12,676	12,951,483	20,563,919	5,697,364,730	728,813,946	23,615	23,966
SUM:	8,123	12,846	8,315	13,155	14,092,277	22,434,339	5,995,597,689	736,861,150	24,266	24,953

**Texas Windstorm Insurance Association**

Quarterly Liability Report

As of June 30, 2022



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Kenedy</b>										
Commercial	0	1	0	5	0	13,960	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	9	11	11	15	12,191	17,465	4,880,300	36,600	21	27
SUM:	9	12	11	20	12,191	31,425	5,574,741	36,600	22	32
<b>Kleberg</b>										
Commercial	13	23	25	42	52,667	138,279	19,205,014	751,020	36	60
Manufactured Home	2	2	2	2	3,785	3,785	144,500	0	2	2
Residential	191	328	204	342	310,753	510,605	146,277,229	15,327,838	652	679
SUM:	206	353	231	386	367,205	652,669	165,626,743	16,078,858	690	741
<b>Matagorda</b>										
Commercial	53	86	135	176	383,652	497,144	86,064,475	1,758,525	160	282
Manufactured Home	10	15	10	15	14,764	23,069	1,553,707	0	24	24
Residential	1,436	2,388	1,485	2,460	2,414,021	3,983,590	1,159,566,357	117,355,930	4,416	4,545
SUM:	1,499	2,489	1,630	2,651	2,812,437	4,503,803	1,247,184,539	119,114,455	4,600	4,851
<b>Nueces</b>										
Commercial	642	1,072	1,331	2,091	6,470,209	10,320,184	1,940,165,308	42,036,050	1,840	3,551
Manufactured Home	15	18	15	18	24,430	32,123	1,876,800	0	38	38
Residential	11,625	19,252	11,753	19,465	20,143,628	32,828,324	9,805,728,694	1,099,954,882	35,980	36,376
SUM:	12,282	20,342	13,099	21,574	26,638,267	43,180,631	11,747,770,802	1,141,990,931	37,858	39,965

**Texas Windstorm Insurance Association**  
 Quarterly Liability Report  
 As of June 30, 2022



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Refugio</b>										
Commercial	11	15	11	21	54,310	60,286	17,369,033	0	24	46
Manufactured Home	10	12	12	14	20,266	24,668	1,369,404	0	18	21
Residential	92	175	104	191	149,535	290,975	75,158,332	7,317,018	277	306
SUM:	113	202	127	226	224,111	375,929	93,896,769	7,317,018	319	373
<b>San Patricio</b>										
Commercial	80	136	135	224	426,609	725,509	108,827,338	2,213,615	218	363
Manufactured Home	20	28	20	28	37,401	53,635	3,070,712	0	45	45
Residential	1,826	3,073	1,866	3,125	3,274,832	5,464,148	1,590,524,152	192,009,311	5,716	5,815
SUM:	1,926	3,237	2,021	3,377	3,738,842	6,243,292	1,702,422,202	194,222,926	5,979	6,223
<b>Willacy</b>										
Commercial	8	13	8	26	82,664	96,280	16,388,371	99,900	28	61
Manufactured Home	4	6	4	6	5,923	8,543	326,045	0	6	6
Residential	97	146	103	155	203,869	292,841	74,588,216	4,836,383	296	319
SUM:	109	165	115	187	292,456	397,664	91,302,632	4,936,283	330	386
<b>Total All Counties</b>										
Commercial	2,526	4,148	4,644	7,409	25,128,333	39,910,717	7,322,653,420	142,669,657	7,034	12,899
Manufactured Home	351	529	353	532	589,936	875,122	58,157,007	0	923	928
Residential	60,355	100,174	61,452	102,024	112,641,323	184,789,043	55,775,115,603	6,440,869,933	189,517	193,160
SUM:	63,232	104,851	66,449	109,965	138,359,592	225,574,882	63,155,926,030	6,583,539,591	197,474	206,987

**Texas Windstorm Insurance Association**

Quarterly Liability Report

As of June 30, 2022



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Class of Business	<u>Policies Written</u>		<u>Risks Written</u>		<u>Premium Written</u>		<u>Liability at End of Quarter</u>		<u>In-Force at End of Quarter</u>	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks

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## 7C. Statutory Maximum Limits of Liability



## MEMORANDUM

DATE: July 13, 2022  
TO: Jim Murphy  
FROM: Xiuyu Li, Senior Actuary  
RE: Texas Windstorm Insurance Association Adjustments to Maximum Liability Limits

Section 2210.502(a) of the Texas Insurance Code states that the Texas Windstorm Insurance Association shall propose to the Commissioner inflation adjustments to its maximum liability limits at a rate that reflects any change in the BOECKH index.

TWIA Actuarial staff has completed its review of Texas Windstorm Insurance Association adjustments to its maximum liability limits. These indicated limits are as follows:

	Current 2021	Proposed 2022	% Change
Dwellings and individually owned townhouses	\$1,773,000	\$2,122,000	19.7%
Manufactured Home	\$96,600	\$115,800	19.9%
Contents of an apartment, condominium, or townhouse	\$374,000	\$443,000	18.4%
Commercial structures and associated contents	\$4,424,000	\$5,518,000	24.7%

Supporting documents are attached.

Sincerely

XL

July 13, 2022

**Texas Windstorm Insurance Association**  
**Calculation of Indicated Limits of Liability**  
**To Be Effective January 1, 2023**  
Using Marshall & Swift / Boeckh Building Cost Index Numbers



Type of Construction	Ratio of Total TWIA Business	<u>Boeckh Index as of May/June 2021</u>			<u>Boeckh Index as of May/June 2022</u>		
		Corpus Christi	Houston	Average	Corpus Christi	Houston	Average
<u>Dwelling, including individually owned townhouse unit, &amp; associated corporeal movable property</u>							
Frame	94.30%	2674.8	3093.4	2884.1	3384.5	3530.1	3457.3
Brick	5.70%	2734.5	3138.8	2936.7	3310.0	3540.9	3425.5
Weighted Average Factor				2887.1			3455.5
Indicated Change							19.7%
Current Limit							1,773,000
Indicated Limit of Liability							2,122,000
<u>Manufactured Homes*</u>							
Residential Dwelling Frame	100%	2674.8	3093.4	2884.1	3384.5	3530.1	3457.3
Indicated Change							19.9%
Current Limit							96,600
Indicated limit of Liability							115,800
<u>Individually-owned corporeal movable property located in an owner-occupied apartment, residential condominium, or townhouse unit</u>							
Frame	57.87%	2674.8	3093.4	2884.1	3384.5	3530.1	3457.3
Brick	42.13%	2734.5	3138.8	2936.7	3310.0	3540.9	3425.5
Weighted Average Factor				2906.2			3443.9
Indicated Change							18.5%
Current Limit							374,000
Indicated Limit of Liability							443,000
<u>Structure other than a dwelling or public building and the corporeal movable property located in that structure</u>							
Apartments - Brick, Wood	16.37%	2737.2	3118.2	2927.7	3449.0	3587.0	3518.0
Apartments - Brick, Concrete	3.01%	2725.2	3304.9	3015.1	3394.9	3832.0	3613.5
Apartments - Brick, Steel	9.83%	2718.5	3469.0	3093.8	3663.7	4300.5	3982.1
Commercial - Frame	31.48%	2864.0	3068.4	2966.2	3670.1	3951.6	3810.9
Commercial - Steel	0.45%	2809.1	3293.5	3051.3	3593.4	3979.6	3786.5
Commercial - Brick, Wood	1.02%	2977.0	3417.8	3197.4	3756.2	3968.9	3862.6
Commercial - Brick, Steel	17.22%	2815.2	3604.9	3210.1	3601.3	4507.7	4054.5
Commercial - Brick, Concrete	20.61%	2520.3	3158.2	2839.3	3107.6	3701.7	3404.7
Weighted Average Factor				2992.2			3732.1
Indicated Change							24.7%
Current Limit							4,424,000
Indicated Limit of Liability							5,518,000

\* Manufactured Homes indexed based on Residential Frame Building Cost Index, TWIA will revisit the assumption when more data becomes available

**Texas Windstorm Insurance Association**  
**Proposed Limits of Liability**  
**To Be Effective January 1, 2023**  
Impact on Exposures In-Force as of 6/30/22



Statutory Limits of Liability

	Current	Proposed	Increase
Dwelling	1,773,000	2,122,000	349,000
Manufactured Home	96,600	115,800	19,200
Contents	374,000	443,000	69,000
Non-Dwelling	4,424,000	5,518,000	1,094,000

	Risks at Statutory Limits	<u>Exposure</u> Current	Proposed	Increase
Dwelling	152	269,496,000	322,544,000	53,048,000
Manufactured Home	22	2,125,200	2,547,600	422,400
Contents	70	26,180,000	31,010,000	4,830,000
Non-Dwelling	328	1,451,072,000	1,809,904,000	358,832,000
<b>Total</b>	<b>572</b>	<b>1,748,873,200</b>	<b>2,166,005,600</b>	<b>417,132,400</b>
Total TWIA Exposure				63,155,926,030
% Increase in TWIA Exposure				0.66%

<b>MS/B BUILDING COST INDEX NUMBERS</b>		<b>MSB</b>					<b>May - June 2022</b>				
		<b>RESIDENCES</b>		<b>APARTMENTS, HOTEL and OFFICE BUILDING</b>			<b>COMMERCIAL and FACTORY BUILDINGS</b>				
<b>LOCATION</b>	<b>Frame</b>	<b>Brick</b>	<b>Brick Wood</b>	<b>Brick Conc.</b>	<b>Brick Steel</b>	<b>Frame</b>	<b>Steel</b>	<b>Brick Wood</b>	<b>Brick Steel</b>	<b>Brick Conc.</b>	
<b>SOUTH CAROLINA</b>											
CHARLESTON	3931.8	3952.1	3343.9	3450.6	3877.5	3510.5	3841.1	3819.1	4071.0	3493.8	
COLUMBIA	3783.3	3711.3	3192.9	3297.0	3814.2	3514.7	3793.7	3494.0	4056.4	3405.0	
GREENVILLE	3505.6	3470.4	3291.6	3355.3	3703.8	3460.5	3677.4	3659.8	3804.6	3287.4	
<b>SOUTH DAKOTA</b>											
PIERRE	3376.2	3634.0	3733.0	3774.4	3767.1	3455.9	3628.1	3920.0	3840.8	3781.6	
RAPID CITY	3470.6	3780.5	3865.4	3921.0	3911.5	3544.0	3776.7	4060.8	4035.9	3948.4	
SIOUX FALLS	3606.5	3683.6	3744.4	3896.5	4217.5	3754.1	4033.9	3988.4	4483.2	4124.2	
<b>TENNESSEE</b>											
CHATTANOOGA	3320.9	3364.6	3334.6	3496.9	3647.5	3491.7	3908.8	3702.6	4072.1	3593.4	
KNOXVILLE	3135.8	3220.7	3217.8	3475.5	3812.4	3419.9	3781.7	3504.7	4023.8	3522.6	
MEMPHIS	3369.2	3369.3	3355.4	3582.3	4132.6	3557.9	3944.2	3772.6	4304.1	3677.6	
NASHVILLE	3526.8	3456.0	3475.2	3592.9	4334.3	3573.4	4077.4	3793.6	4631.6	3691.9	
<b>TEXAS</b>											
ABILENE	3370.3	3389.7	3278.8	3239.2	3545.6	3510.9	3531.8	3808.1	3594.2	3325.9	
AMARILLO	3327.0	3318.2	3283.0	3282.2	3689.4	3462.6	3491.8	3743.9	3891.5	3303.4	
AUSTIN	3468.6	3508.3	3528.7	3512.3	4038.1	3715.1	3901.7	3961.6	4049.5	3438.1	
CORPUS CHRISTI	3384.5	3310.0	3449.0	3394.9	3663.7	3670.1	3593.4	3756.2	3601.3	3107.6	
DALLAS	3459.8	3542.8	3567.8	3611.5	4151.2	3644.0	3699.0	4025.2	4172.8	3605.8	
EL PASO	3121.3	3185.8	3306.1	3263.0	3656.8	3417.3	3616.5	3617.7	3742.1	3180.7	
FORT WORTH	3416.2	3487.8	3510.5	3548.3	4061.0	3601.0	3655.2	3852.0	4180.9	3522.3	
HOUSTON	3530.1	3540.9	3587.0	3832.0	4300.5	3951.6	3979.6	3968.9	4507.7	3701.7	
LONGVIEW	3394.7	3377.5	3392.2	3455.2	3916.6	3593.4	3662.2	3844.1	4083.0	3461.5	
LUBBOCK	3231.9	3266.4	3312.0	3425.7	3793.0	3387.6	3518.5	3619.5	3824.6	3230.9	
ODESSA	3219.4	3334.8	3303.6	3302.6	3812.0	3517.8	3712.7	3705.3	3954.4	3173.0	
SAN ANTONIO	3401.8	3470.4	3530.8	3495.8	3804.8	3725.1	3881.3	3824.0	3906.9	3399.5	
WACO	3378.4	3389.6	3318.1	3360.4	3840.8	3410.8	3666.2	3663.9	3978.6	3238.1	
WICHITA FALLS	3565.7	3598.9	3374.5	3320.5	3687.6	3586.3	3558.5	3738.1	3790.2	3303.1	
<b>UTAH</b>											
SALT LAKE CITY	4130.7	4266.5	3987.1	4249.4	4677.6	4054.9	4420.2	4326.0	5255.3	4321.7	
<b>VERMONT</b>											
BURLINGTON	3938.3	3916.3	4025.8	4170.7	4633.0	4109.3	4334.5	4493.3	4878.9	4222.7	
MONTPELIER	3937.6	3971.5	4078.2	4216.5	4603.2	4110.6	4327.6	4499.1	4891.8	4281.0	

**MS/B BUILDING COST  
INDEX NUMBERS**

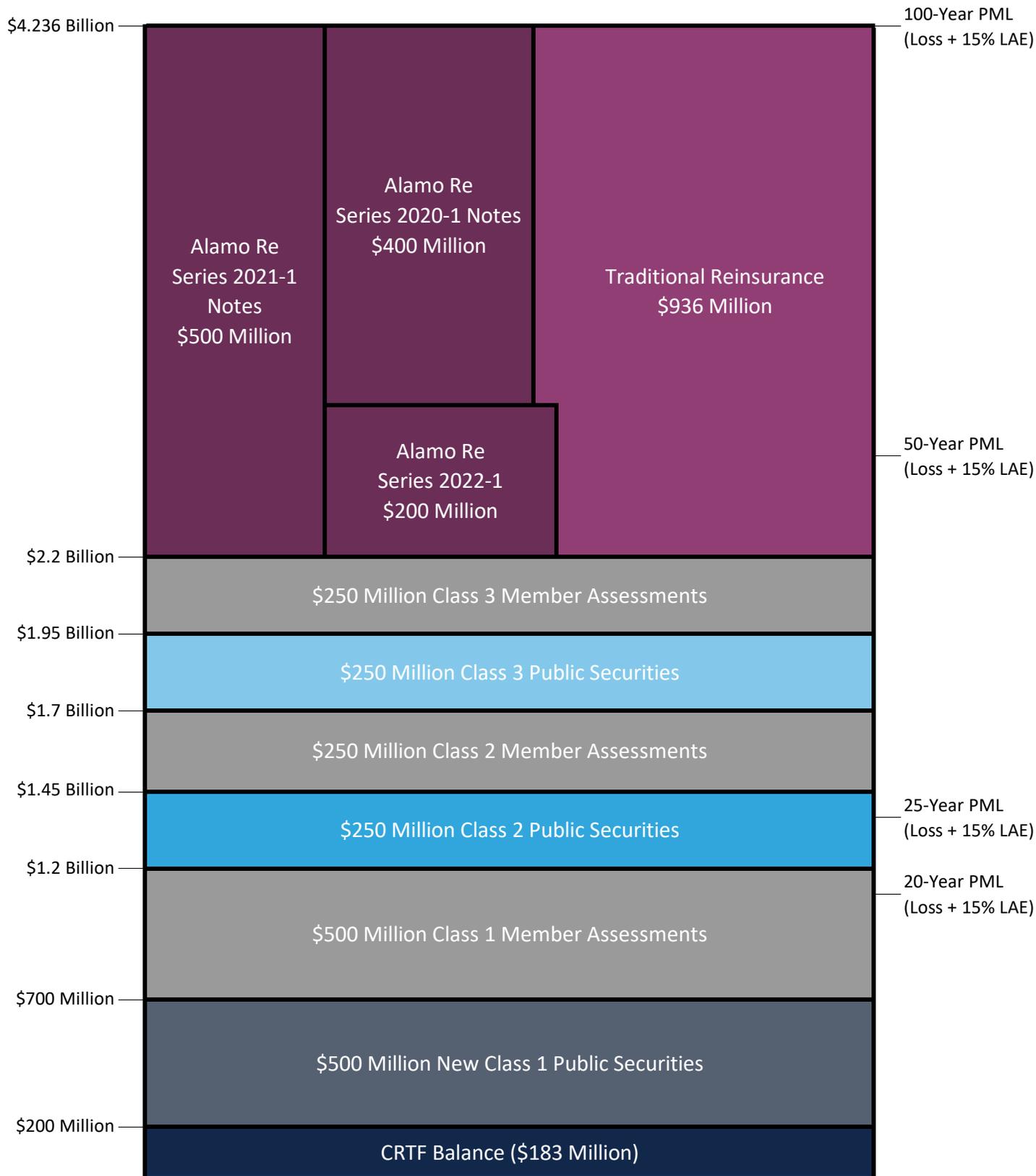
**MSB**

**May - June 2021**

LOCATION	RESIDENCES		APARTMENTS, HOTEL and OFFICE BUILDING			COMMERCIAL and FACTORY BUILDINGS				
	Frame	Brick	Brick Wood	Brick Conc.	Brick Steel	Frame	Steel	Brick Wood	Brick Steel	Brick Conc.
<b>SOUTH CAROLINA</b>										
CHARLESTON	3234.8	3310.7	2728.1	2846.3	2963.1	2826.5	3116.4	3114.3	3182.2	2895.2
COLUMBIA	3243.9	3209.4	2718.4	2817.2	3055.5	2719.3	3144.0	2966.2	3242.6	2856.2
GREENVILLE	2807.6	2853.4	2616.8	2688.2	2699.1	2703.2	2849.1	2895.6	2842.5	2669.3
<b>SOUTH DAKOTA</b>										
PIERRE	2911.2	3183.4	3216.5	3256.8	3019.0	2890.6	2987.4	3339.3	3108.2	3235.7
RAPID CITY	2980.9	3320.3	3445.4	3487.2	3262.9	3042.4	3182.0	3537.3	3287.0	3390.1
SIOUX FALLS	3105.1	3262.4	3445.9	3397.6	3527.4	2972.4	3517.0	3668.0	3720.4	3633.9
<b>TENNESSEE</b>										
CHATTANOOGA	2778.0	2857.2	2777.7	2933.1	2834.9	2826.5	3158.3	3058.5	3194.8	2997.5
KNOXVILLE	2672.0	2761.1	2729.7	2970.3	2994.3	2825.3	3080.7	2956.9	3177.6	3001.9
MEMPHIS	2861.4	2946.4	2887.8	3064.1	3193.8	2926.6	3214.9	3192.5	3251.1	3081.9
NASHVILLE	3029.0	2994.3	2949.4	3052.0	3460.5	2804.1	3323.2	3198.2	3704.0	3051.6
<b>TEXAS</b>										
ABILENE	2948.2	3001.0	2848.0	2800.2	2826.5	2927.2	2882.6	3250.0	2831.0	2807.5
AMARILLO	2979.1	2991.9	2921.8	2875.2	3035.1	2704.3	2945.5	3281.0	3065.8	2798.3
AUSTIN	2902.9	2975.9	2916.4	2912.6	3119.7	2989.7	3073.7	3264.2	3150.6	2834.6
CORPUS CHRISTI	2674.8	2734.5	2737.2	2725.2	2718.5	2864.0	2809.1	2977.0	2815.2	2520.3
DALLAS	2764.9	2927.5	2852.6	2913.7	3028.6	2887.6	2855.0	3183.2	3167.0	2944.0
EL PASO	2539.3	2646.5	2647.2	2647.6	2714.2	2702.9	2787.9	2889.2	2840.2	2586.4
FORT WORTH	2798.7	2927.7	2853.9	2907.9	3050.2	2887.9	2875.4	3107.7	3216.3	2895.5
HOUSTON	3093.4	3138.8	3118.2	3304.9	3469.0	3068.4	3293.5	3417.8	3604.9	3158.2
LONGVIEW	2700.0	2756.3	2675.9	2753.0	2873.9	2811.0	2829.1	2998.5	3054.9	2775.8
LUBBOCK	2539.1	2645.5	2587.1	2696.9	2796.3	2647.2	2720.2	2842.7	2872.3	2554.4
ODESSA	2911.6	3028.1	2954.8	2918.9	3118.7	2827.5	3096.5	3282.7	3121.8	2746.5
SAN ANTONIO	2878.1	2960.5	2963.8	2919.2	2935.3	3008.8	3071.1	3171.1	3016.8	2809.7
WACO	2792.9	2847.3	2709.4	2761.5	2929.8	2740.6	2901.6	2980.9	3066.3	2659.8
WICHITA FALLS	3076.2	3149.7	2896.5	2853.0	2904.7	2957.1	2887.0	3157.7	2985.7	2772.4
<b>UTAH</b>										
SALT LAKE CITY	3464.2	3611.4	3318.9	3565.5	3538.3	3299.9	3479.2	3561.6	4024.0	3609.8
<b>VERMONT</b>										
BURLINGTON	3478.1	3495.2	3539.7	3627.8	3747.4	3324.1	3586.4	3863.7	3882.9	3605.0
MONTPELIER	3456.6	3527.3	3554.7	3668.2	3715.0	3366.7	3602.1	3873.4	3939.7	3698.2

