Meeting of Board of Directors
Texas Windstorm Insurance Association
Teleconference/Web Conference**
May 18, 2021
Webinar
9:00 a.m.

Interested parties can listen to the meeting live by going to www.twia.org.
Go to "About Us/Board Meetings" and click on the webinar link.

*Indicates item on which General Manager believes the TWIA Board of Directors is likely to take action. However, the TWIA Board of Directors may take action regarding any item 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 – *Kristina Donley*

2. Consideration and Action to:
   Approve the Minutes from Prior Board of Directors' Meetings – *Chandra Franklin Womack ** *5 minutes*

3. Public Comment *15 minutes*

4. TWIA Operational Highlights – *John Polak* *5 minutes*

5. Financial *40 minutes*
   A. Report of the Secretary/Treasurer – *Corise Morrison**
      1. Income Statement
      2. Management Discussion and Analysis
   B. Financial Statement Review by Staff – *Jerry Fadden*
      1. Income Statement and Expense Statement
      2. Balance Sheet
      3. Cash & Short-Term Investments
      4. Cash Flow Statement
      5. Historical Data
      6. Net Revenue Coverage Disclosure
   C. Investment Plan Review – *Jerry Fadden**
   D. 2021 – 2022 Funding/Public Securities – *Jerry Fadden*
      1. Reinsurance Procurement Above 1:100 PML*
      2. Line of Credit*
      3. Refinancing of 2014 Class 1 Securities
   E. Financial Audit by Calhoun, Thomson + Matza – *Clark Thomson*
      1. Audit Wrap-Up Reports
      2. Statutory Report*
      3. GASB*
      4. Internal Control Letter

6. Actuarial – *Jerry Fadden* *15 minutes*
   A. Reserve Adequacy
   B. Policy Count/Exposures

7. Internal Audit – *Bruce Zaret – Weaver* *10 minutes*
   A. Internal Audit Status & Update

8. Underwriting – *Denise Larzalere* *10 minutes*
   A. Operational Review Update
   B. Depopulation

9. Claims *10 minutes*
   A. Claims Operations – Overview – *Dave Williams*
   B. Claims Litigation – *David Durden*

10. TWIA Operations *20 minutes*
    A. IT Systems Update – *Camron Malik*
    B. Ethics Policy – *David Durden**
    C. Communications Update – *Jennifer Armstrong*

11. Closed Session **(Board Only)** *60 minutes*
    A. Personnel Issues
    B. Legal Advice

12. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors *5 minutes*

13. Committees – *Chandra Franklin Womack* *5 minutes*

14. Future Meetings – *Chandra Franklin Womack* *5 minutes*
    A. Future Meeting Dates
       - August 3, 2021 – Webinar
       - December 7, 2021 – Webinar

15. Adjourn

Estimated Total Length of Meeting 3 hours 30 minutes

** In accordance with Governor Abbott's directive suspending certain statutory provisions relating to open meetings and requiring certain actions of the boards of governmental bodies, this meeting may be conducted entirely by teleconference or web conference with no one gathered at a physical location.

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.

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.

2. Approve the Minutes

Minutes of the Texas Windstorm Insurance Association

Board of Directors Meeting
Teleconference/Web Conference
5700 South Mopac Expressway
Building A
Austin, TX 78749

March 23, 2021

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.	Peggy Gonzalez	First Tier Coastal Representative
8.	Tim Garrett	Non-Seacoast Territory Representative
9.	Ron Walenta	Non-Seacoast Territory Representative

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

1.	John Polak, General Manager	TWIA
2.	Jerry Fadden, Chief Financial Officer	TWIA
3.	Dave Williams, VP Claims	TWIA
4.	David Durden, VP Legal	TWIA
5.	Denise Larzalere, VP Underwriting	TWIA
6.	Jennifer Armstrong, VP Communications	TWIA
	and Legislative Affairs	TWIA
7.	JD Lester, VP Human Resources	TWIA
8.	Jim Murphy, AVP Analytics and	
	Special Projects	TWIA
9.	Amy Koehl, Executive Assistant	TWIA
10.	Kristina Donley, Sr. Instructional Designer	TWIA
11.	Camron Malik, Chief Information Officer	TWIA
12.	Jessica Crass, Sr. Manager Underwriting	TWIA
13.	Mike Perkins, Association Counsel	Perkins Law Group PLLC

The Following Guests were Present:

1.	Tad Delk	Guy Carpenter
2.	Bruce Zaret	Weaver
3.	Brett Nabors	Weaver

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

1. Jerry Anderson

28. Todd Hunter

2. Marianne Baker
3. Tom Beckmerhagen
4. Albert Betts
5. Lynn Blumenfeld
6. Shirley Bowler
7. Allen Cashin
8. Cari Christman
9. Ebony Cormier
10. Patricia Courage-Menard
11. Tad Delk
12. Chip DeVilbiss
13. Rachel Ernst
14. Adrianna Escamilla
15. Angela Fang
16. April Ford
17. Allen Fulkerson
18. Alex Garcia
19. Carlos Garcia
20. Kyrie Garlic
21. Mike Gerik
22. Alicia Gerte
23. Jane Gimler
24. Randy Hanks
25. Stuart Harbour
26. Brigitt Haritn
27. Abel Herrero
29. W. Isaacs
30. Jeff Jones
31. John LaRue
32. Xiuyu Li
33. Clarisse Lilley
34. Miguel Liscano
35. JM Lozano
36. Marti Luparello
37. Laura Machado
38. Travis McDavid
39. Richard Meister
40. Mayes Middleton
41. John Miletti
42. Rick Miller
43. Jerry Mohn
44. Geanie Morrison
45. Anne ORyan
46. Anna Stafford
47. Tom Tagliabue
48. Akima Taylor
49. Frances Vessell
50. Manuel Villarreal
51. Joey Walker
52. Jingyu Wang
53. Christopher Westfall
54. Glenda Witman

1. <u>Call to Order:</u> Ms. Franklin Womack called the meeting to order at 9:07 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 of the board members. Ms. Donley reviewed the housekeeping items.

2. <u>Legislative Public Comment:</u> Public comment was moved up in the agenda to accommodate the schedules of several elected representatives. Rep. J.M. Lozano, Rep. Mayes Middleton, Rep. Abel Herrero and Rep. Todd Hunter offered their comments. Brigitt Haritn also provided comments on behalf of Rep. Greg Bonnen.

3. <u>Introductions:</u> Ms. Franklin Womack congratulated Ms. Neblett and Mr. Walenta on their reappointment to the TWIA Board of Directors.

4. <u>Approval of Minutes:</u> The minutes from the December 8, 2020 meeting were reviewed. Ms. Neblett moved to approve the minutes as presented. Ms. Morrison seconded the motion. The motion passed.

5. Election of Officers: Mr. Garrett moved to approve re-election of the current officers: Ms. Franklin Womack as Chair; Ms. Neblett as Vice Chair; and Ms. Morrison as Secretary/Treasurer. Mr. Gerik seconded the motion. The motion passed.

6. Public Comment: There was no additional public comment.

7. TWIA Operational Highlights: Mr. Polak reported the Association completed implementation of all changes mandated by the 86th Texas Legislature with the launch of the new premium payment options. Approximately 1,200 agents were trained virtually over a two-week time period on the new premium payment processes. Staff met with nearly a dozen legislative offices to provide information on the legislative recommendations and public policy issues outlined in the Association's 2020 Biennial Report. By taking advantage of an incentive program in 2020, the Association received reimbursement of $1.49 million in catastrophe bond expenses. Operating expenses remain below plan for Q4 2020. Underwriting and claims service levels exceeded turnaround time and quality standards. Litigated claims and complaints remain well below plan in Q4 2020.

8. 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 calendar year 2020 totaled $369.6 million, which is $2.4 million (0.6%) less than 2019 premiums of $372 million. Direct written premium was $21 million (6.0%) higher than the budgeted $348.6 million. The number of policies in force at December 31, 2020, 184,890, was 8,190 (4.6%) higher than the budgeted number of 176,700. The policy count reflects a decrease of 4,313 policies from December 31, 2019 (189,203) including the transfer through depopulation of 1,003 policies on June 1, 2020.

      The TWIA 2020 reinsurance program incepted on June 1, 2020. The gross ceded premiums written associated with the $2.1 billion in coverage was $106.9 million compared to a budgeted cost of $93.1 million. The Association received $1.49 million in November from the Monetary Authority of Singapore for reimbursement of certain fees associated with the issuance of $400 million in Catastrophe Bonds. The reimbursement was recorded as a reduction in ceded written and ceded earned premium. December 2020 year-to-date ceded earned premium of $106.9 million exceeded the budgeted amount of $93.1 million by $13.8 million or 14.8%.