## 7D. 2022 Hurricane Funding

**Texas Windstorm Insurance Association**  
**2022 Funding**  
 \$4.236 Billion in Total Funding  
 Reinsurance Effective 6/1/22 - 5/31/23



7E. Review of TWIA Staff Rate  
Adequacy Analysis and Actuarial &  
Underwriting Committee  
Recommendations



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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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# Actuarial & Underwriting Committee

**TWIA Actuarial Department – 2022 Rate Indications**

**July 18, 2022**

# Contents

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- **Actuarial Principles**
- **Statutory Language**
- **Recent Legislative Changes**
- **Overview of Rate Adequacy Analysis**
- **Rate Adequacy Analysis**
- **Reconciliation of Changes in Rate Indications**
- **Historical Rate Indications vs Rate Changes**
- **Impact of Alternative Rate Changes**

# Actuarial Principles

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## Casualty Actuarial Society Statement of Principles

1. A rate is an estimate of the expected value of future costs
2. A rate provides for all costs associated with the transfer of risk
3. A rate provides for the costs associated with an individual risk transfer
4. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer

# Statutory Language

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## Sec. 2210.001

“The association shall function in such a manner as to not be a direct competitor in the private market;...”

Sec. 2210.355 (b) In adopting rates under this chapter, the following must be considered:

- (1) the past and prospective loss experience within and outside this state of hazards for which insurance is made available through the plan of operation, if any;
- (2) expenses of operation, including acquisition costs;
- (3) a reasonable margin for profit and contingencies;
- (4) payment of public security obligations issued under this chapter, including the additional amount of any debt service coverage determined by the association to be required for the issuance of marketable public securities; and
- (5) all other relevant factors, within and outside this state.

Sec. 2210.355 (c) Rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer.

# Recent Legislative Changes

## HB 769

SECTION 1. Subchapter H, Chapter 2210, Insurance Code, is amended by adding Section 2210.3512 to read as follows:

Sec. 2210.3512. REQUIREMENT FOR VOTE ON RATE FILING. The board of directors may not vote on a proposed rate increase if:

- (1) there is a vacancy on the board; and
- (2) the vacancy has existed for at least 60 days at the time the vote is to be taken.

SECTION 2. The heading to Section 2210.453, Insurance Code, is amended to read as follows:

Sec. 2210.453. FUNDING LEVELS; REINSURANCE AND ALTERNATIVE RISK FINANCING MECHANISMS; REINSURANCE FROM CERTAIN INSURER OR BROKER PROHIBITED.

SECTION 3. Section 2210.453, Insurance Code, is amended by adding Subsection (f) to read as follows:

(f) The association may not purchase reinsurance under this section from an insurer or broker involved in the execution of a catastrophe model on which the association relies in:

- (1) determining the probable maximum loss applicable for the period covered by the reinsurance; or
- (2) adopting rates under Section 2210.355.

# Recent Legislative Changes

## SB 1448

SECTION 1. Section 2210.351, Insurance Code, is amended by amending Subsection (d) and adding Subsection (f) to read as follows:

(d) The association may use a rate filed by the association without prior commissioner approval if:

(1) the filing is made not later than the 30th day before the date of any use or delivery for use of the rate;

(2) the filed rate does not exceed ~~[105 percent of]~~ the rate in effect on the date on which the filing is made; and

(3) ~~[the filed rate does not reflect a rate change for an individual rating class that is 10 percent higher than the rate in effect for that rating class on the date on which the filing is made; and~~

~~[-4-]~~ the commissioner has not disapproved the filing in writing, advising of the reasons for the disapproval and the criteria the association is required to meet to obtain approval.

(f) The association may not file a rate under this section that exceeds the rate in effect on the date on which the filing is made unless two-thirds of the board of directors votes to approve the rate.

# Recent Legislative Changes

## SB 1448

SECTION 2. Section 2210.352, Insurance Code, is amended by amending Subsection (a-1) and adding Subsection (a-3) to read as follows:

(a-1) The association may use a rate filed by the association under this section without prior commissioner approval if:

(1) the filing is made not later than the 30th day before the date of any use or delivery for use of the rate; and

(2) the filed rate does not exceed [~~105 percent of~~] the rate used by the association in effect on the date on which the filing is made[~~;~~ and

~~[(3) the filed rate does not reflect a rate change for an individual rating class that is 10 percent higher than the rate in effect for that rating class on the date on which the filing is made].~~

(a-3) The association may not file a rate under this section that exceeds the rate in effect on the date on which the filing is made unless two-thirds of the board of directors votes to approve the rate.

# Overview of Rate Adequacy Analysis

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## **TWIA employs the “Loss Ratio Method” to determine rate level indications.**

- This approach compares the estimated percentage of each premium dollar needed to cover future losses, loss adjustment expense and other fixed expenses for a prospective accident year to the amount of each premium dollar that is available to pay for such costs (referred to as the permissible loss ratio).
- This relationship is defined as:

$$\text{Indicated Rate Change Factor} = \frac{(\text{Loss \& LAE Ratio} + \text{Fixed Expense Ratio})}{(1 - \text{Variable Expense Ratio})}$$

# Overview of Rate Adequacy Analysis

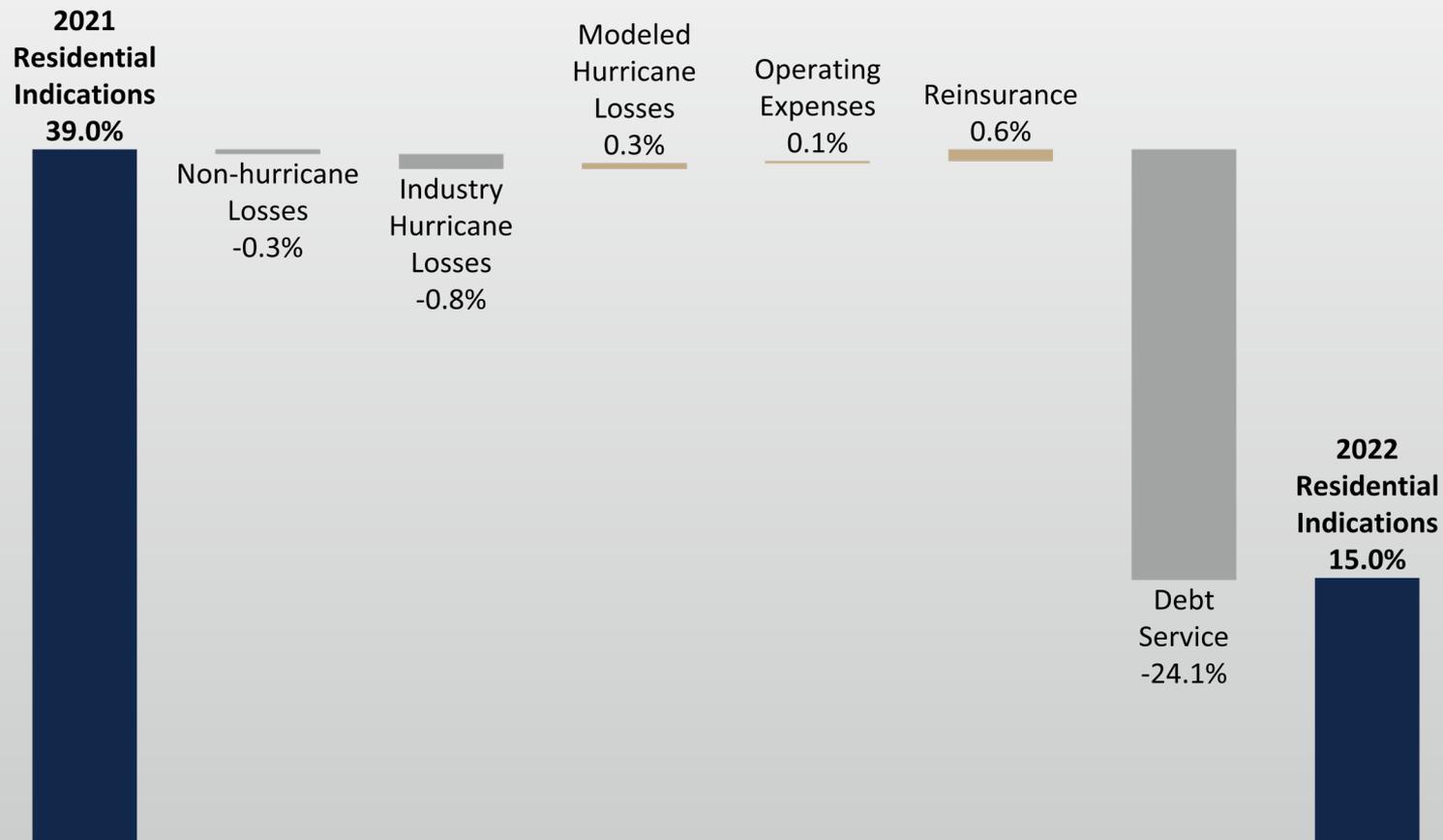
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- The Loss and LAE Ratio includes provisions for:
  - Hurricane losses and loss adjustment expenses
  - Non-hurricane losses and loss adjustment expenses
- The Fixed Expense Ratio includes:
  - General operating expenses
  - Net cost of reinsurance  
(total premiums less expected average annual recoveries)
  - Any debt service outstanding on public securities  
(no debt service is included in the 2022 indications)
- The Variable Expense Ratio includes:
  - Commissions, taxes, licenses and fees
  - Provisions for CRTF and contingencies

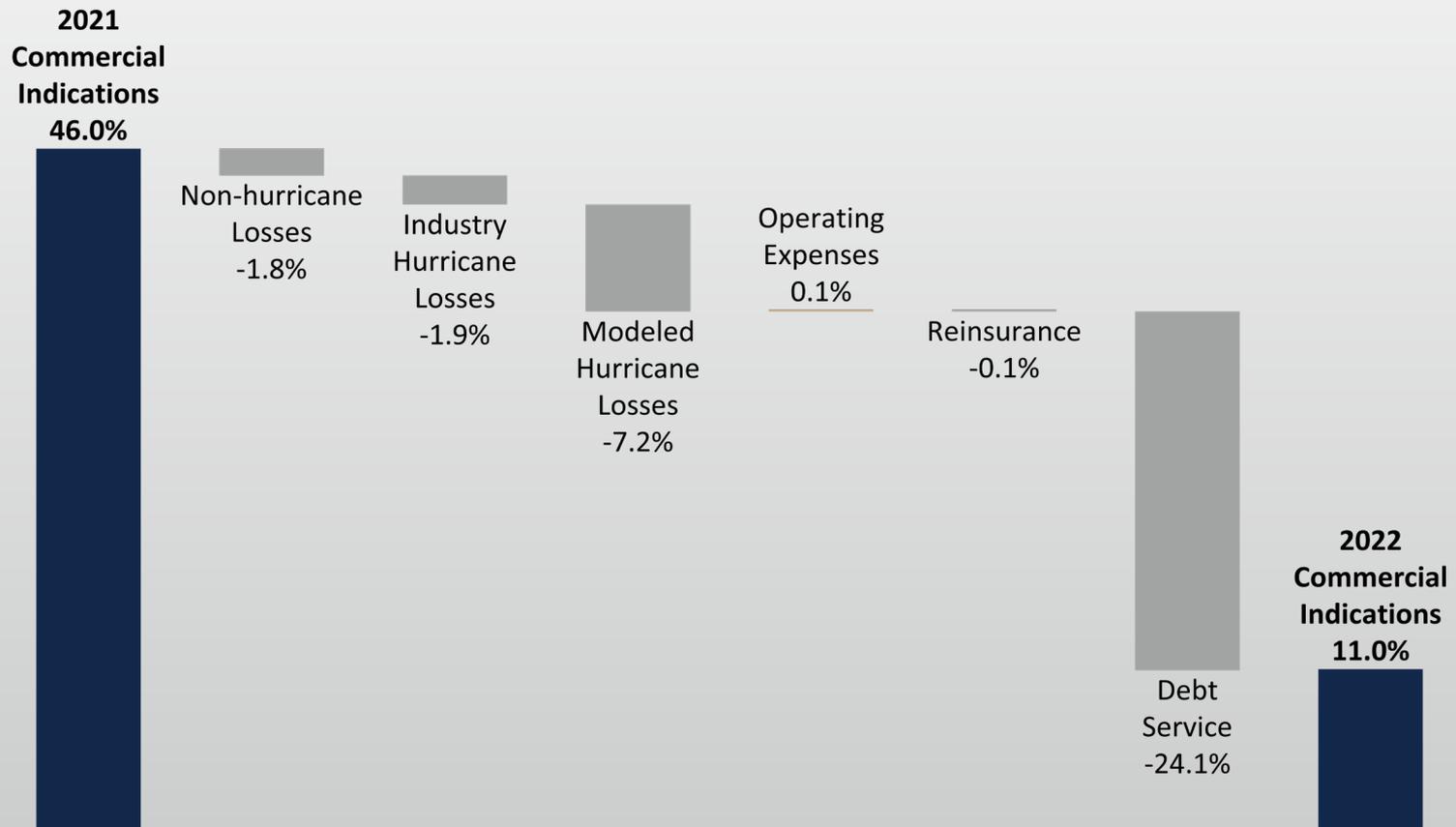
# 2022 Rate Adequacy Analysis

Rate Element	Residential					Commercial				
	2019 Review	2020 Review	2021 Review	2022 Review	2022 vs. 2021	2019 Review	2020 Review	2021 Review	2022 Review	2022 vs. 2021
Non-Hurricane Loss Provision	14.2%	14.6%	14.9%	<b>14.7%</b>	-0.2%	9.3%	9.0%	8.1%	<b>6.7%</b>	-1.4%
Hurricane Loss Provision										
Experience	42.7%	42.5%	41.5%	<b>40.2%</b>	-1.3%	56.9%	54.3%	51.7%	<b>48.7%</b>	-3.0%
Modeled	51.9%	55.1%	52.2%	<b>52.7%</b>	0.5%	59.7%	62.1%	64.4%	<b>53.3%</b>	-11.1%
Combined	47.3%	48.8%	46.8%	<b>46.5%</b>	-0.3%	58.3%	58.2%	58.1%	<b>51.0%</b>	-7.1%
Fixed Expenses										
Operating	6.2%	8.5%	8.1%	<b>8.2%</b>	0.1%	6.2%	8.5%	8.1%	<b>8.2%</b>	0.1%
Reinsurance	16.6%	19.5%	18.6%	<b>19.1%</b>	0.5%	16.6%	19.5%	19.7%	<b>19.6%</b>	-0.1%
Outstanding Debt Service	25.1%	19.7%	18.6%	<b>0.0%</b>	-18.6%	25.1%	19.7%	18.6%	<b>0.0%</b>	-18.6%
Total	47.9%	47.7%	45.3%	<b>27.3%</b>	-18.0%	40.3%	47.9%	46.4%	<b>27.8%</b>	-18.6%
(A) Total Loss Provision plus Fixed Expenses	109.4%	111.1%	107.1%	<b>88.4%</b>	-18.7%	115.5%	114.9%	112.5%	<b>85.5%</b>	-27.0%
Variable Expenses										
Commissions	16.0%	16.0%	16.0%	<b>16.0%</b>	0.0%	16.0%	16.0%	16.0%	<b>16.0%</b>	0.0%
Taxes and Fees	2.0%	1.9%	1.9%	<b>1.9%</b>	0.0%	2.0%	1.9%	1.9%	<b>1.9%</b>	0.0%
CRTF Funding & Contingencies	5.0%	5.0%	5.0%	<b>5.0%</b>	0.0%	5.0%	5.0%	5.0%	<b>5.0%</b>	0.0%
(B) Total Variable Expenses	23.0%	22.9%	22.9%	<b>22.9%</b>	0.0%	23.0%	22.9%	22.9%	<b>22.9%</b>	0.0%
(C) Permissible Loss Ratio (1 - B)	77.0%	77.1%	77.1%	<b>77.1%</b>	0.0%	77.0%	77.1%	77.1%	<b>77.1%</b>	0.0%
(D) Rate Indication (A / C - 1)	42.1%	44.0%	39.0%	<b>15.0%</b>	-24.0%	50.0%	49.0%	46.0%	<b>11.0%</b>	-35.0%