      Direct premiums earned in 2020 totaled $369.2 million compared to $381.6 million for the same period last year (a decline of $12.4 million or 3.2%). Direct premium earned was $11.4 million higher than the budget of $357.7 million.

TWIA ceded $740,000 of premium in 2020 to participating carriers with respect to the policies selected in the latest round of the depopulation program. In connection with the transfer of the 1,003 policies on June 1, 2020, TWIA transferred cash equal to the unearned premium on these policies totaling $794,951.

Direct losses and LAE incurred for the twelve months ended December 31, 2020 totaled $118.7 million, which was $56.8 million above the budgeted $61.9 million. The total includes estimated ultimate losses for Hurricane Hanna of $16.0 million, Hurricane Laura of $36.9 million and Hurricane Delta of $39.2 million. Hurricane Hanna made landfall on July 25, 2020, Hurricane Laura on September 27, 2020 and Hurricane Delta on October 9, 2020. Loss estimates are subject to positive or negative revisions as claims develop over time. TWIA reported a direct loss & LAE ratio of 32.1% compared to the budgeted 17.3% as a result of the recent hurricanes, slightly offset by favorable spring storm activity. The ultimate loss and loss adjustment expense estimate for Hurricane Harvey remains unchanged at $1.7 billion.

Operating expenses for the year ended December 31, 2020 of $28.4 million were below budget by $4.1 million (12.6%).

Commission expense of $59.1 million was above budget by $3.3 million as direct written premium exceeded budget. Total premium taxes of $6.9 million were slightly under budget by $3,000 due to a decline in rates (maintenance and OPIC) below budgeted levels.

Gross investment income for the twelve months ended December 31, 2020 totaled $1.6 million, which was $5.8 million less than the budgeted amount of $7.3 million. Investment income fell short of budget expectations due to near zero short term investment yields associated with the COVID pandemic event. Interest expense on Class 1 bonds was below budget by $2.1 million due to the redemption of $45 million of bond principal on May 11, 2020. Debt issuance fees of $500,000 were paid in June to renew the $500 million line of credit with JP Morgan Chase Bank and Bank of America. The monthly commitment fee of $333,333 (80 basis points) was accrued each month while the commitment remained in place. TWIA cancelled the line of credit agreement on 12/28/2020, the first date allowed by the agreement without penalty.

Net income for the twelve months ended December 31, 2020 was $28.8 million compared to the budgeted amount of $89.9 million. This shortfall can be attributed to losses and loss adjustment expense from the three large 2020 hurricanes and lower than expected investment yields. Prior year-to-date net income of $149.6 million was due primarily to mild spring storms and no 2019 hurricanes impacting TWIA policyholders and slightly higher than budgeted earned premiums.

While the Association reported 2020 net income of $28.8 million, no CRTF payment has been accrued as the calculation of the CRTF contribution is based on "net gain from operations," which reflects net income less principal payments paid on the outstanding Series 2014 bonds ($46.4 million).

The deficit as of December 31, 2020 improved to a negative $160.5 million compared to a negative $183.8 million at December 31, 2019. The deficit includes a reduction of $4.4 million in 2020 due to the increase in non-admitted assets, which consists primarily of Project Elevate capitalized costs and prepaid expenses for Expert Panel, insurance and Eagleview inspections.

9. 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 December 31, 2020.

      Hurricane Hanna made landfall on July 25, 2020 at Padre Island, Texas as a Category 1 hurricane. With 1,547 Hanna related claims reported to the Association as of January 25, 2021, the ultimate loss and expense estimate for Hanna is around $16 million. Hurricane Laura made landfall on August 26 near Cameron, Louisiana as a Category 4 hurricane. As of January 25, 2021, 4,291 Laura related claims were reported to the Association and the total incurred loss and expense is estimated at $36.9 million. Hurricane Delta made landfall near Creole, Louisiana on October 9, 2020 as a Category 2 hurricane, which brought 3,940 claims to the Association as of January 25, 2021. Loss and expense related to Hurricane Delta is estimated at $39.2 million.

      The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of $1.67 billion to $1.71 billion. The senior actuary has observed consistent favorable loss and expense development since first quarter of 2020, but due to uncertainties surrounding disputed claims, TWIA actuarial staff has selected to continue to record the Hurricane Harvey ultimate loss and loss adjustment expense at $1.7 billion. The actual ultimate costs of Harvey may differ substantially from the selected $1.7 billion. This variability arises from the assumptions made regarding the adequacy of case reserves for 586 open claims, the outcome of disputed claims and the potential impact of future re-openings of closed claims as of December 31, 2020. Even though TWIA has recorded the estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey at a level which is considered reasonable, there remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. As of December 31, 2020, the Association still has a handful of Hurricane Ike related claims open and reasonably reserved.

As of December 31, 2020, TWIA carried $164.4 million in total gross loss and loss adjustment expense reserves with $86,000 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 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. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

B. <u>Policy Count/Exposures:</u> Policy counts are down year over year.
C. <u>Appointment of Actuary and Qualification Documentation:</u> The board reviewed Xiuyu Li's credentials and educational experience.
D. <u>December 2020 Rate Filing Review and Consideration and/or Board Action Regarding Resubmission of December 2020 Rate Filing or the Submission of a New Rate Filing:</u> Mr. Durden reported the filing was rejected because TDI staff asserted that the Association incorrectly failed to make the Willis Towers Watson rate analysis available on the TWIA website 14 days before the December board meeting. The report was available for seven days. Ms. Neblett moved for staff to put together a workshop concerning expense, underwriting and other issues that affect rate need as soon as possible and invite the TWIA Actuarial and Underwriting Committee members. Ms. Morrison seconded the motion. Mr. Gerik asked if the reinsurance broker could be invited as well. Ms. Neblett amended her motion to include the broker and specified that she wanted the agenda to be broad enough to include all issues that might need to be discussed. Ms. Morrison seconded the amended motion. Mr. Perkins reread the motion. A board workshop will take place that includes the board members and the actuarial committee members. The insurance broker will be invited. It will be a public meeting but no final action on a rate filing will be taken. Staff will work to get this meeting put together for April. The motion passed.
E. <u>Review of Catastrophe Model Results and Determination of 1:100 PML:</u> Mr. Delk covered this under the funding topic.
F. <u>Discussion of Reinsurance Alternatives:</u> Mr. Delk covered this under the funding topic.
G. <u>2021 Funding:</u> Tad Delk from Guy Carpenter reviewed the presentation regarding reinsurance for the upcoming storm season that was provided in the meeting materials. Ms. Morrison moved that the board agrees to average the results from the two catastrophe models presented as a reference point for making its reinsurance purchase decision using the following weighting: AIR 50%; and RMS 50%. The board agrees that the model results based on near term

assumptions are preferrable. The board agrees that the words, "total available loss funding" in statute contemplates inclusion of loss adjustment expenses in determining the probable maximum loss for the Association for a catastrophe year with a probability of one in one hundred. The board agrees based on the foregoing and the information presented that for catastrophe year 2021, the one in one hundred probable maximum loss amount is $4.03 billion. The board directs the Association's reinsurance broker to pursue placement of the reinsurance program for the 2021-2022 reinsurance contract year using a combination of catastrophe bonds and traditional reinsurance in an aggregate amount of $4.03 billion ($1.9 billion excess of $2.1 billion) on the most favorable terms that can be achieved in the market. Staff is authorized and directed to submit these resolutions and supporting information to the Texas Department of Insurance for any review or approval that may be required by the Commissioner of Insurance under law. Mr. Gerik seconded the motion. The motion passed. Mr. Walenta moved to instruct Guy Carpenter to provide a quote on the cost of buying $2.9 million in excess of $2.1 million for reinsurance coverage. Ms. Neblett seconded the motion. Mr. Gerik said the board shouldn't act on this at all until the working group meeting meets. He is worried about passing on the cost to the industry. Ms. Neblett said she thinks discussing it in the workshop is the way to go and take action at the May board meeting if necessary. Mr. Walenta amended his motion to ask Guy Carpenter poll the market on $1.9 million in excess of $2.1 million and also secure indications on the $2.9 million in excess of $2.1 million. Ms. Neblett seconded the amended motion. The motion passed.

10. Internal Audit:
   A. Internal Audit Status & Update: Mr. Zaret reported that current audit activities include claims processing, reinsurance, database and application administration, financial close and reporting, model audit rule, legal and compliance, communications and legislative implementation and disaster recovery. Upcoming audits include governance and cash management. Due to the February snow event, staff is updating the Disaster Recovery and Business Continuity Plans. A desktop review of the plan will take place.
   B. IT Audit – Database and Application Administration Security Issues: This item will be covered in closed session.
   C. IT Security Audit: This item will be covered in closed session.

11. 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 10 days. Staff is surpassing this standard with over 98% of all transactions processed within 10 days. Over 80% of new business and 94% of renewals were processed within one day. Quality assurance results on underwriting decisions continue to exceed

established goals. Underwriting is operating below budget, largely due to managing headcount and better utilizing virtual and aerial inspections.

Telephone service response times and service quality scores continue to meet expectations. Staff continues to experience increased phone call volume and unpredictability following the transition to teleworking. Staffing has been increased at the call center and modified workflows in order to maintain acceptable service levels. Service observation is standard procedure. The departments calibrate calls and have agreed upon Association-wide telephone service standards.

The permanent program to allow policyholders to pay in installments launched in November. It allows policyholders to pay in two installments. Additional options are planned for implementation next year. Due to the recent implementation date, there is not yet sufficient data to report on policyholders' uptake of the installment plan. TWIA launched the ability for policyholders to pay premium online directly to TWIA in November 2020. During December, less than 2.0% of premium payments were made via credit and debit cards. Approximately 3% of payments were received from the policyholder via electronic check.

Last year, TWIA begin issuing renewal offers directly to policyholders along with a way to pay their renewals directly. In the fourth quarter, over 60% of renewals were processed with a direct payment from the policyholder or the mortgage company. Staff continues to evaluate modifications to the process to make it easier for agents to make any adjustments to the policy coverages prior to the renewal offer being sent.

The lockbox process initiative was launched in October 2020 to increase the speed in which payments are posted to accounts. In December, approximately 18% of payments were received via the lockbox with a 1-day turnaround. The goal is to continually increase the electronic and outsourced payment processing since it is the fastest way for policyholders to pay their premium, the fastest for processing and requires less follow up by the agent. In December, over 52% of all premiums deposited were done so via automated or outsourced means.

Audits were performed on 20 agents (200 policies) in the fourth quarter to verify compliance with the declination of coverage and flood insurance requirements. All 20 agents responded. Of those agents, 18 of the 20 (187 policies) were compliant with the requirement for proof of declination of coverage. Staff are working with the two remaining agencies to bring them into compliance. One of the policies/properties selected for review required flood insurance and staff are working with the agent to bring the property into compliance. All 20 agents have an active property and casualty insurance license.

B. Depopulation: Currently TWIA is in round five of the program. The next milestone date for policies departing TWIA is March 2022. There is only one participating carrier for this round, Safe Point Insurance. TDI has approved Safe Point's participation in the program. The agent period will occur next, starting on April 1 and concluding on May 31.

12. Claims:
   A. Claims Operations: There are 530 open Harvey claims as of this morning. TWIA didn't receive many claims coming from the February winter storm, only 277. Most are for freezing pipes that aren't covered by their policy. FAIR Plan received 4,300 claims.
   B. Claims Litigation: Five new suits were received in the fourth quarter of 2020 and 28 were settled. For TWIA claims with LORs, 150 came in during the fourth quarter of 2020. Seventy-five claims with LORs were closed during the quarter. Currently, the Daly and Black firm holds the majority of the suits/LORs.

13. TWIA Operations:
   A. IT Systems Update: All component projects of the TWIA Elevate program are underway including policy, billing, enterprise data warehouse, portals, data migration and claims, which are all in the construction phase of the lifecycle. The teams are making good progress and are focused on maintaining their velocity. The Elevate program is the effort to move off multiple legacy systems to a single instance platform based on common hardware and core applications.

      Staff has kicked off the technology portion of the New Normal program, which will accommodate a flexible workforce capable of working seamlessly on-site or remotely. The New Normal program comprised four major work threads, people, change management, space management and technology and infrastructure. All work threads have started and are progressing well.

      The systems development/production support releases continue with their monthly cadence, delivering various defect fixes and features for the business with quality and timeliness. The infrastructure and operations team continues to support remote work with excellent quality. All technology support and projects are on-track.
   B. Communications Update: Staff continues to meet with legislative representatives and act as a resource for information. Several bills have been filed that pertain to TWIA. Ms. Armstrong will keep the board updated as to the timelines when some of the bills are no longer of concern. She will also communicate when committee hearings take place.
   C. Performance Evaluations of General Manager: This item will be covered in closed session.

14. Closed Session: The meeting went into closed session at 12:21 pm. It went back into open session at 1:34 pm.

15. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: Mr. Gerik moved for Mr. Polak to be offered a 2% cost of living salary increase, effective at the next appropriate pay period. Mr. Walenta seconded the motion. The motion passed.

16. Committees: There was nothing to discuss.

17. Future Meetings:
    - May 18, 2021 – Webinar
    - August 3, 2021 – Webinar
    - December 7, 2021 – Webinar

18. Adjourn: The meeting adjourned at 1:37 p.m.

______________________________	___________________________
Prepared by: Amy Koehl Executive Assistant	Approved by: Chandra Franklin Womack TWIA Chair
	___________________________
	Approved by: Georgia Neblett TWIA Vice Chair

4. TWIA Operational Highlights

2021 TWIA Enterprise Scorecard

Reporting YTD as of March 31, 2021

TEXAS WINDSTORM INSURANCE ASSOCIATION

	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	7.8%		9.0%	-1.2%	
Net Gain From Operations[1]	$98.0 M		$56.8 M	$41.2 M	
Enterprise Projects	96%		90%	6%	
Policy Administration	100%		90%	10%	
Claims Handling	99%		90%	9%	
Litigated Claims	0.00%		0.50%	-0.50%	
Complaints	10		8	2	

[1] Net Gain from Operations equals YTD 2021 net income reduced by YTD monthly principal prepayments on public securities.

Reference Data

Policies In-Force	185,298
Exposures In-Force	$55.5 billion
Written Premiums YTD	$75.1 million
Claims Received YTD	2,177
Losses Incurred YTD[2]	$8.2 million

[2] Excludes IBNR

Key Quarterly Activities

- Met with more than 60% of coastal legislators and nearly all members of the House Insurance Committee to provide information on TWIA's operational activities and legislative priorities for the 87th Texas Legislative Session.
- Remain below plan for Q1 2021 operating expenses.
- On track to complete Association objectives for all strategic initiatives in 2021.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels.
- Remain well below plan on litigated claims in Q1 2021.

5. Financial

5A. Report of the Secretary/Treasurer

5A1. Income Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement - Treasurer's Report
for the three months ended March 31,
(000's omitted)

	2021	2020
Direct Premiums Written	$ 75,122	$ 74,590
Premiums Earned:		
Direct Premiums Earned	$ 90,583	$ 92,323
Ceded Reinsurance Premiums	-	-
Ceded Reinsurance Premiums - Depopulation	-	(532)
Net Premiums Earned	90,583	91,791
Deductions:		
Direct Losses and LAE Incurred	(12,489)	3,071
Direct Losses and LAE Incurred - Harvey	(20,000)	-
Direct Losses and LAE Incurred - Ike & Dolly	-	-
Ceded Losses and LAE Incurred - Depopulation	52	(65)
Operating Expenses	6,935	7,196
Commission Expense	12,010	11,932
Ceding commissions / brokerage	-	-
Ceding commissions / brokerage - Depopulation	-	(128)
Premium / Maintenance Tax	1,403	1,409
Total Deductions	(12,090)	23,415
Net Underwriting Gain or (Loss)	102,672	68,376
Other Income or (Expense):		
Gross Investment Income	81	1,234
CRTF Funds Received	-	-
Member Assessment Income	-	-
Interest Expense on Class 1 Bonds	(4,686)	(6,571)
Debt Issuance & Other Investment Expenses	(115)	(121)
Other	-	-
Total Other Income or (Expense)	(4,721)	(5,458)
Net Income (Loss)	$ 97,952	$ 62,918
Surplus (Deficit) Account:		
Beginning Surplus (Deficit)	$ (160,451)	$ (183,792)
Net Income (Loss)	97,952	62,918
Change in Provision for Reinsurance	-	-
Change in nonadmitted assets - Other	(5,714)	(2,602)
Other	-	-
Statutory Fund Cost	(11,966)	-
Ending Surplus (Deficit)	$ (80,179)	$ (123,476)

5A2. Management Discussion and Analysis

Texas Windstorm Insurance Association
Management's Discussion and Analysis of Financial Results for the
Three Months Ended March 31, 2021

Direct Written Premium:

- Direct written premiums through March 2021 totaled $75.1 million, which is $532,000 (0.7%) above the 2020 premiums of $74.6 million. Direct written premium was $201,000 (0.3%) higher than the budgeted $74.9 million.
- Policies in force at March 31, 2021 of 185,298 was 536 (0.3%) higher than the budgeted number of 184,762.