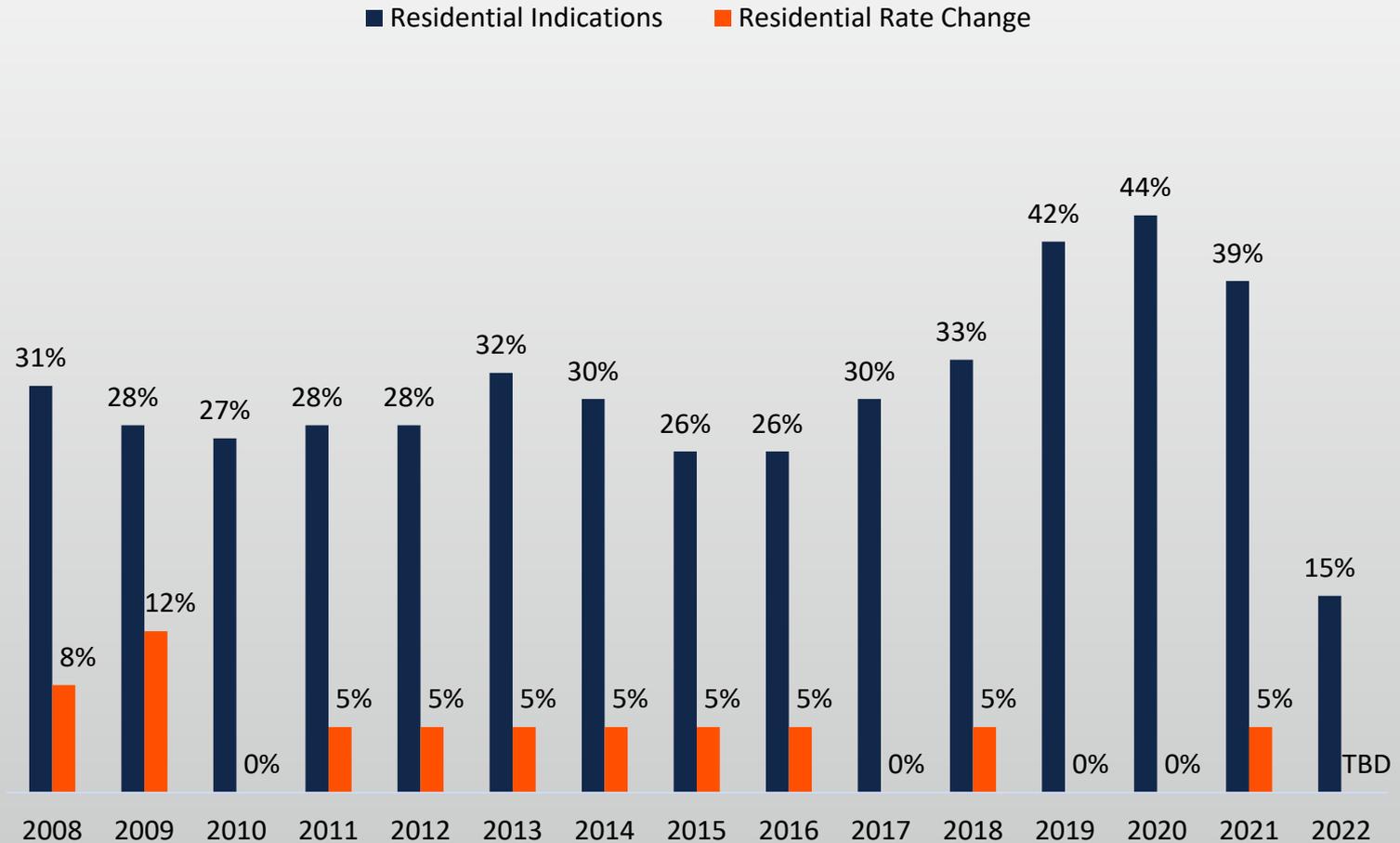
# Reconciliation of Change in Rate Indications Residential 2022 vs 2021



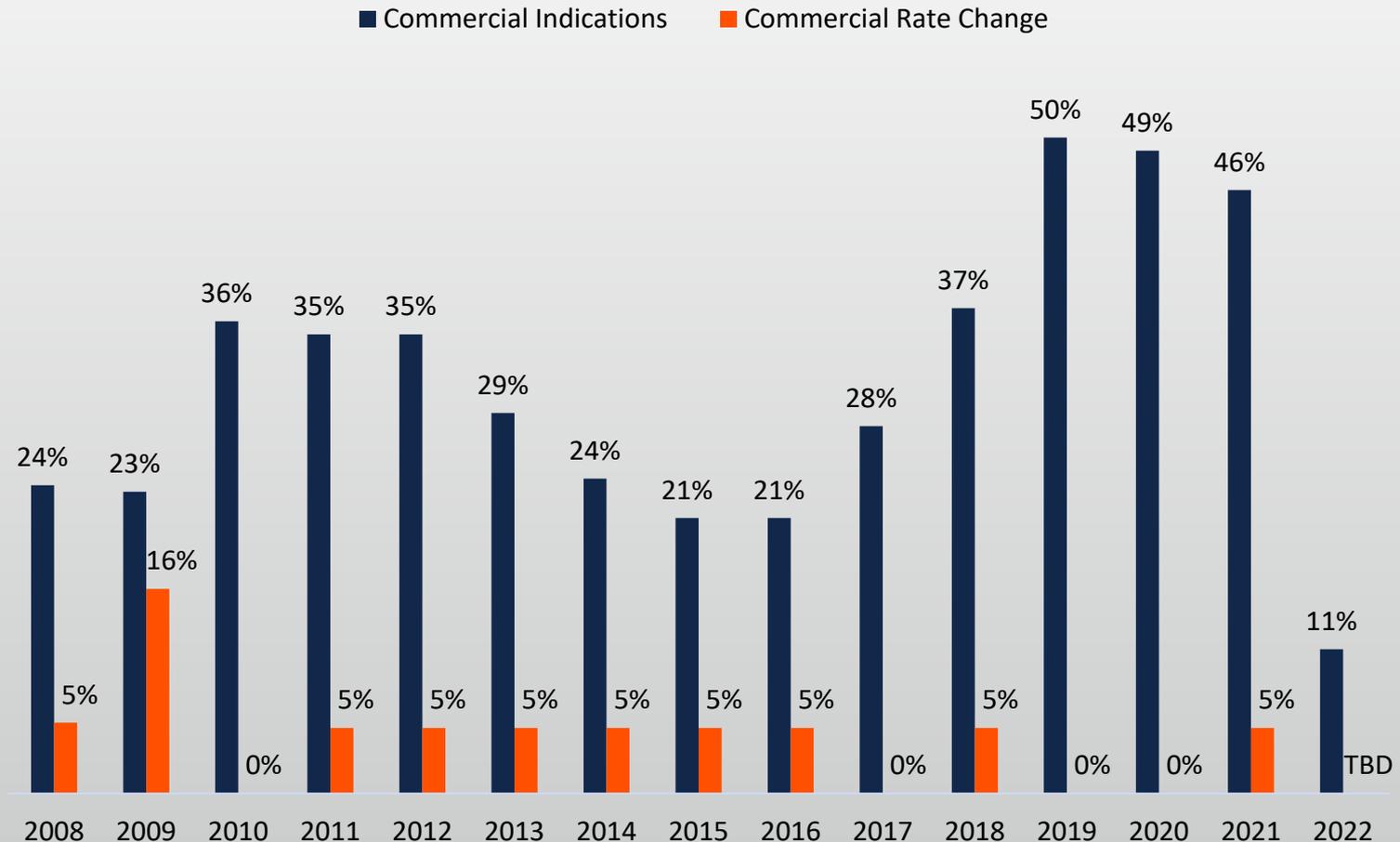
# Reconciliation of Change in Rate Indications Commercial 2022 vs 2021



# Residential Rate Indications vs Rate Changes 2008-2022



# Commercial Rate Indications vs Rate Changes 2008-2022



# Questions

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INSURANCE ASSOCIATION

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# Actuarial & Underwriting Committee

TWIA Actuarial Department – Wind Mitigation Analysis

July 18, 2022

# Contents

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- **Catastrophe Modeling Overview**
- **Opening Protection Analysis**
- **Roof Characteristics Analysis**

# Catastrophe Modeling Overview

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- HB 769 prohibits TWIA from purchasing reinsurance from a broker involved in the execution of catastrophe models on which the association relies in adopting rates
- The TWIA Board of Directors selected Aon on February 2, 2022 to serve as its designated catastrophe modeler for reinsurance and ratemaking
- TWIA staff has worked with Aon to produce all of the modeling results contained in this analysis
- TWIA's reinsurance broker, Gallagher Re, has not been involved in the execution of any of the relied upon models

# Opening Protection Analysis

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- Currently, TWIA offers a 10% retrofit credit for residential properties that have upgraded all exterior openings to current building codes, including windows, doors, and any other openings
- TWIA staff and Aon created a representative portfolio of risks to examine the specific impact of glazed opening (window) protections on modeled hurricane losses

# Opening Protection Analysis

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- Results of the analysis indicate an 8.8% credit for upgrading all windows on a structure
- Given how close this is to the existing 10% retrofit credit, staff proposes expanding the eligibility on the existing credit to include properties that have upgraded all windows without also requiring replacement of other openings
- As a new credit, this change would not have an overall impact on rate and would not impact existing policyholders who do not apply for the new credit

# Roof Characteristics Analysis

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- TWIA does not currently have rating factors for roof age, material, or shape
- We have recently begun incorporating this information in reinsurance modeling, and Aon and staff have completed a preliminary analysis of potentially introducing a new rating factor based on roof characteristics

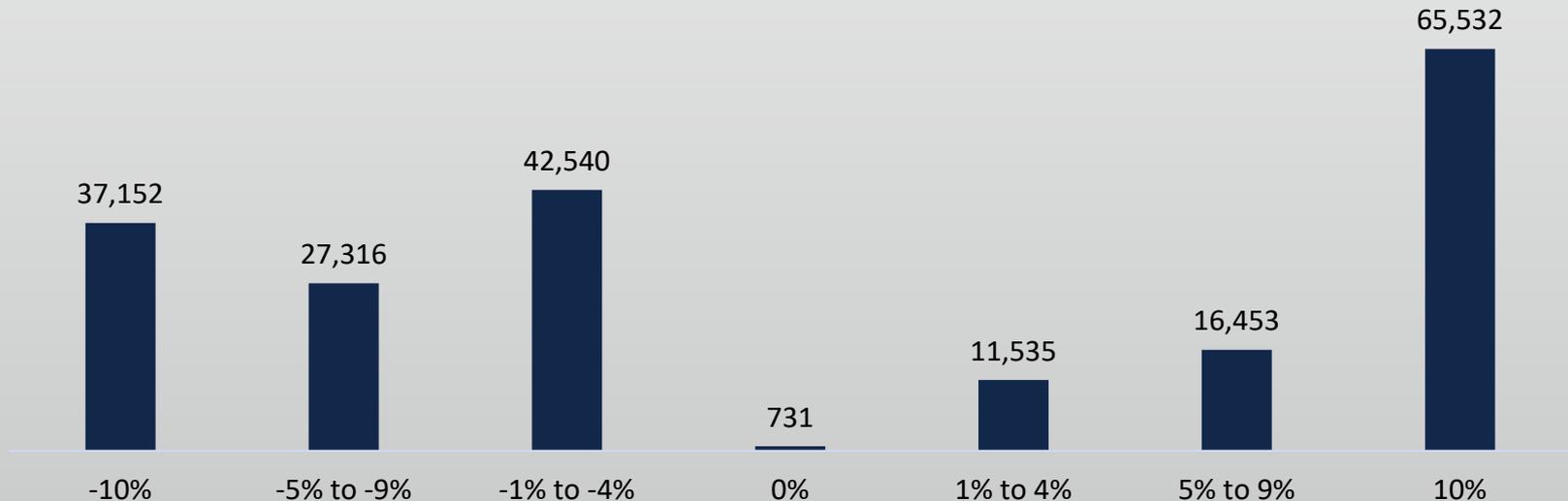
# Roof Characteristics Analysis

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- Using the same representative portfolio, modeling results were produced quantifying the difference in expected hurricane losses based on roof age, material, and shape
- Staff also analyzed non-hurricane loss experience using a generalized linear model
- Analysis results indicate decreased risk associated with newer, metal, and hip roofs and increased risk associated with older, unrated shingle, and gable roofs

# Roof Characteristics Analysis

- Rating factors vary widely based on specific characteristics
- Following is the potential impact of implementing indicated factors capped at  $\pm 10\%$ :



# Roof Characteristics Analysis

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- Factors have been selected to be rate-neutral, i.e., projected credits equal surcharges
- TWIA does not currently collect all required information on its application
- The potential implementation timeframe for this factor would therefore be significant
- Additional work may also be warranted to identify other secondary modifiers that may be impacted by roof age, specifically as it pertains to changes in required building codes over time

# Questions and Next Steps

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## 7F. Required 2022 Annual Rate Filing

There is no exhibit for this topic

## 8. Internal Audit Status & Update

# MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: August 2, 2022

SUBJECT: Status of Internal Audit Activities

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The following is our internal audit update representing current and planned activities:

➤ **Current Activities:**

Activity Description	Status
Information Security	Report in final review
Business Continuity of Operations – Information Technology	Report in final review
Reinsurance	Wrap up and reporting phase
Findings Follow-up Audit	Reporting phase
Model Audit Rule	Reporting phase
Continuity of Operations Plan – Business Operations	Planning/Fieldwork phase

➤ **Upcoming Audits and Activities:**

Activity Description	Timing
HR and Payroll	3 <sup>rd</sup> Quarter
Plan of Operation	3 <sup>rd</sup> /4 <sup>th</sup> Quarter
Claims	4 <sup>th</sup> Quarter
Update Risk Assessment and Audit Plan	4 <sup>th</sup> Quarter

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

## Texas Windstorm Insurance Association Internal Audit Plan – Lookback (2020-2021) and Prospective (2022-2024)

Process Area	Last Report Date	2021 Inherent Risk Rating	2020	2021	2022	2023	2024
Information Security	May 2018	High		X		X	
Claims Processing	Nov. 2020	High	X		X		X
Reinsurance	Nov. 2020	High	X		X		X
Database and Application Administration	Oct. 2020	High	X			X	
Communications	Mar. 2021	High		X		X	
Actuarial (Pricing and Reserving)	Sept. 2021	High		X		X	
Human Resources Administration	Oct. 2019	Moderate			X		
Legal & Compliance	Mar. 2021	Moderate		X		X	
Underwriting	June 2020	Moderate	X			X	
Plan of Operation	N/A	Moderate			X		
Depopulation	Sept. 2020	Moderate	X		X		
Business Continuity of Operations	Feb. 2020	Moderate			X		
Governance	May 2021	Moderate		X			X
Financial Close and Reporting <sup>(1)</sup>	Dec. 2020	Moderate	X				X
Disaster Recovery	Feb. 2020	Moderate	X	X			X
Accounts Payable and Expense Processing <sup>(1)</sup>	Oct. 2019	Moderate				X	
Application Development	Sept. 2019	Moderate			X		
Information Technology Services	N/A	Moderate			X		
Vendor Management	Nov. 2021	Moderate		X			X
Accounts Receivable <sup>(1)</sup>	May 2020	Moderate				X	
Payroll	June 2019	Moderate			X		
Facilities and Services	Oct. 2020	Low	X			X	
Cash Management	Aug. 2021	Low		X			X
Premium Taxes	July, 2021	Low		X			X

**Note 1:** The audit frequency has been modified to every 48 months due to the area's risk level and the fact the Model Audit Rule includes procedures that address this area annually.

## 9. Underwriting Operational Review



## MEMORANDUM

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DATE: July 18, 2022  
TO: John Polak, General Manager  
FROM: Jessica Crass, Vice President, Underwriting  
RE: Update on Underwriting Operational Highlights

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### Second Quarter 2022 Highlights

- I. Service Results:
  - a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 98% of transactions processed within 10 days. Over 86% of applications/renewals were processed within 1 day.
  - b. Quality Assurance results on underwriting decisions continue to exceed established goals.
  - c. Telephone service response times and service quality scores for the quarter continue to meet expectations, with one exception. Results fell just below our standard of answering 80% of calls in under 20 seconds, coming in at 79.1%. This is due to the increase in customer inquiries following the launch of TWIA's updated policy administration system, combined with the annual seasonal swell of business and resource constraints.
  - d. Underwriting is operating below budget, largely due to managing headcount and more efficient use of virtual and aerial inspections.
  
- II. Agency Compliance Audits:
  - a. We previously reported on one policy found to be noncompliant with the flood insurance requirement during the third quarter of 2021, and one additional policy found noncompliance during the fourth quarter of 2021. Since then, staff has worked with the respective agents to bring these policies into compliance.
  - b. Standard audits were completed for a sample of agencies doing business with TWIA in the first quarter of 2022 to verify compliance with the declination of coverage and flood insurance requirements



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- i. Ninety-five percent of agencies have now completed their responses. Staff are pursuing a response from the remaining agency and escalating issues as necessary.
  - ii. Of the agencies who have responded, all policies reviewed were compliant with the requirement for proof of declination of coverage.
  - iii. Three percent of the policies/properties selected for review required flood insurance. Of those, sixty-seven percent meet the requirement, and staff is working to bring the remaining policies into compliance. One agent has confirmed the flood policy was amended to bring coverage into compliance and we are awaiting documentation of same.
  - iv. All agents audited have an active property and casualty insurance license.
- c. Subsequent agency audits will be conducted following the recruitment and training of a new Agent Auditor.

## 10A. Claims Operations

## TWIA Claims Operations 2022

TWIA Claims - 2022 Results (through Q2)					
Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	5.6	2.7	<3	-0.3	-10%
Inspect Property to Receipt by TWIA	4.4	1.7	<8	-6.3	-79%
Total Cycle Time FNOL to Payment - Daily	N/A	7.1	<12	-4.9	-31%
Total Cycle Time FNOL to Payment - Cat	N/A	5.4	<12	-6.6	-41%
<b>TDI Complaint Ratio</b>					
2021	0.17% - 21 complaints from 12,535 new claims				
2022	0.33% - 9 complaints from 2,722 new claims				

Year	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Actual Volume	892	675	610	468	672	551	576	301	5,885	1,052	563	290	396	313	613	483	534	383
Actuarial Projected	614	428	428	1,716	1,716	428	428	615	615	615	298	298	639	445	445	1,622	1,622	450
Staffing Plan	521	521	521	521	521	521	521	521	521	521	521	521	546	546	546	546	546	546
Open Inventory	8,763	8,814	8,545	8,180	7,785	6,829	5,972	4,383	8,822	8,733	8,190	7,279	6,520	6,120	5,511	4,834	4,446	3,865

Historical TWIA Claim Volume	
Year	Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	80,257
2018	7,242
2019	6,704
2020	14,432
2021	12,535
2022	2,722

## **TWIA 2022 CAT Plan and Hurricane Season Preparedness**

### **2022 CAT Plan**

- Aligns with emergency management principles, streamlined plan with strategic objectives covering mitigation (annual planning), preparedness (pre-storm activities), response (initial response activities), recovery (longer-term actions), and resource deployment plan. Satisfies the statutory requirements laid out in TIC Ch. 2210.455.
- Updated annually by a cross-function team of representatives from each department. Update is a part of Corrective Action Program for continuous improvement by addressing After-Action Reports (AARs) gathered throughout the year. AARs are identified from real-life activations, exercises, and feedback from internal and external stakeholders.
- The CAT Plan is located as an appendix to TWIA's Annual Report located on the Association's website.