Reinsurance Costs

- Written and earned reinsurance premiums were zero through March as the current year reinsurance program does not incept until June 1, 2021.

Direct Premiums Earned:

- Direct premiums earned year-to-date through March 2021 totaled $90.6 million compared to $92.3 million for the same period in the prior year (a decline of $1.7 million or 1.9%).
- Direct premium earned was $110,000 higher than the budget of $90.5 million.

Ceded Depop Premium:

- The one carrier that has signed up to participate in round 5 of depopulation completed their review of policies and selected approximately 35,000 policies for potential novation from TWIA. Starting April 1 agents can begin their review to determine which policies they will remove from the depopulation list.

Loss and Loss Adjustment Expense Incurred:

- Direct losses and LAE incurred for the three months ended March 31, 2021 totaled a negative $32.5 million which was $39.7 million below the budgeted $7.3 million. The lower than budgeted losses are primarily attributable to a reduction in the estimated ultimate losses and LAE for Hurricane Harvey of $20.0 million and the 2020 hurricane events of $18.2 million. Specifically, Hurricane Hanna was reduced $1.5 million, Hurricane Laura by $8.2 million and Hurricane Delta $8.5 million.
- TWIA reported a YTD direct loss & LAE ratio of negative 35.9% compared to the budgeted 8.0%.
- The ultimate loss and loss adjustment expense estimate for Hurricane Harvey is $1.68 billion.

Operating Expenses:

- Operating expenses for the three months ended March 31, 2021 of $6.9 million were below budget by $1.5 million (17.3%).
- Notable expense items under budget include contractors and temporary help ($416,000), software/hardware ($336,000), information technology consulting ($209,000), actuarial services ($214,000), and other professional services ($87,000).
- The year-to date operating expense ratio of 7.7% is below the budgeted ratio of 9.3%, and below the prior year's ratio of 7.8%.

Commission Expense and Premium Taxes:

- Year-to-date Commission expense of $12.0 million and Premium taxes of $1.4 million were over budget by $22,000 and $10,000 respectively as Direct Written premium was slightly higher than budgeted levels.

Other Income (Expense):

- Gross investment income for the three months ended March 31, 2021 was $81,000 which was $30,000 higher than the budgeted amount of $51,000. Short term interest rates remain at extremely low levels.
- Interest expense on Class 1 bonds was on budget at $4.7 million.

Net Income

- Net income for the three months ended March 31, 2021 was $98.0 million or $41.2 million (72.6%) above the budgeted income of $56.8 million.

Surplus/Deficit:

- The deficit as of March 31, 2021 improved to $80.2 million compared to $160.5 million at December 31, 2020. The deficit declined due to the year to date March 2021 net income of $98.0 million which was partially offset by a statutory expense (CRTF) accrual of $12.0 million and an increase of $5.7 million in non-admitted assets, which consists primarily of Capitalized Software (Project Elevate) and prepaid expenses for Guidewire licensing, Eagleview, Expert Panel, Premium Tax and Insurance.

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5B. Financial Statement Review by Staff

5B1. Income Statement and Expense Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)
for the three months ended March 31,

	Actuals - 2021	Budget - 2021	Variance - 2021	Actuals - 2020
Premiums Written:				
Direct	$ 75,122	$ 74,921	$ 201	$ 74,590
Ceded	-	-	-	-
Ceded - Depopulation	-	-	-	(532)
Net	75,122	74,921	201	74,058
Premiums Earned:				
Direct	$ 90,583	$ 90,473	$ 110	$ 92,323
Ceded	-	-	-	-
Ceded - Depopulation	-	-	-	(532)
Net	90,583	90,473	110	91,791
Deductions:				
Direct Losses and LAE Incurred	(12,489)	7,253	(19,743)	3,071
Direct Losses and LAE Incurred - Harvey	(20,000)	-	(20,000)	-
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	52	-	52	(65)
Operating Expenses	6,935	8,390	(1,455)	7,196
Commission Expense	12,010	11,987	22	11,932
Ceding commissions / brokerage	-	-	-	-
Ceding commissions / brokerage - Depopulation	-	-	-	(128)
Premium / Maintenance Tax	1,403	1,394	10	1,409
Total Deductions	(12,090)	29,024	(41,114)	23,415
Net Underwriting Gain or (Loss)	102,672	61,449	41,223	68,376
Other Income or (Expense):				
Gross Investment Income	81	51	30	1,234
CRTF Funds Received	-	-	-	-
Member Assessment Income	-	-	-	-
Interest Expense on Debt	(4,686)	(4,686)	-	(6,571)
Debt Issuance/Maintenance & Other Investment Expenses	(115)	(45)	(70)	(121)
Other	-	-	-	-
Total Other Income or (Expense)	(4,721)	(4,680)	(40)	(5,458)
Net Income (Loss)	$ 97,952	$ 56,768	$ 41,183	$ 62,918
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(160,451)	(160,451)	-	(183,792)
Net Income (Loss)	97,952	56,768	41,183	62,918
Change in Provision for Reinsurance	-	-	-	-
Change in nonadmitted assets - Other	(5,714)	(6,066)	352	(2,602)
Other	-	-	-	-
Statutory Fund Cost	(11,966)	(6,568)	(5,398)	-
Ending Surplus (Deficit)	$ (80,179)	$ (116,317)	$ 36,138	$ (123,476)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	(13.8%)	8.0%	(21.8%)	3.3%
Hurricane Harvey	(22.1%)	0.0%	(22.1%)	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	(35.9%)	8.0%	(43.9%)	3.3%
UW Expense Ratio:				
Acquisition	17.9%	17.9%	(0.0%)	17.9%
Non Acquisition	7.7%	9.3%	(1.6%)	7.8%
UW Expense Ratio	25.5%	27.1%	(1.6%)	25.7%
Combined Ratio	(10.4%)	35.2%	(45.5%)	29.0%
Net:				
Loss & LAE Ratio:				
Non Hurricane	(13.7%)	8.0%	(21.7%)	3.3%
Hurricane Harvey	(22.1%)	0.0%	(22.1%)	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	(35.8%)	8.0%	(43.8%)	3.3%
UW Expense Ratio:				
Acquisition	17.9%	17.9%	(0.0%)	17.8%
Non Acquisition	7.7%	9.3%	(1.6%)	7.8%
UW Expense Ratio	25.6%	27.2%	(1.6%)	25.7%
Combined Ratio	(10.2%)	35.2%	(45.4%)	28.9%

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Expense Report (000's omitted)
for the three months ended March 31,

Description	Actuals - 2021	Budget - 2021	Variance - 2021	Actuals - 2020
Personnel Expenses				
Salaries & Wages - Permanent	$ 3,381	$ 3,420	$ (39)	$ 2,854
Contractor & Temporary Help	2,340	2,891	(551)	1,528
Payroll Taxes	277	295	(18)	236
Employee Benefits	1,246	1,196	50	1,103
Recruiting, Training & Other	97	71	26	52
Subtotal	7,341	7,872	(531)	5,772
Professional & Consulting Services				
Legal	104	162	(59)	96
Accounting & Auditing	79	77	2	89
Information Technology	1,290	1,499	(209)	462
Actuarial Services	56	270	(214)	36
Omsbudsman Program	130	125	5	130
Surveys & Inspections	316	333	(17)	375
Disaster Recovery Services	106	150	(44)	51
Other Services	1,092	1,121	(30)	1,051
Subtotal	3,172	3,738	(565)	2,290
Hardware/Software Purchases & Licensing	889	1,254	(365)	847
Rental & Maintenance - Office/Equipment	337	330	7	319
Travel Expenses	1	13	(12)	51
Postage, Telephone and Express	224	207	17	127
Capital Management Expenses	4	6	(2)	5
Depreciation	7	7	(0)	7
Other Operating Expenses	283	355	(72)	299
Total Operating Expenses	**$ 12,260**	**$ 13,782**	**$ (1,522)**	**$ 9,718**
Capitalization of Fixed Assets	(2,071)	(2,040)	(31)	-
Reimbursement of Depop Servicing Expense	(10)	(10)	(1)	(20)
Allocation To ULAE	(3,174)	(3,262)	88	(2,432)
Allocation To Investing & Other Expense	(70)	(81)	11	(71)
Net Operating Expense - UW Operations	**$ 6,935**	**$ 8,390**	**$ (1,455)**	**$ 7,196**