### **Resource Scalability**

- Contracts with 17 field adjusting firms providing a guaranteed number of available resources subject to annual Training and Certification processes
- Currently trained and certified:
  - 2,721 Residential Field Adjusters
  - 372 Commercial Field Adjusters
  - 836 Desk Examiners
- 8 Claims employees located on or near the coast (Beaumont, Houston, Corpus Christi, Brownsville) to assist as needed

### **Pre-Landfall Considerations**

- Communication and coordination year-round with: City and County Offices of Emergency Management, TX Division of Emergency Management (TDEM), FEMA Region VI, FEMA-NFIP, Texas A&M Sea Grant and Hazard Reduction & Recovery Center, Texas Insurance Stakeholders Roundtable, TDI, Texas Water Development Board, Texas Realtors, and Texas General Land Office.
- Monitor early warning systems (Government Level) from National Weather Service
- Coordination with internal Communications & Legislative Affairs for pre and post storm information sharing including arranging webinars and FAQs for policyholders and agents
- Address need for staff deployment to coast
- Identify remote claim center locations and configurations
- Discuss need for extensions of key claim deadlines with TDI
- Monitor need to activate TWIA Expert Panel protocols

## 10B. Claims Litigation



## TWIA Litigation Tracking Activity

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### Litigation Quarter Summary Second Quarter 2022

2nd Quarter 2022	Summary of TWIA Claims in Suit			
		New	Settled	Closed
	April	0	0	11
	May	1	0	12
	June	1	0	12
	2	0	35	

2nd Quarter 2022	Summary of TWIA Claims with LORs			
		New	Settled	Closed
	April	30	0	31
	May	28	0	23
	June	24	0	30
	82	0	84	



## TWIA Claims Litigation June 2022

Jun-22	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	8	0	0	8
	HB3	181	1	(12)	170
	<b>TOTAL</b>	<b>189</b>	<b>1</b>	<b>(12)</b>	<b>178</b>

Jun-22	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	532	24	(30)	(1)	525
	<b>TOTAL</b>	<b>532</b>	<b>24</b>	<b>(30)</b>	<b>(1)</b>	<b>525</b>

Jun-22	TWIA Claims with Suits/LORs: Detail of Ending Inventory											
	Category	Active Unsettled Claims					Settled & Funded (Awaiting closing documents and final invoices)					GRAND TOTAL
		Suits		LORs		Total	Suits		LORs		Total	
		Res	Comm	Res	Comm		Res	Comm	Res	Comm		
	Pre-HB3	2	6	0	0	8	0	0	0	0	0	8
HB3	148	21	490	34	693	1	0	1	0	2	695	
<b>TOTAL</b>	<b>150</b>	<b>27</b>	<b>490</b>	<b>34</b>	<b>701</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>703</b>	

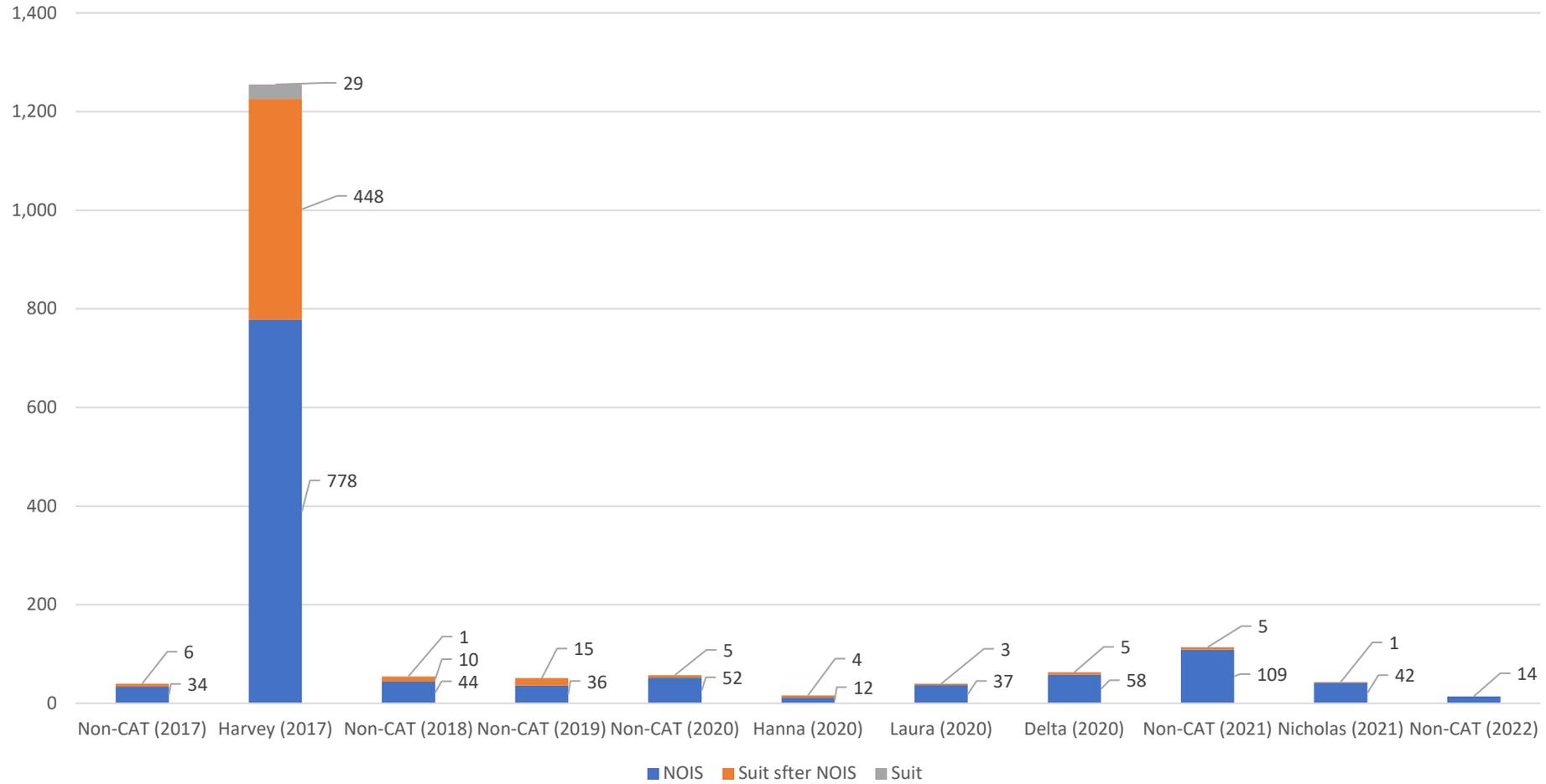


Jun-22	TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County				
	Firm	Chambers	Galveston	Jefferson	Total
	Buzbee	2	4	0	6
	Hodge Law Firm	0	1	0	1
	Mostyn	0	0	1	1
TOTAL	2	5	1	8	

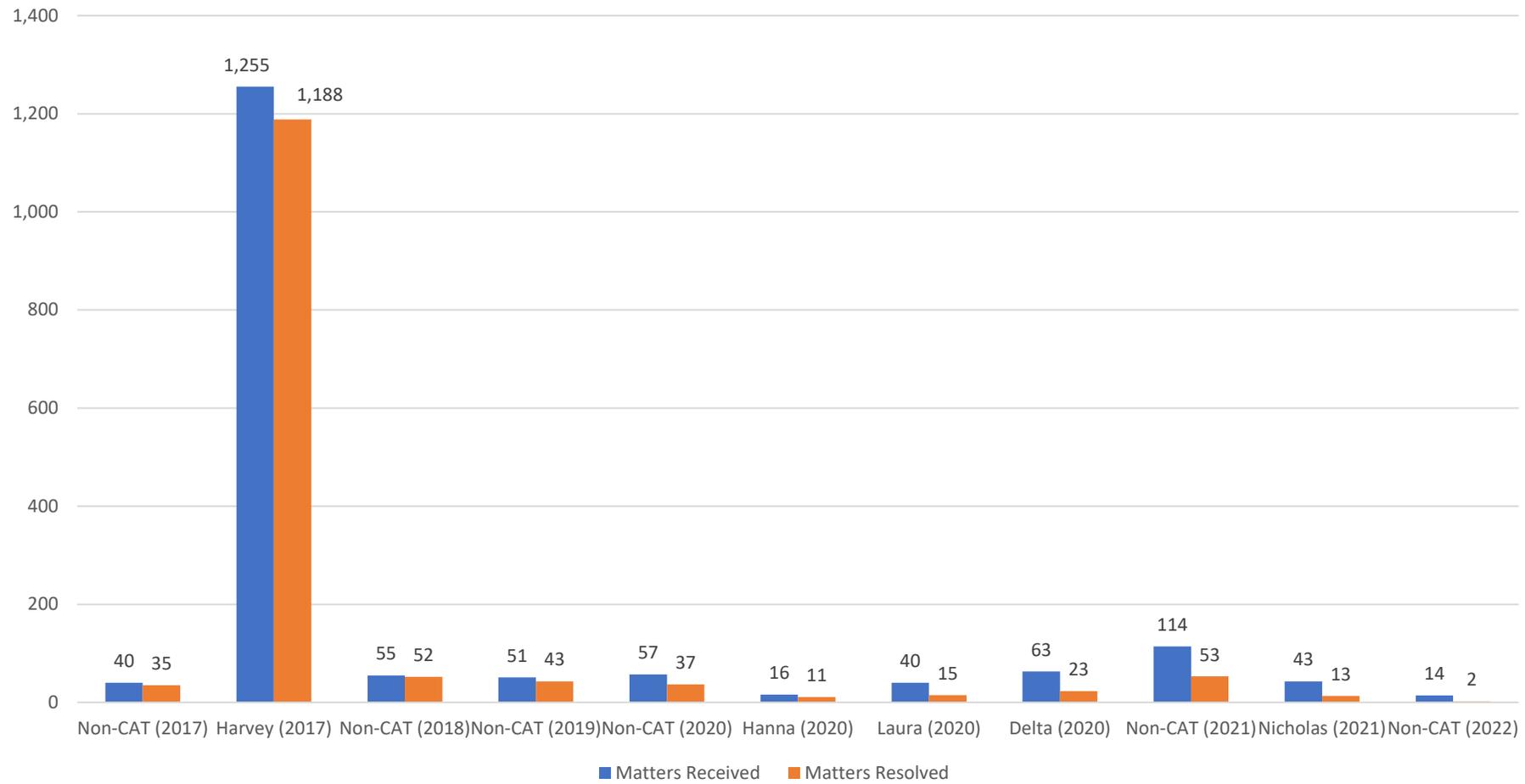
Jun-22	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County														
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kleberg	Matagorda	Nueces	Refugio	San Patricio	Willacy	Grand Total
	24	64	4	106	2	134	19	220	1	19	81	2	16	1	693

Jun-22	TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	#
	Baker Law	127
	Furlow Law Firm	114
	Daly & Black	79
	Chad T. Wilson	72
	Scott Law Offices	30
	Palker Law Firm	30
	Carrigan & Anderson	26
	Lindsay, Lindsay & Parsons	24
	Hodge Law Firm	21
	McClenny Moseley & Assoc	20
	Omar Ochoa Law Firm	16
	Remaining 69 firms	134
TOTAL	693	

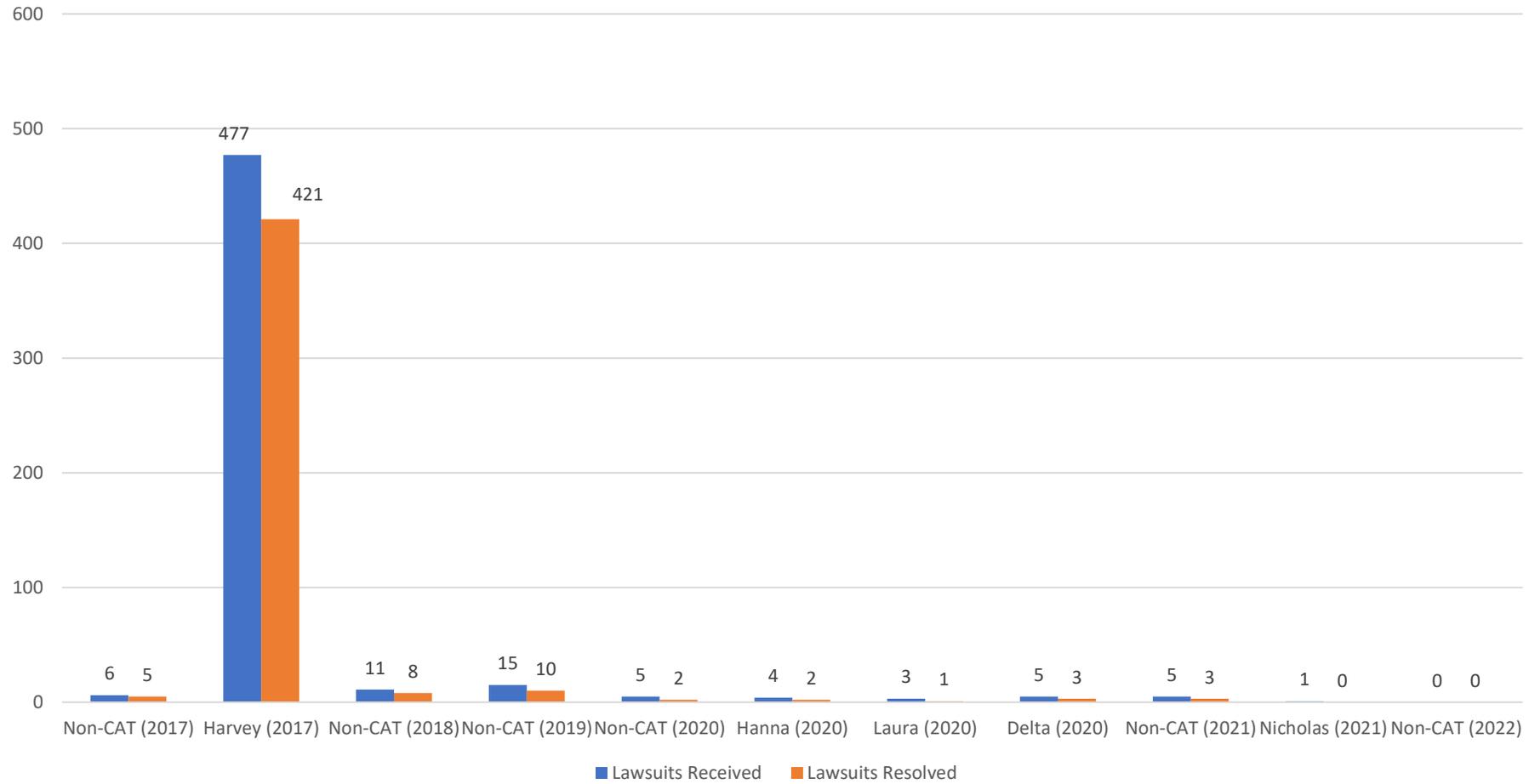
### Matters Received by Storm



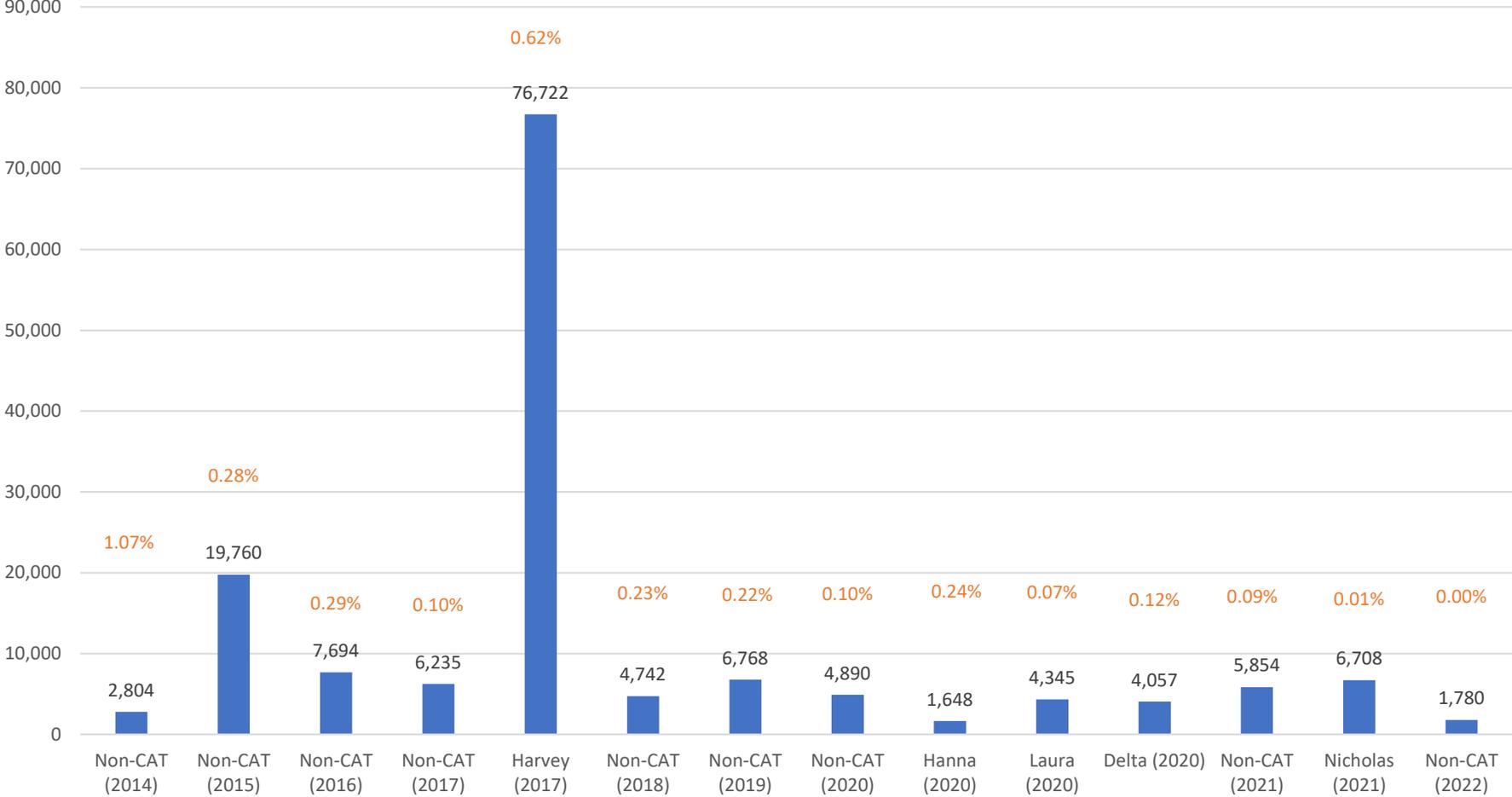
### Matters Received vs. Matters Resolved



## Lawsuits Received vs. Lawsuits Resolved



Total Claims versus Lawsuit Rate



# 11. TWIA Operations

## 11A. IT Systems Update



## MEMORANDUM

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DATE: August 1, 2022  
TO: John Polak, General Manager  
FROM: Camron Malik, CIO / VP IT  
RE: TWIA Information Technology status

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We have returned to production support mode after the conclusion of the Elevate program and had our third monthly release on July 13<sup>th</sup>. All systems are stable as we work on future enhancements based on empirical usage and defect fixes.

The Infrastructure and Operations team continues to support remote work with excellent quality. All technology support and projects are on-track.

11B. Receive and Act on Recommendations  
from Legislative and External Affairs  
Committee Regarding Recommendations to  
Legislature and Biennial Report to  
Legislature



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

Biennial Report  
to the  
88<sup>th</sup> Texas Legislature,  
Regular Session





August XX, 2022

The Honorable Greg Abbott, Governor  
The Honorable Dan Patrick, Lt. Governor  
The Honorable Dade Phelan, Speaker of the  
House  
Members of the Sunset Advisory Commission

Members of the Senate Business & Commerce  
Committee  
Members of the House Insurance Committee  
The Honorable Cassie Brown, Commissioner of  
Insurance

Dear Governors, Speaker, Committee Members, and Commissioner,

In accordance with Texas Insurance Code §2210.0025, I submit the Biennial Report of the Texas Windstorm Insurance Association (TWIA or Association) on behalf of its Board of Directors. The enclosed report summarizes the recent changes implemented due to legislation passed by the 87<sup>th</sup> Legislature, Regular Session, and proposed legislative changes for your consideration ahead of the 88<sup>th</sup> Legislative Session.