(1) Summary Details for Other Services:

VENDOR	Amount	Department
Accenture LLP	$ 460,185	Expert Panel
Marshall & Swift/Boeckh	$ 270,043	Underwriting
ISO Services Inc	$ 78,012	Claims
EagleView Technologies Inc	$ 76,699	Claims
Clear Point Claims LLC	$ 74,962	Underwriting
Xactware Solutions Inc	$ 45,319	Claims
LYNX Services LLC	$ 22,446	Claims
*Other Outside Services below $20K	$ 63,980	Various departments
Total Other Services	**$ 1,091,646**	

5B2. Balance Sheet

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Balance Sheet (000's omitted)

	March-21	December-20
Admitted Assets		
Cash and short term investments:		
Unrestricted	$ 394,703	$ 398,270
Restricted - Funds Held at TTSTC	85,528	83,406
Restricted - Funds Held at TTSTC (Non Admitted)	-	-
Total cash and short term investments	480,230	481,676
Premiums receivable & other	2,974	2,452
Assessment receivable	-	-
Amounts recoverable from reinsurers	2	66
Total admitted assets	**$ 483,207**	**$ 484,193**
Liabilities, Surplus and other funds		
Liabilities:		
Loss and Loss adjustment expenses	$ 111,677	$ 164,315
Underwriting expenses payable	10,369	11,038
Unearned premiums, net of ceded unearned premiums	170,456	185,917
Ceded reinsurance premiums payable	540	25,908
Principal Outstanding on Class 1 Pre Event Bonds	227,200	227,200
Interest Payable on Class 1 Pre Event Bonds	4,686	9,372
Provision for reinsurance	-	-
Other payables	26,491	20,894
Statutory fund payable	11,966	-
Total liabilities	**563,386**	**644,644**
Surplus and others funds		
Unassigned surplus	(80,179)	(160,451)
Total liabilities, surplus and other funds	**$ 483,207**	**$ 484,193**
Balance in CRTF	**$ 179,781**	**$ 179,174**
Balance in CRTF including Statutory fund payable	**$ 191,747**	**$ 179,174**

5B3. Cash & Short-Term Investments

Texas Windstorm Insurance Association
Unrestricted Cash and Short Term Investments ($ in 000's)
March 31, 2021

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?
							< 40%	**Superior or Strong**	**> 10%**	**> $25B**	**> .2% of N.A. Reg Capital**
Balances as of 3/31/2021:											
Bank of America, Operating	162	143,098	143,260	149,215	66	0.18%	36%	Superior	13.5%	$200	No
BlackRock Liquidity Funds (1)	0	72,312	72,312	55,401	2	0.01%	18%	N/A	N/A	N/A	N/A
Citibank	202	16,986	17,188	16,986	0	0.01%	4%	Superior	14.0%	$145	No
JP Morgan Chase	26,711	0	26,711				7%	Superior	15.7%	$234	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	135,233	135,233	145,730	9	0.03%	34%	N/A	N/A	N/A	N/A
Total of all financial institutions	**27,074**	**367,628**	**394,703**	**367,332**	**77**	**0.08%**	**100%**				
Balances as of 12/31/2020:											
Bank of America, Operating	162	150,274	150,436	156,982	71	0.18%	38%	Superior	12.3%	$192	No
BlackRock Liquidity Funds (1)	0	51,628	51,628	48,232	1	0.01%	13%	N/A	N/A	N/A	N/A
Citibank	202	16,986	17,188	17,033	0	0.01%	4%	Superior	12.9%	$137	No
JP Morgan Chase	28,795	0	28,795				7%	Superior	13.4%	$205	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	150,223	150,223	158,591	7	0.02%	38%	N/A	N/A	N/A	N/A
Total of all financial institutions	**29,159**	**369,111**	**398,270**	**380,838**	**79**	**0.08%**	**100%**				

(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 December 31, 2020. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.

5B4. Cash Flow Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statement of Cash Flows (000's omitted)
for the three months ended March 31,

	Actuals - 2021	Budget - 2021	Variance - 2021
Cash flows from operating activities:			
Premiums collected, net of reinsurance	$ 55,173	$ 76,011	$ (20,839)
Losses and loss adjustment expense paid	(20,137)	(38,035)	17,898
Underwriting expenses paid	(26,948)	(28,039)	1,090
CRTF funds received	-	-	-
Member assessment received	-	-	-
Other	(110)	(25,976)	25,866
Net cash provided by operating activities	7,978	(16,039)	24,016
Cash flows from nonoperating activities:			
Statutory fund paid	-	-	-
Other	-	-	-
Net cash provided by nonoperating activities	-	-	-
Cash flows from investing activities:			
Sales and maturities of investments	-	-	-
Net investment income	(9,423)	(9,366)	(57)
Net cash provided by investing activities	(9,423)	(9,366)	(57)
Cash flows from financing activities:			
Borrowed funds	-	-	-
Borrowed funds repaid	-	-	-
Net cash provided by financing activities	-	-	-
Net increase (decrease) in cash and short-term investments	(1,445)	(25,405)	23,960
Cash and short-term investments, Beginning	481,676	481,676	-
Cash and short-term investments, Ending	$ 480,230	$ 456,271	$ 23,960

5B5. Historical Data

TEXAS WINDSTORM INSURANCE ASSOCIATION
HISTORICAL DATA
1971 - 2021
($ with 000's omitted)

	GROSS						NET				
YEAR	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES RESID	RATE CHANGES COMML	WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED	UNDERWRITING GAIN (LOSS)	CRTF BALANCE END OF PERIOD
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	4,014	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	29,016	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	55,514,308	185,298	-	-	75,122	(32,489)	90,583	(32,437)	20,348	102,672	179,781
TOTAL*					**7,033,433**	**5,891,371**	**4,903,357**	**4,419,786**	**1,553,952**	**(1,070,380)**	

*2021 data through 3/31/2021.

5C. Investment Plan Review

MEMORANDUM

DATE: April 28, 2021

TO: John Polak, General Manager

FROM: Jerry Fadden, Chief Financial Officer

RE: **TWIA 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. This document does not cover investments in the CRTF or the assets held by the Texas Treasury Safekeeping Trust Company representing the proceeds and debt service payments of the Series 2014 Bonds.

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.

On a quarterly basis, TWIA reviews the following criteria to monitor our counterparty relationships:

- Bank ratings and credit ratings from Moody or Standard and Poor's must meet 'AAA'. 'AA', or 'A' ratings defined as "superior or strong" in credit ratings.
- Tier 1 Capital Ratio must be above a 10% ratio.
- The National Association Regulatory Capital must be in excess of $25 Billion.
- Total investment in any one financial institution will not exceed .2% of the National Association's regulatory capital.
- Total investment in any one financial institution will not exceed 40% of TWIA's total portfolio.

On the next page, you will find an evaluation of financial institutions based on certain criteria as listed above.

At this time, we are not recommending any changes to the investment plan. However, we will be seeking a resolution at the May 18, 2021 board meeting regarding board review of the adequacy of the current investment plan, copy attached, and board review of the implementation of the plan. Suggested wording of such resolution is as follows:

PO Box 99090, Austin, TX 78709-9090 | Call 1-800-788-8247 | twia.org

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.

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

Evaluation of Counterparty Relationships as of 12/31/2020				
Financial Institution	**N.A. Bank Credit Rating (as of 12/31/20)**	**N.A. Tier 1 Capital Ratio (as of 12/31/20)**	**N.A. Regulatory Capital (as of 12/31/20)**	**Holding Level Market Capitalization ($ in Billions as of 12/31/20)**
JPMorgan Chase, N.A.	Superior	15.7%	$234	$387
Bank of America, N.A.	Superior	13.5%	$200	$262
Citibank, N.A.	Superior	14.0%	$145	$128

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TEXAS WINDSTORM INSURANCE ASSOCIATION

STATEMENT OF INVESTMENT OBJECTIVES AND GUIDELINES

I. Overview

The purpose of this statement is to provide clear objectives and guidelines for the investing and management of assets with Texas Windstorm Insurance Association ("TWIA").