The Texas Legislature created the Texas Windstorm Insurance Association (TWIA) in 1971 after several storms, including Hurricane Celia (1970), caused private market insurers to begin excluding wind and hail coverage from their coastal homeowners insurance policies. TWIA gives Texans living in our coastal communities access to wind and hail property insurance when no other insurer will provide it. The availability of windstorm coverage provides a financial umbrella that allows our coastal cities and towns to prosper, supporting the entire state's economy.

Since our last Biennial Report, TWIA has launched a significant upgrade to its online systems for issuing policies and handling claims. The project will fundamentally change how we interact with our policyholders and work with insurance agents. It also enhances policyholders' ability to self-serve regarding their TWIA insurance needs. Reforms suggested by the Texas Sunset Commission in 2018 and enacted in the past two legislative sessions have allowed TWIA to offer some of the same tools private insurance carriers have used for many years, improve customer service, and realize reductions in expenses.

Looking ahead to the 88th Legislative Session, TWIA is committed to continued collaboration with lawmakers and the Texas Department of Insurance to better serve our policyholders and other stakeholders. Thank you for the opportunity to provide this information for your consideration.

Should you have any questions or need additional information, please do not hesitate to contact Jennifer Armstrong, Vice President of Communications & Legislative Affairs at (512) 637- 4031 or David Durden, Vice President of Legal at (512) 505-2255.

Sincerely,  
John W. Polak, CPCU  
General Manager



## Legislative Implementation

TWIA has implemented all provisions enacted by the 87th Legislature. We remain prepared to assist the Windstorm Insurance Legislative Oversight Board in its charge to study the Association's funding and a possible merger of TWIA and the Texas FAIR Plan prior to the 88th Legislative Session.

The following information describes the key legislation impacting TWIA passed by the 87th Legislature and the Association's actions and progress in implementing the specific provisions.

### Rate-making:

**Board Vacancy on Rate Vote (House Bill 769, Sec. 1):** The TWIA Board is prohibited from voting on a proposed rate increase if there is a Board vacancy of more than 60 days.

**Commissioner Approval of Rate Increases (Senate Bill 1448, Sec. 1 and 2):** Annual and non-annual filings for a rate greater than the rate in effect on the filing date must be approved by the Insurance Commissioner.

**Two-Thirds Vote for Rate Increase (Senate Bill 1448, Sec. 1 and 2):** A two-thirds vote of the TWIA Board is required to raise rates on annual or non-annual rate filings.

- TWIA staff briefed the Board on these statutory changes to the ratemaking process at the August 2021 Board meeting and has updated the Board Training Manual to reflect these changes.
- The Texas Department of Insurance adopted changes to TWIA's Plan of Operation on November 12, 2021, to implement these provisions.

### Reinsurance:

**Reinsurance Purchase Requirements (House Bill 769, Sec. 2 and 3):** TWIA is prohibited from purchasing reinsurance from an insurer or broker that obtains the catastrophe modeling TWIA uses to determine the probable maximum loss or make rate decisions.

- The TWIA Board selected a reinsurance broker and a separate vendor to provide catastrophe modeling analysis for the 2022 storm season.
- The Texas Department of Insurance adopted changes to TWIA's Plan of Operation on November 12, 2021, to implement this provision.

### Premium Payment Grace Period:

**Premium Payment Grace Period (House Bill 2920):** The Texas Department of Insurance must adopt rules, with advice from TWIA, establishing a grace period of not more than 10 days after the due date for the receipt of payment of premium for the renewal of a policy.

- TDI issued a rule establishing the grace period on April 11, 2022.
- TWIA implemented this provision as part of the systems upgrade launched April 18, 2022.

### Interim Studies:

**Funding and Merger Studies (Senate Bill 1448, Sec. 3 and 4):** Permits the Windstorm Insurance Legislative Oversight Board to study TWIA funding and structure issues and issue a report to the Legislature due November 15, 2022. Extends deadline to January 1, 2023 for the Windstorm Insurance Legislative Oversight Board to evaluate a merger of TWIA and TFPA and produce a report to the Legislature.

- TWIA is prepared to assist the Legislative Oversight Board in its deliberations.



## Proposed Legislative Changes

The table below summarizes eleven proposed legislative changes.

Item	Topic	Description/Alternative	Page #
1	Agent Requirements & Standards	Revise TWIA's statute to enable TWIA to mirror the Texas FAIR Plan Association (TFPA) producer requirements and performance standards.	Page 4
2	Exclude Commercial Risks from Automatic Renewal Process	Revise TWIA's statute to exclude commercial risks from the automatic renewal process (AAG Request).	Page 5
3	Eliminate Expert Panel	Modify statute and regulations to eliminate TIC Section 2210.578 requiring the use of an Expert Panel after the Association's contract to implement the requirements ends in April 2022.	Page 5
4	FORTIFIED Home Construction	Consider feasibility and possible public funding of FORTIFIED home construction and other mitigation programs.	Page 6
5	Premium & Maintenance Tax	Exempt TWIA from premium and maintenance taxes.	Page 7
6	Appraisal Process	Allow TWIA to have a formal objection process related to issues or concerns with a policyholder's selected appraiser or umpire.	Page 7
7	Appraisal Deadlines	Set statutory deadlines for completing an appraisal to prevent delays in the process.	Page 8
8	Payment of Appraisal Costs	Revise the statutory provision requiring TWIA and the policyholder to split the cost of their respective appraisers to require each party to pay their own appraisal costs.	Page 9
9	Earned Premium	Revise cancellation rules and procedures so Association policies may be canceled fully earned for certain reasons.	Page 10
10	Depopulation	Authorize TWIA to activate and deactivate the Assumption Reinsurance Depopulation Program as necessary according to market fluctuations.	Page 11
11	Board Vacancies	Repeal the provision requiring TWIA to provide TDI with a roster of recommendations to fill Board vacancies.	Page 12



# Proposed Legislative Changes

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## 1 Agent Requirements & Performance Standards

**Subject:** Currently, TWIA does not have express authority to limit an agent's ability to transact business with the Association in the event of audit noncompliance or other inappropriate acts in connection with agents' work on behalf of their clients.

- Any Texas-licensed property insurance agent may submit applications to TWIA.
- TWIA does not appoint agents, nor do they contract with TWIA.
- The Plan of Operation requires TWIA to audit agents' compliance with specific TWIA eligibility requirements. However, it does not have express authority in statute or rule to take any action in response to agent noncompliance.
- In contrast, the statute governing the Texas FAIR Plan Association (TFPA) provides broad guidance for a Plan of Operation. The Plan explicitly directs TFPA to maintain producer requirements and performance standards and authorizes their enforcement.

**Possible Solution:** Revise TWIA's statute to enable TWIA to mirror the TFPA producer requirements and performance standards.

- Provide TWIA specific authority to enact producer requirements and restrict agents' ability to submit applications to the Association when standards aren't met.
- TWIA would have clear authority to take appropriate action to limit agents' Association activities in response to audit noncompliance and other inappropriate acts or failure to act.
- Agents would continue to represent only the policyholder and would not become agents of the Association.
- Holding agents accountable to specific standards would increase agents' Association knowledge, improve operational efficiency and customer service, and help ensure policyholders' best interests are served.
- This recommendation received support from TWIA's Agent Advisory Group and would have no material fiscal impact on TWIA's operations.

### Statutory and Rule References:

Texas Insurance Code (TIC) Section 2210.202 (b)

Texas Administrative Code (TAC) Chapter 28 Section 5.4902 (d)

TIC Section 2211.054, the contents of TFPA's Plan of Operation, and 28 TAC 5.9913 (d)



## 2 Exclude Commercial Risks from Automatic Renewal Process

**Subject:** Commercial policy underwriting can be complex, and it may not be in policyholders’ best interest to renew commercial policies directly with TWIA through the automatic renewal process.

- TWIA implemented a new automatic renewal process in January 2020 due to legislation passed by the 86th Legislature, Regular Session.
- If there are no changes in coverage, residential and commercial policyholders can remit payment directly to TWIA and renew their policy without agent involvement.

**Possible Solution:** Eliminate the option for commercial risks to renew automatically.

- Due to the complexities of commercial properties and the more dynamic nature of property and coverage needs, commercial policyholder needs may be better served by a traditional, non-automatic renewal process that requires the assistance of an agent.
- TWIA’s Agent Advisory Group supports this recommendation.

## 3 Expert Panel

**Subject:** Although the Expert Panel’s recommendations apply to less than 5% of Association policies, the Association has paid more than \$11 million over the last five years to implement the recommendations and expects to have annual expenses of about \$1.8 million for ongoing software maintenance and data analysis costs.

- Statute requires the Association to use guidelines adopted by the Insurance Commissioner based on recommendations provided by experts (“Expert Panel”).
- The purpose of the recommendations is to assist the Association in determining the extent to which wind, waves, tidal surges, or rising water caused a loss to insurable property when very little of the property remains. These losses are referred to as “slab claims.”
- TWIA implemented the Expert Panel recommendations as adopted by the Commissioner on June 1, 2018.
- TWIA’s contract with the vendors to implement the recommendations expires on April 30, 2022. However, additional annual expenses to maintain the program after the contract expires in 2022 will be approximately \$1 million to \$1.25 million.

TWIA Expert Panel Costs 2013-2022	
Expert Panel Members 2013 - 2018	\$1,441,977
Implementation 2017-2018	\$4,517,754
Maintenance 2017-2022	\$8,295,812
<b>Total Costs 2013 - 2022</b>	<b>\$14,255,543</b>



**Possible Solution:** Modify statute and regulations to eliminate the requirements to use the Expert Panel's recommendations and guidelines adopted by the Commissioner.

- If the Legislature would prefer TWIA to retain and use the Expert Panel's recommendations, consider transferring the costs to the Texas Department of Insurance.
- If the Legislature and TDI repealed the Expert Panel methodology, TWIA would use methods commonly used by the insurance industry to evaluate slab claims, including hiring engineers and weather experts who can help the Association assess the nature of the property damage. Alternative processes would likely create some delays in claim processing.

**Statutory and Rule References:**

Texas Insurance Code Section 2210.578

## 4 Fortified Construction

**Subject:** TWIA does not have any programs associated with FORTIFIED construction.

- FORTIFIED is a nationally recognized building method that goes beyond building codes to strengthen residential and commercial buildings against specific natural hazards such as high winds and hurricanes. FORTIFIED standards are based on more than 20 years of scientific research and real-world testing by the Insurance Institute for Business & Home Safety (IBHS).
- More resilient construction can improve both the availability and affordability of insurance coverage and can lead to less community damage, reduced costs of emergency management and disaster recovery resources, and lower insurance losses after a catastrophic event.
- Other coastal states, notably Alabama and North Carolina, have encouraged FORTIFIED construction for both new and existing homes through a combination of public grants and policy endorsements covering upgrades to the FORTIFIED construction standards.

**Possible Solution:** Consider providing funding support from the State of Texas, the Catastrophe Reserve Trust Fund, or other sources for FORTIFIED home construction.

- Alternatively, given recent discussions among the TWIA Actuarial & Underwriting Committee and the TWIA Board of Directors, consider expanding the scope of this recommendation to include TWIA incentives or public funding support for all types of wind mitigation efforts, such as retrofitting existing construction with upgraded opening protections, roof attachments, and other certified improvements.
- In the absence of a request for public funding, implementing this possible solution would not require a legislative change.



## 5 Premium & Maintenance Tax

**Subject:** Texas premium and maintenance taxes impact rate indications and lessen the affordability of TWIA policies.

- TWIA has spent \$7-8 million in premium and maintenance taxes annually for the past five years. Before 2017, when policy counts and, therefore, written premiums were higher, TWIA incurred more than \$9 million in some years.

Year	Premium Tax	Maintenance Tax & Other	Total
2010	\$6.2 Million	\$1.2 Million	\$7.3 Million
2011	\$6.5 Million	\$1.2 Million	\$7.7 Million
2012	\$7.1 Million	\$1.3 Million	\$8.4 Million
2013	\$7.6 Million	\$1.4 Million	\$9.0 Million
2014	\$7.9 Million	\$1.5 Million	\$9.4 Million
2015	\$8.1 Million	\$1.5 Million	\$9.6 Million
2016	\$7.8 Million	\$1.5 Million	\$9.3 Million
2017	\$6.8 Million	\$1.3 Million	\$8.0 Million
2018	\$6.3 Million	\$1.2 Million	\$7.5 Million
2019	\$6.0 Million	\$1.1 Million	\$7.1 Million
2020	\$5.9 Million	\$1.1 Million	\$7.0 Million
2021	\$6.3 Million	\$1.2 Million	\$7.5 Million

**Possible Solution:** Exempt TWIA from paying premium and maintenance taxes.

- A reduction in expenses has a corresponding impact on rate indications. Elimination of premium and maintenance taxes would reduce TWIA expenses by roughly 1.86% of the annual written premium.

## 6 Appraisal Deadlines

**Subject:** Current statutes and rules define deadlines for beginning the appraisal process, for a policyholder to demand appraisal after receiving TWIA's Notice of Claim Acceptance, and for informing the other party of the fees to be charged when hiring an appraiser. However, there are no deadlines for completing an appraisal.

- In the Association's experience following Hurricane Harvey, several factors led to appraisers and appointed umpires causing unnecessary delays.
- The average duration of an appraisal for a residential claim was nearly 200 days, while appraisals



for commercial claims took up to 40% longer or 277 days on average.<sup>1</sup>

Policy Type	Number of Appraisals	Average Duration (in days)
Commercial	109	277
Residential	748	199
<b>Total</b>	<b>857</b>	<b>209</b>

**Possible Solution:** Set statutory deadlines to complete an appraisal to prevent delays in the process.

- Incentives to complete an appraisal timely and/or requiring the parties involved to agree to extend the duration of an appraisal will benefit both policyholders and the Association and lead to a timelier resolution of disputes.
- As there are variations in the size and complexity of losses, applying deadlines to the appraisal process should be flexible to allow for an adequate investigation of the claim and preserve the independence of the appraisers involved.

#### Statutory and Rule References

Texas Insurance Code Section 2210.574

Texas Administrative Code Chapter 28 Section 5.4211

## 7 Appraisal Process

**Subject:** TDI rule requires appraisers to disclose potential conflicts of interest when appointed, but it does not disqualify appraisers with conflicts of interest from engaging in an appraisal. Additionally, there are no methods by which an appraiser can be challenged or disqualified before the appraisal's completion.

- The appraisal process is based partly on the appointed appraisers' independence and disinterest. TDI rule requires appraisers to disclose potential conflicts of interest when appointed.
- Many potential conflicts in the rule focus on the appraiser's financial motivations to minimize or maximize the claim's value regardless of its merits.
- However, none of the potential conflicts outlined in the TDI rule disqualifies the appraiser from engaging in an appraisal.
- As a result, policyholder appraisers appointed to Hurricane Harvey claims rarely followed the disclosure rules, and even when potential conflicts existed, they continued to engage in the appraisal process.
  - For example, several Public Adjusters and repair contractors routinely appointed

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<sup>1</sup> Based on a preliminary analysis of a sample of 857 appraisals for Hurricane Harvey claims (2017).



themselves or their employees as the appraiser for their clients, despite having a financial interest in the outcome of the claim.

- Moreover, an appraiser cannot be challenged or disqualified before the appraisal's completion. Instead, the parties can only raise an appraiser's misconduct by filing a suit to set aside the award and begin a new appraisal.

**Possible Solution:** Allow TWIA to have a formal objection process related to issues or concerns with a policyholder's selected appraiser or umpire.

- TWIA proposes adding an objection process to the current rules governing appraisal to balance the need to remove those who participate in the process in bad faith with the imperative of keeping the appraisal process streamlined and inexpensive for the policyholder.
- The Association proposes referring objections to the TDI Ombudsman, and to the extent this would add additional expense to the Ombudsman's budget, TWIA would bear that expense.

#### **Statutory and Rule References**

Texas Administrative Code Chapter 28 Section 5.4212

## **8 Payment of Appraisal Costs**

**Subject:** Statute requires TWIA and the policyholder to split appraisal costs. But, the overall cost of an appraisal can be imbalanced, with the policyholder paying a higher share than they would if they were only responsible for the costs of their appraiser.

- The appraisal process for handling TWIA claims is established in Texas Insurance Code and states, "the claimant and the association are responsible in equal shares for paying any costs incurred or charged in connection with the appraisal, including a fee charged under Subsection (e)."
- The appraisers TWIA hires charge an hourly rate for their service.
- As the appraisal process is designed to be separate and independent from TWIA's claim handling, TWIA provides little direction and oversight of appraisers.
- TWIA often experiences situations in which the amount of work that a TWIA appraiser performs on a file exceeds the amount of work performed by the policyholder's appraiser.
- The TWIA appraiser may also charge a higher rate than the rate charged by the policyholder's appraiser.
- The result of these scenarios is that the cost of TWIA's appraiser is often higher than the cost of the policyholder's appraiser, sometimes substantially so.



**Possible Solution:** Revise the statute to require each party to pay for their appraiser instead of splitting the total cost of both appraisers.

- In Hurricane Harvey appraisals on residential claims, TWIA's appraisal expense averaged about \$500 higher than the policyholder's.
- If the appraisal award is a nominal amount, payment of the fees may significantly reduce the policyholder's final payment.
- This difference in costs can also cause disputes with the policyholder and may be detrimental to TWIA's efforts to settle a claim. Allowing TWIA and the policyholder to pay their own appraisal costs may eliminate the negative issues incurred in the appraisal process.

### **Statutory and Rule References**

Texas Insurance Code Section 2210.574 (d)(2)

Texas Administrative Code Chapter 28 Section 5.4221

## **9 Earned Premium**

**Subject:** TWIA does not have a mechanism to discourage policyholders from obtaining a policy at the start of storm season and then canceling the policy in December and receiving a pro-rata refund amount.

- Seasonal cancellations create additional operating expenses for the Association and reduce the income available for paying claims or contributing to the Catastrophe Reserve Trust Fund.
- The Mississippi Windstorm Underwriting Association's Plan of Operations includes similar cancellation provisions.
- TWIA currently uses a 90-day minimum earned premium (MEP) to prevent short-term issuance and cancellation of policies. The Legislature reduced the MEP from 180 days to 90 in 2011.

**Possible Solution:** Revise cancellation rules and procedures so the Association may cancel policies on a pro-rata basis for the following reasons only:

- Coverage is replaced by another company (Evidence must be provided)
- The property is sold (Evidence must be provided)
- There is a total loss of the property (Evidence must be provided)
- TWIA determines that the property is no longer insurable under TWIA rules and procedures
- Cancellation for any reason other than the above reasons would result in a fully earned, non-refundable premium to TWIA.



## 10 Depopulation

**Subject:** Participation in the Assumption Reinsurance Depopulation Program (“Assumption Program”) has dramatically declined over the past five years. Regardless of the volume from year to year, TWIA must perform the same complex steps.

- The Assumption Program seeks to provide TWIA policyholders with alternative wind and hail insurance options in the private market.
- TWIA provides policy data to participating companies, who then make offers to assume, or transfer, TWIA policies.
- The participation of insurers, agents, and policyholders in the program is entirely voluntary.