TWIA was created by the Texas Legislature in 1971. TWIA's controlling statute is currently codified as Chapter 2210 of the Texas Insurance Code. The purpose of TWIA is to provide a method whereby adequate windstorm and hail insurance may be obtained in certain areas designated by the Commissioner of Insurance located in the gulf coast region of the State of Texas.

II. Investment Objectives

The investment objectives enable TWIA to manage funds with the primary focus of asset preservation and liquidity, as well as securing maximum total return through the application of the investment policy set forth below. This policy must comply with all restrictions on investments in accordance with the Texas Insurance Code, the Plan of Operation of the Association and any other applicable requirements. While maximizing yield is important, the Association will consider the safety of the principal and liquidity the foremost objective.

III. Permissible Asset Types

TWIA's Plan of Operation, which is a Texas Department of Insurance rule, requires all funds collected by the Association that are not otherwise required to be expended as provided in the Plan of Operation, to be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and/or invested in items pursuant to Texas Insurance Code, chapter 2210. (See Appendix A).

1. Checking, savings accounts, and Money Market Demand Accounts in Financial Institutions that meet the counterparty requirements outlined below in section IV of this document.

2. US Treasury Notes not to exceed 12 months, unless otherwise approved by the board of directors.

3. Money Market Fund Accounts with a maximum duration of 1 year or less, unless otherwise approved by the board of directors. Account must invest exclusively in US bonds backed by the full faith and credit of the US government.

4. Other investments proposed by the board of directors and approved by the Commissioner.

IV. Diversification and Evaluation of counterparty relationships:

The Association should evaluate bank financial performance, bank ranking and credit ratings from Moody or Standard & Poor's to assess the investment risk. All financial institutions ratings must meet 'AAA', 'AA', or 'A' ratings defined as "strong or superior" in credit ratings.

The Association must also evaluate the bank's capital strength through Tier 1 Capital Ratios. The Association's criterion is that the Tier 1 Capital Ratio must be above 10% for the Association to invest with such institution.

The Association should evaluate the total capital of all banks on a quarterly basis. National Association (N.A.) Regulatory Capital must be in excess of $25B.

Total investment in any one financial institution should not exceed .2% of the of the National Association's regulatory capital. Total investments in any one financial institution should not exceed 40% of TWIA's total portfolio.

The Association should perform the above evaluation on a quarterly and/or annual basis as information is available. To the extent certain information is not available quarterly at the N.A. level; the Association should review the Tier 1 Capital Ratio and Market Capitalization at the bank holding company level.

V. Monitoring, Evaluation and Compliance

TWIA's management will review the investment policy on an annual basis and make recommendations, if necessary, to the board of directors at that time. It is the responsibility of TWIA management to report to the board of directors all cash and investment balances, interest rates and diversification ratios on a quarterly basis.

Appendix to TWIA's Statement of Investment Objectives and Guidelines

I. Definitions related to the guidelines

a. Tier 1 Capital Ratio also known as Capital Adequacy is the amount of capital a bank or other financial institution has to hold as required by its financial regulator. These requirements are put into place to ensure that institutions do not take on excess leverage and become insolvent.

A firm must have a Tier 1 capital ratio of 6% or greater, and not pay any dividends or distributions that would affect its capital, to be classified as well capitalized according to the Federal Deposit Insurance Corporation (FDIC).

Formula = (Total Equity – Revaluation Reserves) / Risk Based Assets

b. Market Capitalization is the total value of the issued shares of a publicly traded company; it is equal to the share price times the shares outstanding. This allows investment community to determine a company's size, as opposed to sales or total asset figures.

Formula = stock price X total number of shares outstanding.

II. Permissible Assets as defined by the Plan of Operation:

All funds collected by the Association which are not otherwise required to be expended as provided in the Plan of Operation, may be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and / or may be invested only in the following:

a. Interest bearing time deposits or certificates of deposit in any bank or banks doing business in the State of Texas and/or:

b. In treasury notes of the government of the United States of America; and/or

c. Money market funds which invest exclusively in the bonds or to the evidence of indebtedness of the United States of America or any of its agencies when such obligations are guaranteed as to principal and interest by the Unites States of America; except however:

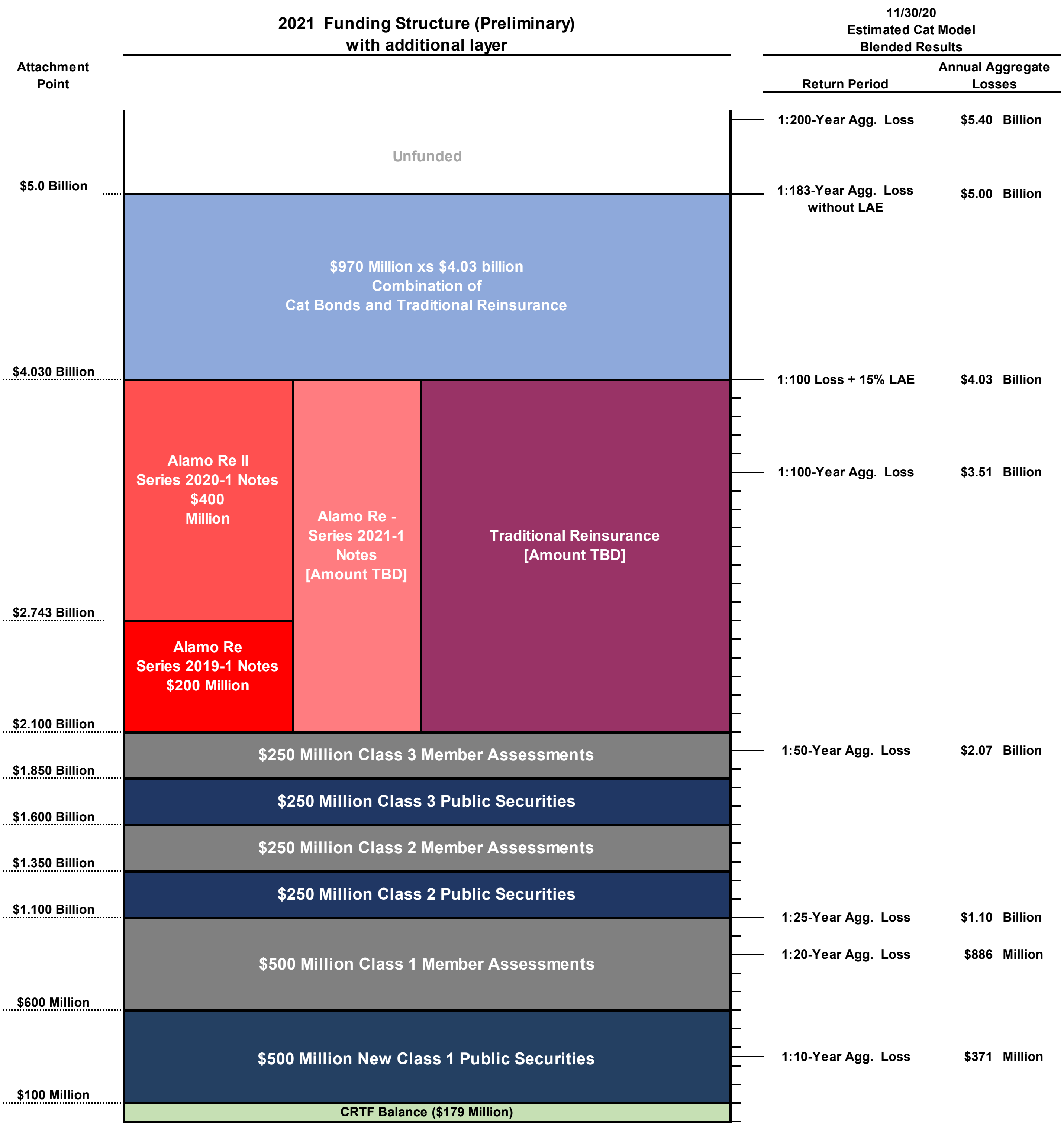
    i. such money market funds may make loans to or purchases of the described bonds and other evidence of indebtedness from a solvent bank or securities broker, registered under the Securities Act of 1934, under an agreement (commonly called a "repurchase agreement") which provides for the purchase by the money market fund of the type of securities described and which agreement matures in 90 days or less and provides for the repurchase by such entity of the same or similar securities purchased by the money market fund, provided that the total market value of such securities shall equal or exceed the amount of such loan or repurchase when it is made; and

    ii. such loan collateral or securities purchased from any one bank or securities broker may not exceed the greater of 5.0% of the assets of the money market fund or 5.0% of the amount of capital, surplus, or individual profits of such bank or securities broker; and/or

d. In such other investments as may be proposed by the board of directors and approved by the Commissioner. The board of directors shall determine what portion of such funds shall be retained in a checking account or accounts and what portion of such reserve shall be invested in the investments listed in this subparagraph, as well as which specific investments, if any, shall be made.