<b>Assumption Reinsurance Depopulation Program Participation</b>					
<b>Program Year</b>	<b>2016-2017</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>	<b>2021-2022</b>
<b>Participating Carriers</b>	4	3	2	2	1
<b>Policies Selected by Carriers</b>	102,171	109,356	75,039	64,380	32,318
<b>Agent-Approved Offers</b>	18,047	3,091	3,967	1,866	210
<b>Policies Assumed</b>	11,164	1,634	2,080	1,002	125

- The Sunset Commission staff detailed the complexity and inefficacy of the Assumption Program in their 2018-2019 report. That report explains in more depth the following findings:
  1. The Assumption Reinsurance Depopulation Program is administratively complex, creating unnecessary confusion.
    - a. Policyholder confusion delays claim payments.
    - b. The complexity of the program requires logistical and financial gymnastics.
  2. The industry’s interest in the Assumption Reinsurance Depopulation Program is limited and the benefits to policyholders are questionable.
  3. Insurance agent interest in and ability to participate in the Assumption Reinsurance Depopulation Program is limited.
    - a. Insurance agents have expressed concerns about the program’s viability.
    - b. Many insurance agents contractually cannot sell depopulation policies.
- While Sunset staff recommended that the Sunset Commission eliminate the Assumption Program, the Commission elected to modify certain logistical elements of the program’s timeline to make it less complex.



**Possible Solution:** Authorize TWIA to activate and deactivate the Assumption Reinsurance Depopulation Program as necessary according to market fluctuations.

### **Statutory and Rule References**

Texas Insurance Code Subchapter O (2210.701 - 2210.705)

## **11 Board Vacancies**

**Subject:** The Association has been unable to compile the slate of nominees required by statute to fill an insurance industry representative vacancy on the board of directors.

- The TWIA Board of Directors includes three representatives of the insurance industry. When one of those positions becomes vacant, TWIA's governing statute establishes a process for filling the vacancy.
- The process requires the Association to solicit nominations from member insurers and to provide a slate of nominees to TDI for the Commissioner's consideration.
- The slate of nominees submitted to the Commissioner must include at least three more nominees than the number of vacancies. The Commissioner may, but is not required to, appoint an industry representative from the slate of nominees.
- TDI routinely requests a slate of nominees when the term of an industry representative is expiring.
- The Association solicits all members companies requesting nominees, as required by statute.

**Possible Solution:** Repeal the provision requiring the Association to provide a slate of nominees to the Commissioner to fill a vacancy on the Board of Directors reserved for an insurance industry representative.

- The Association has not received the required number of nominees to meet the statutory requirement in the past four years, (2019, 2020, 2021, and 2022).
- In each of those years, TWIA sent multiple solicitations and/or staff contacted companies to request candidates.
- Because the member insurers have routinely not provided a sufficient number of nominees to provide a slate as required by the statute and because the Commissioner is not required to appoint a nominee from the slate requested from the Association, elimination of the requirement to provide a slate of nominees would not be detrimental to the process of appointing industry representative to the Board of Directors.

### **Statutory and Rule References**

Texas Insurance Code Section 2210.102 (f)



## Public Policy Considerations

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The Legislative & External Affairs Committee has elected to continue to present the issues of Association rates and ratemaking and the funding, funding structure, and financial sustainability of the Association as matters of public policy. This approach, first taken in the Association’s 2020 Biennial Report, leaves resolution of challenges related to the Association’s ratemaking and funding to the Texas Legislature in conjunction with the Windstorm Insurance Legislative Oversight Board (WILOB).<sup>2</sup>

While the calculation of an indicated actuarial rate is a technical exercise, the ultimate decision of what rates should be charged to coastal policyholders has increasingly become a public policy decision due to affordability and availability concerns raised by coastal policyholders and officials. Additionally, the Association’s funding, funding structure, and financial sustainability are also matters of public policy and are most appropriately undertaken by the Texas Legislature in coordination with the WILOB.

The WILOB is tasked with completing a study of the Association’s current funding and funding structure and developing recommended changes for consideration by the full Legislature. In support of the WILOB’s charge, the Board of Directors has provided information about the challenges with the existing funding structure and a list of possible alternatives to the Legislature as well as information on the Association’s funding methodology and history. Similarly, the following pages also contain information regarding the challenges of the existing ratemaking process and several options the Legislature might consider to address those challenges.

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<sup>2</sup> Senate Bill 1448 (87<sup>th</sup> Legislature, Regular Session) requires the WILOB to study TWIA funding and structure issues and issue a report with information and legislative recommendations to the Legislature by November 15, 2022.



## TWIA Ratemaking

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**Issue:** The current ratemaking process makes it difficult to meet the statutory requirements that “rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer” while balancing stakeholder concerns regarding affordability of Association premiums.

- The 2021 TWIA rate adequacy analysis indicated that its residential and commercial rates were 39% and 46% below adequacy, respectively.
- Inadequate rates may jeopardize TWIA’s ability to issue public securities to fund catastrophic losses, or repay the debt once issued.
- The Association’s annual, statutorily required rate filing process has come under considerable public and political pressure since Hurricane Harvey. The 5% rate increase effective January 1, 2022 is the first rate increase implemented since 2018.
- Recently passed legislation now prohibits the TWIA Board of Directors from voting on a proposed rate increase if there has been a vacancy on the board for at least sixty days and all rate increases now require approval of two-thirds of the board to be filed.

**Possible Alternatives:** Review the TWIA ratemaking process and modify the statute as necessary to address these concerns. Some alternatives to the current process identified by TWIA include:

- Requiring that rate inadequacy be addressed through a “glidepath” approach consisting of a series of smaller rate increases over time;
- Holding an administrative hearing before an Administrative Law Judge who would submit a rate change proposal to the Commissioner of Insurance;
- Creating a separate rating bureau or similar entity to assess TWIA’s rate adequacy and propose or implement rate changes;
- Moving rate-setting authority and processes to TDI;
- Modifying statutory ratemaking standards and requirements to address concerns about policy affordability; and/or
- Addressing concerns about actuarial fairness by specifically authorizing the Association to implement territorial rating.

Additional information on possible implementation of these alternatives is presented below.

Historical information on how TWIA has approached the process of rate filings over time is included in Appendix A.



### **Glidepath Approach:**

- This approach would involve smaller incremental annual rate increases intended to move toward rate adequacy while avoiding larger sudden rate increases.
- Since there are a number of variables impacting rate adequacy, including storm frequency and severity, inflation impacts, etc., the glidepath approach may not close the gap depending upon the nature of these and would require an annual evaluation by the Board.

### **Administrative Hearing:**

- Another approach to consider is requiring a hearing through the State Office of Administrative Hearings (SOAH) to set rates. The hearing would be before an Administrative Law Judge (ALJ) who would submit a rate change proposal to the Commissioner.
- SOAH hearings are currently used when certain TWIA actions are appealed by policyholders and/or member insurers.
- Interested parties would be allowed to provide written and oral comments, as well as empirical evidence, at the ALJ hearing. TWIA would provide data, which would include staff's rate adequacy analysis, to the ALJ for consideration.
- The statute should include a timeline for required actions. The Commissioner's Order setting the rates would be based on acceptance or modification of the ALJ's proposal.
- There is likely a fiscal note to the State with this approach.

### **Rating Bureau:**

- A third possible change to the current process would be to create an independent rating bureau or other entity, similar to what some other states have established.
- The bureau would analyze rate need and set rates for the Association independently.
- This would limit TWIA's role to providing statistical data such as catastrophe modeling results and loss and expense information.

As an example, the North Carolina Rating Bureau sets rates for several types of insurance in North Carolina, including property, auto, and workers compensation. Texas could implement a similar model specifically focused on TWIA rates.

The NCRB enabling statute can be found at:

[https://www.ncleg.net/enactedlegislation/statutes/pdf/byarticle/chapter\\_58/article\\_36.pdf](https://www.ncleg.net/enactedlegislation/statutes/pdf/byarticle/chapter_58/article_36.pdf).

It provides a methodology for ratemaking; requirements for filing proposed rates with the Department of Insurance; and a process for Department approval or disapproval, including public inspection, comment, and hearing.



### **TDI Rate-Setting:**

- Similar to a separate rating bureau, an additional alternative would be to authorize TDI to set TWIA rates.
  - TDI could promulgate rates through an annual process, similar to the process in place in the 1990s, with TWIA providing loss experience and expense data to the Department for their analysis, **OR**
  - TDI could be granted the authority to approve, deny, or modify annual TWIA rate filings, similar to the process in place in the 2000s.
- See Appendix A: Historical TWIA Ratemaking for more information.

### **Affordability:**

- The current statutory requirements for Association rates are that “rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer.” There is no language in statute specifically addressing affordability, even though this is a key issue for many coastal stakeholders.
- One way to address this issue would be to include statutory guidance on defining and addressing affordability as it relates to Association rates. As a matter of public policy, the specific incorporation of affordability as a rate consideration could be defined in statute or through TDI rule.
- Affordability could be addressed by providing the TWIA Board of Directors with a standard to consider for its rate filing decisions or an actual premium assistance program that could be funded either by TWIA or the State.
- An additional element impacting affordability is the possible discrepancy between the credit offered by voluntary market carriers to exclude wind coverage and the premium charged by TWIA to provide wind coverage. Additional regulation on the credits provided by private insurers may address this issue.

### **Territorial Rating:**

- Actuarial analysis indicates that rates for Association policies could vary materially geographically, with some areas potentially seeing rate decreases.
- In order to promote fairness among TWIA policyholders, a possible change to current statute would be to revise Texas Insurance Code section 2210.355(i) to make clear that TWIA continues to have the authority to implement rating territories.



## Funding

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The following information outlines challenges with the existing funding structure and a list of possible alternatives to the Legislature. Additionally, Appendix B includes an overview of the funding structure and its individual components.

**Issue:** Current statute provides funding for TWIA losses and expenses in excess of its premium and other revenue up to a set amount and includes the requirement that TWIA secure funding for a catastrophe year with a probability of one in 100 through the purchase of reinsurance with an attachment point in excess of all statutory funding sources. The Association has identified several challenges associated with the current funding structure:

- **Public securities may not be fully marketable or funded sufficiently quickly.**
  1. Proceeds issued after a catastrophic event may not be available for up to six months after a catastrophic event, potentially delaying claim payments.
  2. Not all proceeds are available to pay claims due to reserve accounts required by bond investors.
  3. Securities may not be able to be issued in their full, authorized amount due to general financial market conditions or the uncertain financial condition of TWIA and the economic conditions on the Texas coast following a major hurricane.
- **The current structure imposes a financial burden on TWIA and its current and future policyholders in the years following a catastrophic event.**
  1. A depleted CRTF would require TWIA to purchase more reinsurance to meet the minimum funding requirement, increasing costs after an event.
  2. Reinsurance itself will most likely be more expensive after an event.
  3. TWIA policyholders may not be able to afford policy surcharges that may be required to repay multiple Class 1 issuances.
- **There is no statutory provision for funding in excess of the 100-year minimum funding level (plus any additional reinsurance funded through member company assessments).**

**Possible Alternatives:** Modifications to improve the Association's funding, funding structure, and financial sustainability are matters of public policy to be undertaken by the Legislature in coordination with the Legislative Funding and Funding Structure Oversight Board (LOB) created by House Bill 1900 (86<sup>th</sup> Legislature, Regular Session). The LOB is tasked with completing a study of the Association's current funding and funding structure and developing recommended changes for consideration by the full Legislature.



TWIA has included additional information on the challenges noted above and possible alternatives for consideration, individually or in combination, below.

## **Public securities may not be fully marketable or funded quickly enough**

### **Challenge 1: Proceeds issued after a catastrophic event may not be available for up to six months after a catastrophic event, potentially delaying claim payments.**

Most sources of funding are available to pay claims within days or weeks after a catastrophic event. Post-event public securities, however, may take up to six months after an event to become available to pay claims, due to the lengthy process of issuing this type of debt. At up to \$1 billion, this represents a significant portion of TWIA's overall funding.

TWIA has addressed this concern by purchasing a line of credit, which allows TWIA to borrow against public security proceeds during the issuance process. The line of credit has become increasingly expensive and this quick source of cash to pay claims may not be reliable in the long-term.

#### **Possible Alternatives:**

- Allow TWIA to collect from its policyholders a CRTF surcharge separate from premiums to fund the CRTF directly.
- Authorize a statewide policy surcharge to build the CRTF to a minimum level.

*Building the CRTF balance reduces the likelihood that public securities will be necessary to fund claims and allows TWIA to deposit more of its premiums in the CRTF due to reduced reinsurance costs.*

- Reorder TWIA funding to place post-event securities "higher up".
- Provide a temporary source of funds that could be used to pay claims until proceeds from public securities become available.

### **Challenge 2: Not all proceeds are available to pay claims due to reserve accounts required by bond investors.**

A portion of the proceeds from public securities is not available to pay claims. Investors require various reserve accounts to ensure the Association's ability to repay the debt, and these accounts must be funded directly from bond proceeds. Reserve amounts and issuance costs both reduce the total amount available to pay claims, resulting in a potential funding shortfall.

#### **Possible Alternatives:**

- Provide additional funding from assessments or other sources to fund any difference between the \$1 billion of authorized public security issuances and the actual amounts available to pay claims.



- Authorize issuance of public securities in amounts over \$1 billion such that the net amount available to pay claims is \$1 billion.
- Allow flexibility in the attachment point of reinsurance to address the potential gap created by issuance costs and/or debt reserve amounts.

**Challenge 3: Public securities may not be able to be issued in their full, authorized amount due to TWIA's financial condition or general financial market conditions.**

In general, the issuance of debt is subject to the availability of capital in the financial markets and the creditworthiness of the borrower. For TWIA specifically, this means that general market conditions may restrict the amount of public securities that can be issued as part of the Association's funding. Being authorized in statute to issue up to \$1 billion in public securities does not guarantee that the financial market will be willing to provide those funds.

In addition to general market conditions, the perceived ability of TWIA to repay any debt is a significant factor in both the amount of debt that can be obtained and the cost of that debt, in terms of the interest rate charged. Existing debt service obligations from previous catastrophe years, the collectability of TWIA and coastal policyholder surcharges, and the uncertainty of future legislative or regulatory changes are all concerns that have previously been raised by investors. These concerns impact the interest rates charged to TWIA and could possibly limit the amount of public securities that could be issued.

**Possible Alternatives:**

- Allow for the issuance of public securities guaranteed by the State of Texas.
- Allow for the issuance of public securities on a tax-exempt basis for investors.
- Allow TWIA to account for the balance in the CRTF as surplus.

*Each of these would increase the marketability, and potentially reduce the cost, of public securities.*

- Provide additional funding from assessments or other sources to fund any difference between the \$1 billion of public securities authorized and the actual amounts issued.

**Financial burden on TWIA and its policyholders following a catastrophic event**

**Challenge 1: A depleted CRTF requires TWIA to purchase more reinsurance to meet the minimum funding requirement, increasing costs after an event.**

Hurricane Harvey resulted in an ultimate loss estimate of \$1.71 billion, which completely depleted the \$737 million in the CRTF. Current statute requires the Association to exhaust the CRTF before using any other funding sources.



As the Association must provide for funding to a 1-in-100-year event each year, a smaller amount in the CRTF requires TWIA to purchase additional reinsurance to meet the minimum funding requirement. Reinsurance also attaches at a lower level because of the diminished CRTF, making the cost of reinsurance more expensive.

**Possible Alternatives:**

- Allow TWIA to charge its policyholders a CRTF surcharge separate from premiums.
- Authorize a statewide policy surcharge to build the CRTF to a minimum level.
- Allow flexibility in the minimum required funding level after a catastrophic event to reduce the amount of reinsurance required to be purchased.
- Establish a public reinsurance facility for TWIA and the private market similar to the Florida Hurricane Catastrophe Fund.

**Challenge 2: Reinsurance itself will most likely be more expensive after an event.**

In years following a significant storm, the Association can also expect the price of reinsurance to be higher than normal due to a reaction from the market, further straining available premium revenue.

**Possible Alternatives:** Each of the alternatives above also addresses this challenge.

**Challenge 3: TWIA policyholders may not be able to support repayment of multiple Class 1 issuances.**

Hurricane Harvey also required TWIA to use the amounts available from the \$500 million in pre-event public securities issued in 2014. TWIA's premiums earned in subsequent years must be shared among paying the principal and interest on the outstanding bonds, Association operating expenses (including payment of routine non-catastrophe claims), and reinsurance costs. This leaves little left over for deposit into the CRTF.

Another catastrophe year requiring the issuance of Class 1 public securities could require TWIA policyholder surcharges of over 20% to repay the additional bonds.

**Possible Alternatives:**

- In addition to the alternatives above, allow a contingent source of funding for Class 1 public securities similar to existing sources for Class 2 and Class 3 public securities.
- Provide a cumulative maximum amount of public securities to be repaid by TWIA premiums and policyholder surcharges at any one time.
- Revise the existing bond repayment surcharge on TWIA policies to apply at renewal, rather than during the policy term.



## Public Policy Considerations from External Stakeholders

The LEA Committee solicited recommendations from Association stakeholders during their process to identify the information to include in the Biennial Report. The Committee issued a letter to legislative members, met with coastal legislators to seek their input on the Committee's work, and received written and verbal proposals from other external stakeholders through the public comment process. External stakeholders provided the following two public policy considerations:

### TWIA as a Reinsurance Facility

**Discussion:** This proposal would eliminate TWIA as a policy-issuing and servicing insurer and instead reform TWIA to be a reinsurer only. TWIA may also need to serve, in some capacity, to help find coverage for risks no insurer wishes to write. Although, the FAIR Plan might be a solution to that problem.

The proposal would provide for the voluntary market to issue wind and hail coverage in the seacoast territory with policies that have a \$25,000 primary coverage limit. Wind and hail claims above that amount up to the total coverage limit provided would ultimately be paid by TWIA under a reinsurance program in which the voluntary-market companies cede the excess risk to TWIA as reinsurer.

As reinsurer, TWIA would need some source of capital to cover losses because the annual reinsurance premium collected from the ceding companies will only cover a small percentage of the loss potential in the event of a large catastrophe. By way of example, in 2008, TWIA paid an initial reinsurance premium to its reinsurers of \$184 million. It then filed and collected a claim of \$1.5 billion to cover Hurricane Ike losses and expenses. This was the full limit of coverage under the reinsurance agreement.

A process would need to be established by which TWIA's reinsurance premium charge is set in an amount fair to TWIA as reinsurer and to the ceding companies. Further, there may be challenges in terms of the willingness of the voluntary market companies, which already write over half of the residential policies in the catastrophe area, to take on more risk, even under a low-retention policy/excess of loss structure as contemplated by the proposal. The proposal could be implemented with TWIA making the reinsurance available beyond the territorial limits of TWIA's existing catastrophe area. This feature would represent a change to the entire Texas residential property market.

TWIA has unique claims-handling and dispute resolution processes in its enabling statute enacted by the Legislature in 2011 in response to Hurricane Ike litigation concerns. It is not clear whether or how the proposal might affect that structure.

In summary, this proposal would significantly change TWIA's operations, structure, and funding, essentially removing TWIA from the Texas insurance marketplace as a fully functioning policy issuing, servicing, and claims-paying insurer.



The following page includes a City of Galveston Fact Sheet with a proposal to reform TWIA as a reinsurer for the private market.

DRAFT

## **21<sup>st</sup> Century Role for Texas Windstorm Insurance Association**

**The current TWIA primary insurer role relies upon increasingly unaffordable, unsustainable premiums.**

Since 1971, the Texas Legislature created the Texas Windstorm Insurance Association to provide insurance to those who cannot purchase it elsewhere.

- TWIA is not a state agency receiving general revenue funds, but an “insurer of last resort” as a primary retail insurance provider in the fourteen (14) counties along the Texas coastline.
- TWIA relies primarily on premiums and debt repaid by policyholders for funding.
- In 2019, the Texas Sunset Advisory Commission reported to the 86<sup>th</sup> Texas Legislature conclusions that emphasize the need to restructure a sustainable TWIA:
  - TWIA’s current funding structure is too uncertain to endorse and did not adopt any recommendations to address TWIA’s funding and objectives.
  - The Legislature should weigh in on the best strategy to ensure adequate windstorm insurance along the coast.

**Texas Legislature seeks examination of TWIA funding, funding structure, and sustainability.**

The 87<sup>th</sup> Legislature enacted SB 1448 directing a study to be conducted by the Windstorm Insurance Legislative Oversight Board include:

- Examining TWIA’s current funding and how this funding structure operates, problems with the funding and funding structure, and how the catastrophic risk pools of other states operate.
- Submitting a report that include the study’s findings and recommendations for legislative action related to the funding, funding structure, and sustainability of TWIA, including TWIA’s reliance on debt and reinsurance.

**Through risk transfer, TWIA can promote a more competitive statewide windstorm insurance market and sustainable funding structure.**

Reinsurance is a risk management tool that can be used as a safety net against low frequency, high severity natural disasters that produce substantial insured losses. The Reinsurance Association of America identifies four essential reasons for the purchase of reinsurance: 1) limit liability on specific risks; 2) stabilize loss experience; 3) protect against catastrophes; and 4) increase capacity.

**The City of Galveston advocates the Texas Legislature examine transitioning TWIA into 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 thereby reducing risk for the private insurance companies.
3. TWIA could market the low-cost attachment statewide to induce greater private sector participation as well as further spread and reduce risk.
4. A minimal processing fee could be applied to each windstorm policy across the state as a revenue source.
5. In a reinsurer role, TWIA reduces its costs with administrative overhead, processing small claims, or an expensive claims adjudication process.
6. By addressing claims up to \$25,000, the low-cost attachment would benefit communities across the state with non-hurricane events such as tornados and hailstorms. This will diversify risk and access greater capital.
7. 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.
8. By creating an appropriate TWIA risk-bearing role and expanding private insurance market involvement statewide, premiums will be based upon more competitive risk-based pricing that can prompt affordable opportunities for policyholders.
9. Strengthen private public partnerships through the use of private reinsurance and catastrophe bonds (insurance linked securities) tools for larger scale claim losses (above the \$25,000 low cost attachment).



## Statewide Surcharge – Industry Trade Group Proposal

**Discussion:** This proposal focuses on funding issues and would make no operational changes to TWIA. A major element of the proposal is removing the existing \$1 billion of public security funding layers and replacing them with a \$1 billion fund collected from property insureds statewide. These funds would be deposited into TWIA’s Catastrophe Reserve Trust Fund (CRTF), which is used to pay losses and expenses in the event of a major hurricane and to purchase reinsurance if needed. This proposal would keep the existing \$1 billion layer of member company assessment funding. The advantages of this proposal include removing the costs associated with public security issuance and the long-term post-hurricane burden on policyholders related to debt repayment. In exchange, the proposal would burden statewide property policyholders with surcharges levied in advance of a catastrophic event and held for the benefit of TWIA as a fund to be used when needed. With estimated statewide property premiums of \$16 billion, a surcharge of approximately 2% of premium over three years would be needed to fund the full \$1 billion.

The following page is the Industry’s TWIA funding proposal.

## PROPOSAL FOR REVISED TWIA-FUNDING OF CATASTROPHE LOSSES

### Background

The Texas Windstorm Insurance Association (TWIA) was created by the Texas Legislature in 1971 to serve as the “insurer of last resort,” providing windstorm and hail insurance coverages to residential and commercial properties in counties along the Texas coast that cannot find coverage elsewhere. TWIA is not a state agency and does not receive general revenue. Rather, TWIA is an insurance company that collects premiums, issues, and services policies, and is responsible for paying covered losses.

#### Texas insurers protect the majority of Texas coastal homeowners and businesses.

As of December 31, 2020, TWIA covers 184,890 policies with \$55 billion in liability for residential and commercial risks in the 14 coastal counties. By comparison, Texas insurers write 63% of the wind coverage in Tier 1 and provide coverage for \$82.7 billion for residential wind. Insurers who write coverage in that area, review their risks and potential losses, have sufficient reserves and meet financial requirements of the Insurance Code, plan for potential storm losses in the area, and set their rates accordingly. TWIA is different as it does not have the financial reserves of a traditional insurance company and limited revenue.

#### TWIA’s current funding structure is not sustainable.

The current loss funding program for TWIA, created by the Texas legislature to cover up to a 1 in 100 probable maximum loss (PML), which was \$4.03 billion in losses for 2021 and includes the following:

- **68% of Premium Revenue is Allocated to Expenses-** Based on estimated policy holder premiums for 2021, TWIA will collect approximately \$381.2 million in premiums. However, according to TWIA’s rate adequacy analysis, TWIA’s fixed expenses for 2021 are 45.3% and variable expenses are 22.9%, meaning approximately 68% of premium revenue goes to expenses. TWIA must also account for non-hurricane losses, and has factored in a 14.6% loss provision for these types of losses.
- **Catastrophe Reserve Trust Fund (CRTF)-** TWIA is required to put net gains from operations into the CRTF. The purpose of the CRTF was to pay future catastrophe losses. Since 68% of premium revenue is already accounted for, there is not much left to put in the reserve fund. As of June 2021, the reported CRTF balance was \$180.7 million, and a small hurricane would have depleted its balance.
- **Up to \$1 billion in public securities-** After TWIA uses its reserve funds, TWIA’s loss payment structure relies upon letters of credit and selling bonds to raise up to \$1 billion. These bonds are costly to sell, approximately \$8-10 million for each class of bonds, and create additional debt for TWIA, which must be paid in later years from TWIA premiums and other revenue.
- **Up to \$1 billion in assessments against insurance companies-** Texas insurers are required by law to pay up to \$1 billion in assessments to cover TWIA losses resulting from storms in any calendar year. For example, after Hurricane Harvey, insurers paid \$372 million in assessments to help pay TWIA losses. This was in addition to the \$8.9 billion insurers paid for their policyholders’ auto, home, and business losses after Harvey.
- **\$1.93 billion in reinsurance –** TWIA buys reinsurance to guard against the risk of losses up to the 1 in 100 PML.

This funding program relies heavily on debt and puts TWIA in a precarious financial situation.

### **Purpose**

The purpose of this legislation is to create a sustainable funding structure for TWIA to ensure its ability to meet its obligations to policyholders. 2021 brought insured catastrophe losses that were 58% higher than the 10-year annual average. This trend is expected to continue. For example, our neighboring state, Louisiana, experienced devastating hurricanes in 2020 and 2021. If either storm shifted slightly westward, one or both could have hit the Texas coast causing billions in damages. Texas has averted the brunt of recent hurricanes but may not in the future. TWIA's precarious funding structure and possible inability to pay claims following a storm threatens policyholders statewide. This proposal offers a solution that is a step in the right direction to ensure TWIA can better take care of its policyholders.

### **Bill Summary**

The proposed legislation amends Chapter 2210, by adding new Subchapters B-2 and M-1, among other changes, to Insurance Code as follows:

- For losses on or after January 1, 2024, creates the Contingent Hurricane Relief Surcharge Program, requiring all property insurers to collect and remit the surcharges to support coastal insurance losses. Surcharges apply to all fire and allied lines, farm and ranch owners' policies; residential property insurance; and the property insurance portion of commercial multi-peril policies.
- Authorizes an initial statewide hurricane surcharge in order to collect up to \$1 billion for TWIA funding. The amount collected is intended to bring the total CRTF balance to \$1 billion subject to the CRTF balance at the time the surcharge is set by the Commissioner. The surcharge replaces the current public securities funding structure in Insurance Code chapter 2210, Subchapters B-1 and M. The surcharge is deposited into the CRTF. The initial surcharge:
  - shall be set by the Commissioner as a percentage of premium to be collected by each insurer over a period of time not to exceed three years
  - is a separate charge in addition to the premiums collected and is not subject to the premium tax or commissions
  - is not refundable
  - failure to pay the initial surcharge constitutes failure to pay premium for purpose of policy cancellation
- Authorizes the Commissioner to order a Subsequent Contingent Surcharge if the Commissioner determines, after a catastrophic event, that:
  - TWIA has insufficient funds in its reserves, CRTF, and other funding sources to continue to provide coverage for their risks, and
  - TWIA has no other sources of funding to provide funding for the next catastrophe year.
  - Amount authorized to collect may not exceed \$1 billion, which the Commissioner can collect over a period of time not to exceed three years
- Proceeds from Hurricane Relief Surcharges would be deposited to the Texas Treasury Safekeeping Trust Company and TWIA can show the balance as an admitted asset in its financial statements
- Surcharges can be used to:
  - pay incurred claims and operating expenses;
  - purchase reinsurance;
  - pay TWIA's cost for implementing the contingent surcharge program administrative expenses, if any;

- pay the principal of any debt, including loans from the Rainy Day Fund; and
- provide a contingent reserve or surplus for catastrophic losses
- any excess can be transferred to the CRTF
- Requires each policy have a disclosure of the surcharge
- Allows TWIA to purchase reinsurance at any level to protect minimum balances in the CRTF. The Commissioner may promulgate or approve TWIA's method of determining what constitutes 1:100 risk. The determination must be provided to the association on or before February 1 of each year.
- Maintains member insurer assessments at \$1 billion maximum to help pay TWIA losses.

For questions or information, please contact:

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Lee Ann Alexander, American Property and Casualty Insurance Association (APCIA),  
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Beaman Floyd, Texas Coalition for Affordable Insurance Solutions (TCAIS), [Beamanfloyd1@gmail.com](mailto:Beamanfloyd1@gmail.com),  
(512) 731-9939

## Other Topics Considered

The following items were considered by the LEA Committee and Board but are not recommended for inclusion in the Biennial Report at this time.

#	Topic	Description/Alternative
1	Stricter Eligibility Requirements	Require agents to produce three confirmed declinations from private market carriers annually, and exclude applicants with private market coverage or offers from eligibility.
2	ACV Policies	Similar to some other residual market property insurers, only offer an Actual Cash Value (ACV) policy.
3	ACV Policy for Older Roofs	With some exceptions, require ACV policies for properties with roofs older than ten years.
4	Binding Arbitration	Make binding arbitration a mandatory dispute resolution option to vacate an appraisal award and for denied TWIA claims.
5	Deductible Requirements	Require higher deductibles in certain circumstances.
6	Discounted Storm-related Advertising	Require broadcast media to provide the Association with a substantial discount to run hurricane preparedness and response information.
7	Cyclonic Wind Policy	Adjust TWIA's policy to cover only "cyclonic winds."
8	Write Your Own (WYO) Policy	Allow private insurers to write TWIA policies
9	Merge TWIA and TFPA	Consider the feasibility of a merger between Texas Windstorm Insurance Association and the Texas FAIR Plan Association



## Appendix A: Historical TWIA Ratemaking

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Below is an outline of the various processes by which TWIA rates have been set in the past.

- I. TWIA filed rates with State Board of Insurance/Department of Insurance**
  - a. TWIA Board of Directors filed rates with the State Board of Insurance (SBI). SBI could approve, modify or disapprove the filed rates. Rates were deemed approved if not modified or disapproved within 30 days of filing.
    - i. Secondary requirement that rates could not be more than the maximum rates set by the Board for similar risks or classes of risks
    - ii. Commissioner could request additional information from TWIA
    - iii. Commissioner required to have a hearing on the rate filing before acting on the filing
  
- II. State Board of Insurance promulgated rates for the insurance industry and TWIA was based off the promulgated rate.** Process was used for commercial and non-commercial. TWIA Board of Directors did not make a rate filing but provided experience to be used in the rate hearings
  - a. State Board of Insurance set a benchmark rate and TWIA's rate could not exceed rate set by SBI for **non-commercial** lines or the manual rate promulgated by the Board.
  - b. State Board of Insurance promulgated a rate for commercial risks.
  
- III. TWIA Board of Directors required to make an annual rate filing no later than August 1 of each year for commercial risks.**
  - a. Filings were submitted to the Commissioner of Insurance.
  - b. The Commissioner could approve, disapprove, or modify the filing.
  - c. Rate change limited to 15%.
  
- IV. Annual Rate Filing – Current Process**
  - a. Must be submitted no later than August 15 for all types and classes of risks written by TWIA.
  - b. Association may use the rate if the rate change
    - i. does not exceed the rate in effect on the date the rate filing is made,
    - ii. and
    - iii. is filed not later than 30 days before the date of use
  - c. If the rate change does not meet the criteria of IV., B.
    - i. Commissioner shall provide interested parties opportunity to review the filing and provide comments
    - ii. Commissioner shall approve or disapprove the filing not later than October 15 otherwise the filing is considered approved
    - iii. Commissioner does not have express authority to modify the filing submitted by TWIA
    - iv. A rate change is limited to 10% average rate change and 15% for an individual rate



class.

- v. Any proposal to increase the current rate must be approved by two-thirds of the Board of Directors
- vi. The Board of Directors may not vote on a proposed rate increase if there is a vacancy on the Board and the vacancy has existed for at least 60 days when the vote is taken.

**V. Other Rate Filings – Current Process**

- a. Rate change must be filed with the Commissioner for approval
- b. Commissioner must approve or disapprove as soon as reasonably possible
- c. A filing not disapproved on or before the 30<sup>th</sup> day of filing is considered approved
- d. TWIA may use the filed rate if the rate:
  - i. does not exceed the rate in effect on the date the filing is made,
  - ii. is filed not later than 30 days before the date of use, and
  - iii. the Commissioner has not disapproved the filing

Commissioner does not have express authority to modify the filing submitted by TWIA

- iv. Any proposal to increase the current rate must be approved by two-thirds of the Board of Directors

The Board of Directors may not vote on a proposed rate increase if there is a vacancy on the Board and the vacancy has existed for at least 60 days when the vote is taken.



## Appendix B: Funding Overview

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Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. Prior to 2009, the Association funded losses through premiums and potentially unlimited assessments on insurance companies. House Bill 4409, enacted in 2009, significantly changed Association funding, providing for the issuance of up to \$2.5 billion in Class 1, 2, and 3 public securities.

Senate Bill 900 (84<sup>th</sup> Legislature, Regular Session), effective September 1, 2015, further modified the sources of funding and requires overall funding to cover at least a 100-year season, a storm or series of storms with a 1% or less chance of occurring. TWIA's current funding structure is, in order:

- TWIA premiums and amounts in the 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.

Under Senate Bill 900, all Classes of public securities are intended to be 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. However, 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 if premiums and TWIA policy surcharges are insufficient.

House Bill 1900, effective June 10, 2019, clarified how TWIA can use its funding sources to repay losses. House Bill 1900 prohibits TWIA from paying excess losses from a catastrophe year with premium and other revenue earned or reserves available or accrued in subsequent years. The bill also requires TWIA's purchase of reinsurance above its minimum required funding level to be paid for by an assessment on member companies.

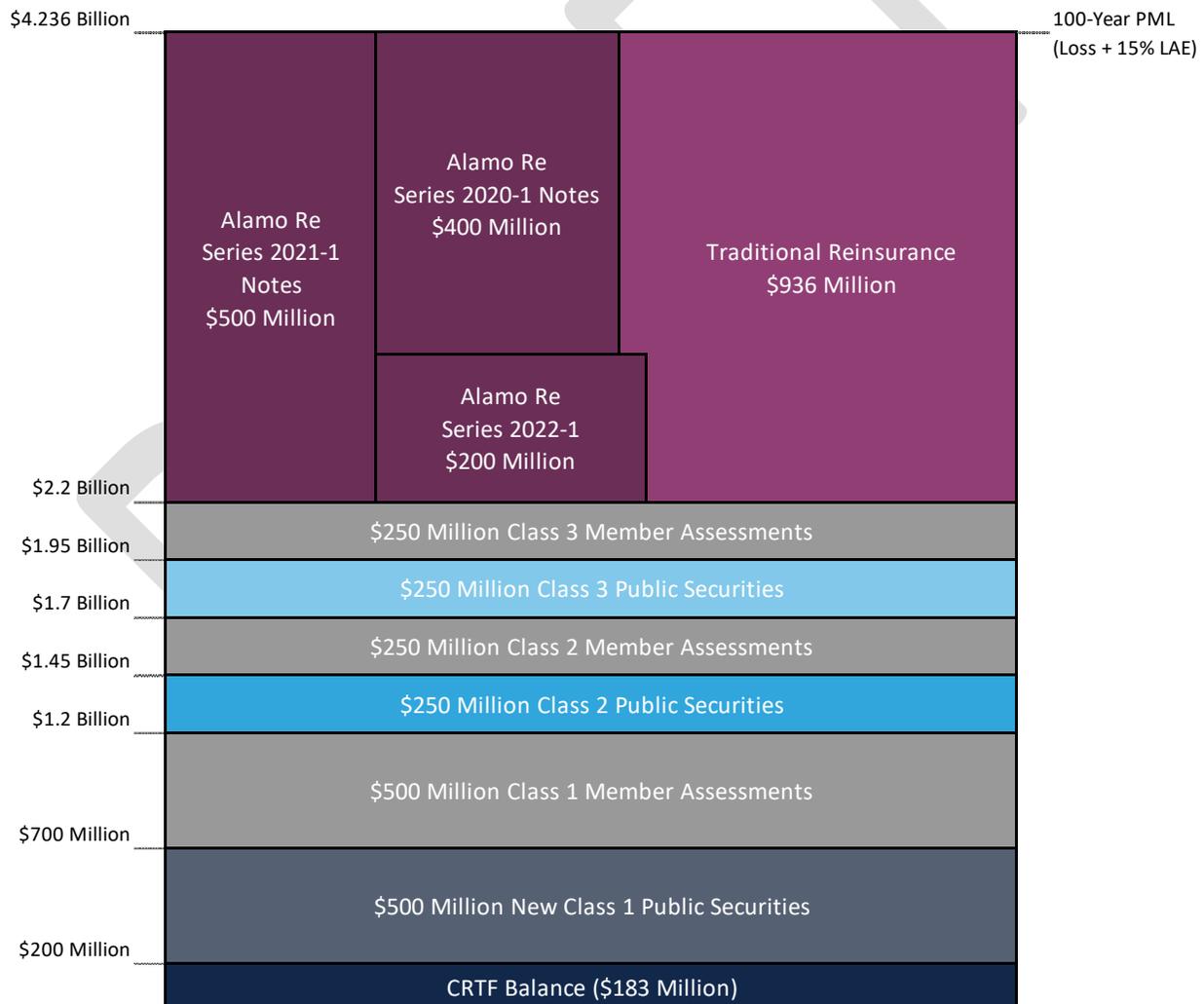
Most recently, House Bill 769, effective September 1, 2021, made changes to how TWIA completes its annual purchase of reinsurance. The law prohibits TWIA from purchasing reinsurance from an insurer or broker that provides the catastrophe modeling TWIA uses to determine the probable maximum loss or make rate decisions.