5D. 2021 – 2022
Funding/Public Securities
5D1. Reinsurance Procurement
Above 1:100 PML

Texas Windstorm Insurance Association
2021 Funding Structure (Preliminary - Subject to Completion)
Reinsurance on Aggregate Basis
As of March 31, 2021



Notes:
Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 11/30/20 for the 2021 season.
2021 catastrophe model return periods based average of AIR v8.0 and RMS v18.1 gross aggregate loss estimates, including hurricane and severe convection storms ("SCS)", including demand surge, but excluding storm surge. Hurricane losses are based on the near-term and Warm Sea Surface Temperature (WSST) event sets.

5D2. Line of Credit

Texas Windstorm Insurance Association

JPMorgan's Financing Proposal | May 7, 2021

Disclaimer

This proposal is intended only as an outline of certain indicative terms of the facility described herein (the "Facility") and does not purport to be an exhaustive or all-inclusive summary of the conditions, covenants, representations, warranties and other provisions that would be contained in definitive documentation for the Facility. The final documentation may include terms and conditions required by JPMorgan Chase Bank, N.A. (together with its affiliates, "JPMorgan") not included in this proposal. This proposal is non-binding, is not a commitment and is subject to final credit approval.

Texas Windstorm Insurance Association ("TWIA") acknowledges and agrees that: (i) JPMorgan does not have an advisory or fiduciary relationship with TWIA and nothing in this proposal or our services in connection therewith or otherwise will be deemed to create an advisory or fiduciary relationship (irrespective of whether JPMorgan or any of its affiliates has provided other services or is currently providing other services to TWIA on other matters); (ii) JPMorgan has no obligations to TWIA with respect to the transaction contemplated hereby unless and except to the extent expressly stated in this proposal; and (iii) TWIA has consulted with and is relying on its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate in order to determine whether this proposal is in TWIA's best interests.

This proposal from JPMorgan for the Facility is entirely independent from any proposal or other agreement from any other affiliate of JPMorgan to provide other services.

Transmittal Letter

May 7, 2021

Jerry Fadden
Chief Financial Officer
Texas Windstorm Insurance Association
Email: jfadden@twia.org
Phone: 512-505-2131

Dear Jerry,

On behalf of JPMorgan Chase Bank, N.A. ("JPMorgan" or the "Bank"), thank you for the opportunity to partner with Texas Windstorm Insurance Association ("TWIA") again on this transaction. Attached is a summary of terms and conditions for a $500,000,000 Line of Credit (the "Facility") to provide short term liquidity during the upcoming hurricane season. The terms of the Facility will be substantially similar to the Credit Agreement between the Bank and TWIA, dated June 1, 2020.

Please note this proposal is subject to normal due diligence, credit approval, satisfactory documentation and agreement on terms and conditions, and is not a commitment at this time. Indicative pricing is as of April 27, 2021. Nothing expressed or implied herein constitutes any commitment of JPMorgan, or any of its affiliates, to lend or provide any other financial services in connection with the transaction; such obligations would arise only under separate written agreement(s) mutually acceptable to the TWIA and JPMorgan. We would reasonably expect final credit approval within ten (10) business days of receiving all necessary information from the TWIA.

Thank you and we look forward to working with TWIA again on this exciting opportunity.

Yours sincerely,

Allyson Goetschius

Allyson Goetschius, Executive Director
allyson.l.goetschius@jpmorgan.com
(212) 270-0335

Texas Windstorm Insurance Association's dedicated team at JPMorgan Chase

Banking Coverage

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Managing Director
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Allyson Goetschius
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Ken Sample
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(512) 479-2778

Daryl Parrish
Vice President
daryl.parrish@chase.com
(512) 479-2781

Summary of Terms and Conditions

Borrower:	Texas Windstorm Insurance Association (“TWIA” or the “Borrower”).	
Lead Arranger:	JPMorgan Chase Bank, N.A. (“JPMorgan” or the “Bank”).	
Administrative Agent:	JPMorgan Chase Bank, N.A.	
Facility:	**Line of Credit Agreement**	**Facility Size**
	Total Senior Credit Facility	Up to $500.0 million
	JPMorgan Chase Bank, N.A. Line of Credit (“L/C” Commitment)	Up to $400.0 million
	Bank of America, N.A. (“BANA”) Line of Credit (“L/C” Commitment)	Up to $100.0 million
Purpose:	To finance the short term liquidity needs of the Borrower to pay insurance claims in the event of a natural disaster from a windstorm or hailstorm.	
Collateral:	First perfected security interest in proceeds of public securities and other financing arrangements and all member insurer assessments now or hereafter assessed, collected and/or otherwise received by the Borrower and second lien perfected security interest in net premiums.	
Tenor:	Facility will have a final maturity date of May 31, 2022.	
Amortization:	N/A	

Pricing Grid:

Level	Tenor of Fundings (1)	Commitment Fee (bps)	Drawn Spread (L + bps) (2)
I	**<150 days**	**47.5**	**200.0**
II	≥ 150 days	47.5	325.0

Conditions Precedent to Closing / Advances:

- Receipt and satisfactory review of the 2020 TWIA audit.
- Completion and delivery of satisfactory legal documentation including satisfactory opinions of counsel.
- Evidence that (i) the Plan of Operation is in place upon the closing date as well as that (ii) TWIA shall begin necessary steps to draft documents funding a post-event bond transaction.
- For each advance, the Bank shall receive documentation demonstrating that the amount of claims being made under policies issued by the Borrower exceeds the aggregate amount of TWIA’s available liquid funds including without limitation, all amounts available under any and all deposit accounts, savings accounts and securities or other investments now or hereafter maintained by TWIA.
- Advances shall not exceed the amount by which the aggregate amount of claims exceeds the aggregate amount of liquid assets.

Mandatory Prepayment:

- After the occurrence of a natural windstorm or hailstorm, Class I Public Securities must be issued to prepay any fundings on the L/C.
- In the event and on each occasion that TWIA receives any proceeds of any Public Securities or Member Assessments at any time, TWIA shall immediately prepay the L/C in an aggregate amount equal to the lesser of (i) 100% of such Public Securities proceeds or Member Assessments or (ii) the aggregate amount of the loans then outstanding.
- After the occurrence of a natural windstorm or hailstorm disaster, and in the event Public Securities are not issued, TWIA will levy assessments on its member insurers, subject to applicable legal requirements, in an amount sufficient to cover and repay in full the aggregate amount of loans (including, without limitation, accrued interest on such loans) to be advanced to TWIA in accordance with the other provisions of the agreement.

Termination Option:	May be exercised by TWIA on either of the following dates: December 27, 2021 and March 28, 2022 at no penalty.
Covenants:	The covenants will remain consistent with the Credit Agreement between the Bank and TWIA, dated June 1, 2020.
Upfront Fee:	10.0 bps on Total Senior Credit Facility commitments at closing, allocated on a pro rata basis to all participating banks.
Lender Counsel:	Locke Lord LLP. Legal fees are estimated at $40,000 and capped at $50,000.

(1) Defined as the length of time after a funding on the L/C occurs to repayment either by public securities or member assessments
(2) Subject to a 25.0 bps LIBOR floor

Due Diligence Call Discussion Topics

- Review of 2021 storm season approved funding stack and update on reinsurance market.
- Overview of 2020 financial results (audit delivery is a condition to closing).
- FY20 insurance members participation and preliminary FY21/22 expected participation.
- Confirmation that member assessments are ‘bullet proof’ and cannot be legally diverted to pay policyholder claims.
- Political wherewithal of Governor to supersede the Insurance Commissioner and pause rate increases/divert member assessments in a storm event.
- Expected financial impact from COVID and modified premium installment plan implementation on policyholder delinquencies, debt service coverage of bonds, net earnings, CRTF balance.
- Board of Directors update – appointment of new members if applicable.