## 2022 Hurricane Season Funding

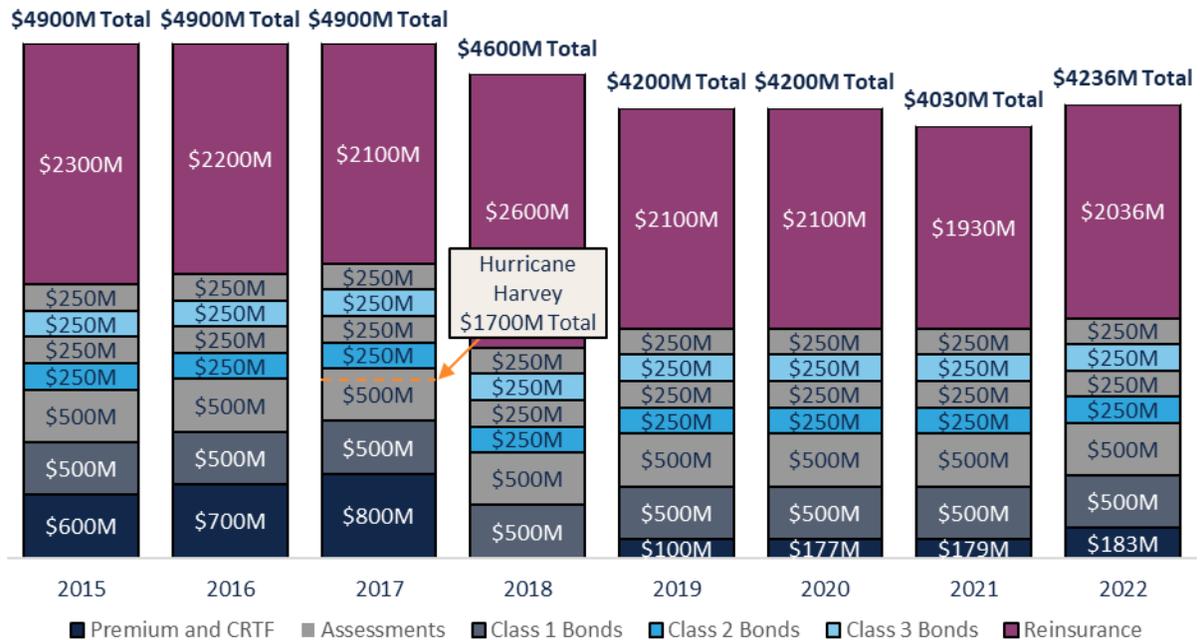
TWIA’s 2022 catastrophe funding program, effective June 1, 2022 to May 31, 2023, provides access to \$4.236 billion in total funding. The reinsurance program includes \$936 million of traditional reinsurance and \$1.1 billion in new and previously issued catastrophe bonds placed atop the \$2.2 billion of other 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 Catastrophe Reserve Trust Fund (CRTF) balance is approximately \$183 million. No net gains from operations in 2020 or 2021 were available to be deposited into the CRTF due to 2020 hurricane season losses and the early redemption of public securities used to pay Hurricane Harvey losses.

TWIA’s funding for the 2022 hurricane season is illustrated by the chart below, followed by a historical comparison of funding levels since 2015:





## Historical Funding (2015-2022)



## Association Funding Sources

TWIA funding has historically been provided from the following general sources, each with differing benefits and challenges:

### TWIA Premiums

The premiums paid by TWIA policyholders in the current year are always the first source of funding for both catastrophe and non-catastrophe claims. The other sources of funding are only utilized if a catastrophe or series of catastrophes results in losses and expenses in excess of premium and other revenue.

Premiums paid by TWIA policyholders are immediately available to pay claims and are a guaranteed source of funds but are limited in amount to those premiums earned in the current year.

### Catastrophe Reserve Trust Fund (CRTF)

In most years, TWIA premiums are greater than losses and expenses. Every year, TWIA transfers all remaining premiums into the Catastrophe Reserve Trust Fund (CRTF), a separate account administered by the Comptroller on behalf of TDI. Certain TWIA policy surcharges are also transferred to the CRTF. In



this regard, the CRTF represents premiums and surcharges paid by TWIA policyholders in prior years. Funds in the CRTF may only be used for purposes directly related to the funding of insured losses, as described in statute.

Like current year premiums, the CRTF is available immediately after an event and is a guaranteed source of funds. As the entire balance of the CRTF may be used after a catastrophic event, the amount available in any given year is limited to the premiums and surcharges transferred since the most recent catastrophic event.

## **Public Securities**

The Texas Public Finance Authority is authorized to issue up to \$1 billion in public securities to fund TWIA losses. There are three different classes of securities available, each in differing amounts and with different sources of repayment. Public securities are effectively a means for TWIA to borrow funds from the financial market to pay losses and to repay those funds over a maximum of 14 years through premiums and surcharges on TWIA policies and, if necessary, all property and auto policies in the catastrophe area. Class 1 public securities may be issued either pre- or post-event; Class 2 and 3 securities may only be issued post-event.

The process of issuing public securities is lengthy and expensive. Proceeds from public securities may not be available to pay claims until months after an event. Additionally, the ultimate availability of securities is dependent on general financial market conditions, which are highly variable.

## **Member Company Assessments**

TWIA has the authority to assess its member companies, comprising all insurance companies authorized to write property insurance in Texas with limited exceptions, up to \$1 billion to fund losses. These assessments are levied by the TWIA Board of Directors with approval by TDI and may not be directly recouped by companies through premium surcharges or tax credits. In practice, companies generally include a provision for potential assessments in their rates.

Assessments are due from companies 30 days after receipt of the notice of assessment and are limited to amounts specified in statute. Payment of assessments is enforced by TDI, and there have, historically, been very few uncollected assessments. The ultimate source of assessment funds are the premiums paid statewide by insurance company policyholders, to the extent companies have included this potential expense in their rates.

## **Reinsurance**

Reinsurance is a form of insurance purchased by insurance companies from specialized reinsurance companies. TWIA may purchase catastrophe reinsurance to cover its losses and expenses after a



catastrophic event. The costs associated with reinsurance can be significant. Reinsurance in an amount in excess of other funding sources, up to the estimated amount of a catastrophe with a probability of one-in-100, is purchased directly by TWIA. Any additional reinsurance purchased beyond the minimum funding level is paid by assessments to member companies.

TWIA also utilizes catastrophe bonds as an additional source of funding. These function identically to traditional reinsurance, except the reinsurance is offered by capital market investors on a collateralized basis, rather than by reinsurance companies. This allows TWIA to more effectively manage the cost of reinsurance and mitigate any credit risk associated with reinsurance companies being unable to pay.

Funds from reinsurance and catastrophe bonds are available immediately after a qualifying event, as determined contractually.

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# 11C. Communications Update



## MEMORANDUM

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DATE: July 26, 2022  
TO: TWIA Board of Directors  
FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs  
RE: Communications & Legislative Affairs Operational Highlights

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### I. Legislative & Regulatory Affairs

- a) Legislative & External Affairs (LEA) Committee: The LEA Committee held two meetings in April and June to develop legislative recommendations for the Biennial Report. At Chairman Todd Hunter's request, TWIA convened four meetings with groups of coastal legislators or their staff members to describe the Committee's process and topics under consideration and accept any input offered. The meetings also provided a forum for coastal legislators to discuss and ask clarifying questions about several issues related to Association operations and the legislative recommendations under consideration.
  - i. Following the first LEA Committee meeting in April, TWIA met City of Galveston representatives to receive more information about their proposal to reconfigure TWIA as a reinsurer. The City provided a fact sheet on their proposal, which was submitted to the Committee for consideration at the June meeting along with a proposal by the insurance industry for changes to TWIA's funding structure.
  - ii. The Committee met again on July 20 to consider several issues submitted by external stakeholders. Staff prepared and presented information to the Committee on each of these issues ahead of the meeting and began drafting the Biennial Report with the legislative recommendations and public policy issues approved by the Committee to date.
- b) TDI TWIA Ombudsman: TWIA continues to hold meetings between key staff and the new TDI TWIA Ombudsman to familiarize him with the Association's processes. We hosted four of these meetings in Q2. TWIA staff and the Ombudsman have interacted at several hurricane preparedness events in coastal communities during this period.

*See enclosed exhibit listing Q2 2022 meetings with TDI and legislators.*
- c) ABC Endorsement Factors Update: TWIA conducted outreach to stakeholders to ensure transparency on our routine annual update to the construction cost factors associated with the Adjusted Building Cost (ABC) Endorsement. Outreach included meetings with and memoranda to TDI and coastal legislators, emails to agents, legislators, and coastal stakeholders, and website and social media postings. *An exhibit listing the communications is enclosed.*
- d) Stakeholder Inquiries: From April 1 through June 30, 2022, we received and responded to 16 legislative and three coastal/industry stakeholder inquiries (one from TDI, one from an Agent Advisory Group member, and one from the City of Galveston).

- e) Operational Updates: We continue to provide regular operational email updates to the Board, the Texas Department of Insurance (TDI), legislative staff, and coastal elected officials and stakeholders.

## II. Hurricane Preparedness & Coastal Outreach

- a) CLA staff published the Association's 2022 Annual Report along with the Catastrophe Incident (CAT) Response Plan on June 1, as required by TWIA's governing statute.
- b) CLA staff contributes to the larger hurricane preparedness effort every year from April through September carrying the message that "being insured is essential to being prepared for a hurricane." In Q2 2022, our preparedness and outreach activities to share this message and other proactive measures stakeholders can take before a storm include:
  - i. Reviewing, updating, and improving our hurricane response communications plan;
  - ii. Running digital and print advertising in English and in Spanish in publications such as the Galveston Daily News' Hurricane Guide;
  - iii. Participating in national and regional hurricane preparedness campaigns such as the National Weather Service's National Hurricane Preparedness Week; and
  - iv. Participating in and presenting at local coastal hurricane events.
    - In Q2 2022, CLA staff participated in two outreach events hosted by the City of Galveston and the Texas Division of Emergency Management.
- c) Meeting with local coastal offices of emergency management (OEM) to foster relationships that will be beneficial to the recovery of TWIA policyholders

## III. ELEVATE Project

- a) Post-launch in April, CLA staff continued to support communication and training activities related to the ELEVATE systems upgrade project:
  - i. With support from Underwriting resources, CLA staff drafted several instructional agent bulletins to clarify specific workflows and features related to the new policy administration system. This included communications about the new process associated with running replacement cost estimations, how to print quotes, and planned updates for mortgage escrow payments.
  - ii. In response to agent feedback, CLA led an effort to create and solicit responses to an agent survey to gather information on the use of and preferences for printed quotes. The Underwriting team will use agents' input to design enhancements to the print quote feature.
  - iii. To ensure agents were prepared for completing renewals in the new agent portal, CLA published agent bulletins related to anticipated process changes.

#### IV. Media Relations

- a) TWIA media outreach in Q2 2022 was primarily driven by Board and LEA Committee activity. Media mentions in this period were similar to Q2 in previous years, mostly covering pre-season hurricane preparedness topics and the Association's reinsurance purchase.
- b) Nearly 90% of coverage in Q2 2022 was neutral or positive. This included an article in the *Houston Chronicle* that also ran in co-owned coastal print publications on hurricane preparedness that featured quotes from a TWIA spokesperson on the importance of maintaining sufficient insurance coverage to keep up with inflation.
- c) TWIA also conducted media outreach and received coverage in April on the announced retirement of John Polak, mostly in insurance trade media. This coverage closely mirrored our messaging on the topic.
- d) TWIA began its outreach on the rate filing consideration process earlier than usual this year, with communications in June to media and other stakeholders laying out the Association's timeline for the process. This received coverage in insurance trade media and coastal print media mirroring our messaging.

#### V. Agent Advisory Group

- a) CLA coordinated Agent Advisory Group (AAG) meetings on May 2 and July 12.
  - i. At the May AAG meeting:
    - Staff presented updated language in TWIA's Plan of Operation related to a new provision that allows agent suspension under specific circumstances.
    - The AAG also received an overview of the April 27 TWIA Legislative & External Affairs Committee meeting.
      - At the Committee's request, staff asked for the AAG's feedback about support TWIA can provide agents to educate their clients about TWIA deductibles.
    - Staff also updated the AAG on the launch of ELEVATE, including training resources, system reminders, known issues, and initial agent feedback.
  - ii. At the July AAG Meeting:
    - Staff provided a recap of the June 24 TWIA Legislative & External Affairs Committee meeting and some of the information staff plan to share with the Board on agent commissions at the August Board meeting.
    - Staff also discussed the 2022 Rate Adequacy Analysis, providing helpful context about the reason for changes to the calculated rate indications and next steps in TWIA's annual rate filing process.
    - Staff updated the AAG on several Underwriting topics, including the Adjusted Building Cost (ABC) endorsement changes, agent feedback, and usage data following the launch of ELEVATE, and Depopulation.



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

- iii. The TWIA General Manager reappointed three AAG members whose terms expired in June.
  - o Carie Roach of Novel Horse Consulting; Cordero Bowleg of USAA; and Clyde Neal of Neal Insurance Agency were reappointed for three-year terms.
- b) The next AAG meeting is scheduled for October 12.



## Q2 2022 Legislative & Regulatory Meetings

Legislative / Regulatory Office	Staff Member	TWIA Attendees	Purpose
<b>April 2022</b>			
TDI	Eric Casas & Kenisha Schuster	Jennifer Armstrong, David Durden & Anna Stafford	TWIA overview for new TDI TWIA Ombudsman.
<b>May 2022</b>			
<b>Attending Legislators &amp; Staff:</b> <ul style="list-style-type: none"> <li>Rep. Cody Vasut</li> <li>Scot Kibbe (Governor's Office)</li> <li>Lauren Fleming (Lt. Governor's Office)</li> <li>Danny Mittnacht (Speaker's Office)</li> <li>Shane Saum (Sen. Kolkhorst)</li> <li>Cari Christman (Sen. Taylor)</li> <li>Scott Crownover (HIC / Rep. Oliverson)</li> <li>Mo Jenkins (Rep. Herrero)</li> <li>Andrew Herrell (Rep. Middleton)</li> </ul>		Jennifer Armstrong, David Durden, Jessica Crass, David Williams, Jim Murphy, Stuart Harbour & Anna Stafford	Invited legislators and legislative staff to the Q2 2022 TWIA Board Meeting Materials Briefing, focusing on those agenda items of expected interest to staff and legislators: 2022 reinsurance program, status of the bond redemption, and General Manager retirement announcement.
TDI	Eric Casas & Kenisha Schuster	Chip DeVilbis, David Walling & Anna Stafford	Claims overview for new TDI TWIA Ombudsman.
<b>June 2022</b>			
TDI	Eric Casas & Kenisha Schuster	Michael Ledwik & Anna Stafford	Underwriting overview for new TDI TWIA Ombudsman.
<b>Attending Legislators &amp; Staff:</b> <ul style="list-style-type: none"> <li>Rep. Abel Herrero</li> <li>Rep. Todd Hunter</li> <li>Rep. Geanie Morrison</li> <li>Ryan Alter (Sen. Hinojosa)</li> <li>Luis Moreno (Sen. Hinojosa)</li> <li>Shane Saum (Sen. Kolkhorst)</li> <li>Chris Steinbeck (Sen. Kolkhorst)</li> <li>Cari Christman (Sen. Taylor)</li> <li>Angie Flores (Rep. Hunter)</li> </ul>		Chandra Franklin Womack, Michael Gerik, John Polak, David Durden & Anna Stafford	Legislative recommendations for Biennial Report.



Legislative / Regulatory Office	Staff Member	TWIA Attendees	Purpose
<b>Attending Legislators &amp; Staff:</b> <ul style="list-style-type: none"> <li>• Rep. Mayes Middleton</li> <li>• Rep. Ed Thompson</li> <li>• Danny Mittnacht (Speaker’s Office)</li> <li>• Chris Lacy (Sen. Creighton)</li> <li>• Brigitt Hartin (Rep. Bonnen)</li> <li>• Andrew Herrell (Rep. Middleton)</li> <li>• Ben Williams (Rep. Thompson)</li> </ul>		<b>Chandra Franklin Womack, Michael Gerik, John Polak, David Durden &amp; Anna Stafford</b>	Legislative recommendations for Biennial Report.
Rep. Dennis Paul	Rep. Paul & Greg Bentsch	<b>Chandra Franklin Womack, Michael Gerik, John Polak, Jennifer Armstrong, David Durden &amp; Anna Stafford</b>	Legislative recommendations for Biennial Report.
Rep. Mayes Middleton	Andrew Herrell	<b>Jennifer Armstrong, David Durden, Jim Murphy &amp; Anna Stafford</b>	Notice about the planned updates to the ABC endorsement factors; Discussion of TWIA and TFPA coverage and Harris County condo associations
<b>Attending Legislators &amp; Staff:</b> <ul style="list-style-type: none"> <li>• Rep. JM Lozano</li> <li>• Samanth Ruelas (Rep. Dominguez)</li> </ul>		<b>Chandra Franklin Womack, Michael Gerik, John Polak, Jennifer Armstrong, David Durden &amp; Anna Stafford</b>	Legislative recommendations for Biennial Report.
TDI	Eric Casas & Kenisha Schuster	<b>Sarah Edstrom, David Lawson &amp; Anna Stafford</b>	CAT Plan and hurricane-preparedness outreach overview for new TDI TWIA Ombudsman.



### TWIA Communications on 2022 Adjusted Building Cost Factors Update

Audience	Communication	Date
TWIA Board Members	Email: <i>Adjusted Building Cost Endorsement Updates</i>	6/3/2022
<ul style="list-style-type: none"> <li>Office of Sen. Larry Taylor</li> <li>Office of Rep. Todd Hunter</li> <li>Office of Rep. Mayes Middleton</li> </ul>	Memorandum: <i>TWIA Adjusted Building Cost (ABC) Endorsement</i>	6/16/2022
<ul style="list-style-type: none"> <li>Governor's Office</li> <li>Lt. Governor's Office</li> <li>Speaker's Office</li> <li>Coastal Legislators</li> <li>House Insurance Committee Members</li> <li>Senate Business &amp; Commerce Committee Members</li> <li>Windstorm Insurance Legislative Oversight Board Members</li> <li>Office of Public Insurance Counsel</li> <li>TDI Staff</li> </ul>	Legislative Update Email: <i>TWIA Adjusted Building Cost (ABC) Endorsement</i>	6/17/2022
Insurance Agents	Agent Bulletin Email: <i>ABC Endorsement - Inflation Impacts on TWIA Policies Effective Sept. 15</i>	6/27/2022
General Public / Policyholders	TWIA.org Web Post: <i>Adjusted Building Cost Endorsement - Inflation Impacts TWIA Policies Effective September 15</i>	6/27/2022
Coastal Stakeholders (Incl. coastal elected officials and business groups, windstorm insurance coalitions, etc.)	TWIA Connections Email: <i>ABC Endorsement - Inflation Impacts on TWIA Policies Effective Sept. 15</i>	6/28/2022
General Public / Policyholders	Facebook Post: <i>Does Inflation Change Your Insurance Needs?</i>	6/29/2022

#### Additional TWIA Actions to Ensure Transparency on ABC Factors Change

- Calls or virtual meetings between TWIA executives and key legislators.
- Email to TWIA staff about the ABC factor changes.
- Training for TWIA's Policy Services and Call Center staff on the ABC factor changes in anticipation of calls/emails from policyholders and agents.
- Preview email to TWIA Agent Advisory Group (AAG) on ABC factor changes and discussion of the updates at the AAG's July 12 meeting.
- Discussion of the ABC factor changes in agent training webinars on the new online agent portal.
- Inclusion of a plain-language explanatory page with the ABC Endorsement in policy packets.

## 11D. Update on RFPs for Professional Services

There is no exhibit for this topic

## 11E. General Manager Search Update

There is no exhibit for this topic

## 15. Future Meetings

December 13, 2022 – Omni Hotel –  
Corpus Christi, TX

February 14, 2023 – Moody Garden Hotel –  
Galveston, TX