RESOLUTIONS OF THE BOARD OF DIRECTORS
OF

TEXAS WINDSTORM INSURANCE ASSOCIATION

May 18, 2021

The undersigned authorized representative of the TEXAS WINDSTORM INSURANCE ASSOCIATION (the "Association") hereby certifies that the following resolutions were adopted at a public meeting of the Association's board of directors (the "Board") lawfully held and noticed, effective as of the date hereof:

RESOLVED, that in order to provide the Association with liquidity to facilitate payment by the Association of claims to its policyholders and related expenses, the Association may enter into a Credit Agreement (the "Credit Agreement") by and among the Association and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent (the "Administrative Agent"), and each of the financial institutions which are signatories thereto or which may become a party thereto from time to time (each a "Lender" and, collectively the "Lenders");

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Lenders one or more promissory notes in the original aggregate principal amount of up to $500,000,000 (collectively, the "Notes");

RESOLVED, FURTHER, to secure repayment of the Association's payment and performance obligations under the Credit Agreement and the Notes the Association may execute and deliver to the Administrative Agent, a Financing and Pledge Agreement (the "Pledge Agreement", together with the Credit Agreement, the Notes, and the Pledge Agreements, collectively, the "Credit Documents");

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Notes shall bear interest on the unpaid principal balance thereof at the rate or rates provided for in the Credit Agreement (said interest rate(s) to never exceed the maximum amount of interest permitted under applicable law, including without limitation, Chapter 1204 of the Texas Government Code), with accrued interest on the Notes being due and payable on the Interest Payment Dates (as defined in the Credit Agreement), and with the outstanding principal balance of the Notes being finally due and payable on the Maturity Date (as defined in the Credit Agreement);

RESOLVED, FURTHER, that in order to induce the Agent and the Lenders to enter into the Credit Agreement, the Association is hereby authorized to pay to the Administrative Agent and the Lenders any and all fees for extending credit to the Association thereunder as agreed pursuant to the Credit Documents;

RESOLVED, FURTHER, that the chief financial officer and/or the general manager of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association to negotiate the specific terms of, and to execute and deliver to the Agent and the Lenders, the Credit Documents and such other instruments as Agent and Lenders may reasonably require in their discretion in connection with the Credit Documents (the "Ancillary Documents") and to take such other action in the consummation and/or administration of the renewal and extension of Credit Documents and the Ancillary Documents as such officer(s) shall deem to be necessary or desirable, and any and all acts heretofore taken by the above-described officer(s) to such end are hereby expressly ratified and confirmed as the acts and deeds of the Association;

RESOLVED, FURTHER, that the Credit Documents and the Ancillary Documents shall be in form and substance satisfactory to the Agent and the Lenders and in form and substance approved by the above-described officer(s) executing the same on behalf of the Association, his or her approval of each such instrument to be conclusively evidenced by the execution thereof by such officer(s);

RESOLVED, FURTHER, that such officer(s) of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association and without further authorization of the Board, to negotiate and agree to on terms acceptable to such officer(s) any and all further renewals, extensions, modifications and/or amendments, but not any additional principal increases, to the credit extended to the Association pursuant to the Credit Agreement, and to execute and deliver to the Agent and the Lenders such documents as the Agent and the Lenders shall require to evidence any such renewal, extension, modification or amendment, but not any additional principal increase, and to take such other action in the consummation of the transactions therein contemplated as the officer(s) acting shall deem to be necessary or desirable;

RESOLVED, FURTHER, that any and all documents, agreements, certificates, opinions, letters, financing statements, consents, schedules and other instruments and writings executed and delivered on behalf of the Association in connection with the foregoing resolutions by the above-named representative of the Association shall be deemed to be the act of the Association and shall be in all respects binding against the Association;

RESOLVED, FURTHER, that the Board has determined it to be in the best interest of the Association for the Association to enter into, execute and deliver the Credit Documents and to enter into, execute and deliver any Ancillary Documents required in connection with the Credit Documents;

RESOLVED, FURTHER, that the execution and delivery of and performance under the Credit Documents and the Ancillary Documents, and other actions contemplated herein, can reasonably be expected to benefit the Association, directly or indirectly; and

RESOLVED, FURTHER, that any and all acts, transactions or agreements undertaken by the officers of the Association for and on behalf and in the name of the Association, prior to the adoption of the foregoing resolutions, in connection with any of the foregoing matters including but not limited to, negotiation of the terms and/or execution and delivery of the Credit Documents and the Ancillary Documents be, and they are hereby, ratified, confirmed and approved in all respects for all purposes.

Executed and effective as of the date first written above.

Authorized Officer of the Association:

By: ___________________________
(Signature)

Its: ___________________________|
(Printed Name and Title)

5D3. Refinancing of 2014 Class 1 Securities

There is no exhibit for this topic

5E. Financial Audit by
Calhoun, Thomson + Matza
5E1. Audit Wrap-Up Reports

Texas Windstorm Insurance Association December 31, 2020

Audit Wrap Up

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management, and is not intended and should not be used by anyone other than those specified parties.

Calhoun, Thomson+Matza LLP
Certified Public Accountants

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April 26, 2021

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Ladies and Gentlemen:

Professional standards require us to communicate with you regarding matters related to the statutory financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On July 10, 2020, we presented an overview of our plan for the audit of the statutory financial statements of Texas Windstorm Insurance Association (the "Association") as of and for the year ended December 31, 2020, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Association's accounting practices and policies, management's judgments and estimates, statutory financial statement disclosures, and other required matters.

We are pleased to be of service to the Association and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

Calh. Thomson & Matza, LLP

Discussion Outline

Status of Our Audit

Audit of Statutory Financial Statements

We have completed our audit of the statutory financial statements as of and for the year ended December 31, 2020. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the statutory financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable – not absolute – assurance about whether the statutory financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our engagement letter.
- We issued an unmodified opinion on the statutory financial statements on April 26, 2021.
- Our responsibility for other information in documents containing the Association's audited statutory financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Association and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the statutory financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Calhoun, Thomson + Matza, LLP were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Association personnel throughout the course of our work.

Results of Our Audit

Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures

The following summarizes the more significant required communications related to our audit concerning the Association's accounting practices, policies, estimates, and statutory financial statement disclosures:

The Association's significant accounting practices and policies are those included within the statutory financial statements. These accounting practices and policies are appropriate, comply with accounting practices prescribed or permitted by the Texas Department of Insurance, and industry practice, were consistently applied, and are adequately described within the Summary of Significant Accounting Policies of the statutory financial statements.

- There were no changes in significant accounting policies and practices during 2020.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Association's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the Summary of Significant Accounting Policies of the statutory financial statements.

Significant accounting estimates include:
Loss and Loss Adjustment Expense Reserves
Pension Benefit Obligation

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2020.

Corrected and Uncorrected Misstatements

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Internal Control Over Financial Reporting

In planning and performing our audit of the statutory financial statements, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statutory financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Association's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's statutory financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the statutory financial statements, we noted no material weaknesses.

Required Communications

Matters Required To Be Reported to Those Charged with Governance

Various professional guidance requires independent auditors to communicate with those charged with governance certain matters in relation to an audit. Following is a summary of those required items along with specific discussion points as they pertain to the Association.

Requirement	*Discussion Points*
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our audit engagement letter.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Association's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Auditor's judgment about the quality of the Association's accounting policies, estimates and statutory financial statement disclosures	In accordance with applicable auditing standards, a discussion was held regarding the quality of financial reporting, which included the Association's significant accounting practices, estimates and statutory financial statement disclosures.
Critical accounting policies and practices	Refer to the Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures section on page 2 for all critical accounting policies and practices used by the Association.
Adoption of a change in accounting principle	There were no situations involving the adoption of or a change in accounting principles where the application of alternative statutory accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the Association's statutory financial statements.
Material, corrected misstatements brought to the attention of management by the auditor	There were no corrected misstatements brought to the attention of management by the auditor.
Unrecorded misstatements, other than those the auditor believes to be trivial	There were no unrecorded misstatements brought to the attention of management by the auditor.

Required Communications

Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Association's statutory financial statements or to our auditor's report.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Significant findings and issues arising during the audit in connection with the Association's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the statutory financial statements from achieving fair presentation.
Other matters significant to the oversight of the Association's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Association's financial reporting process that have not been previously communicated.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of statutory accounting principles.
Major issues discussed with management prior to retention	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Material alternative accounting treatments discussed with management	There was no discussion with management concerning alternative accounting treatments.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated July 10, 2020 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Association with respect to independence as agreed to by the Association. Please refer to that letter for further information.

5E2. Statutory Report

Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2020 and 2019

Calhoun, Thomson + Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2020 and 2019

Texas Windstorm Insurance Association

Contents

Calhoun, Thomson + Matza LLP
Certified Public Accountants

9500 Arboretum Blvd. Suite 120
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Accountants' Letter of Qualifications

Board of Directors
Texas Windstorm Insurance Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Texas Windstorm Insurance Association (the "Association") for the years ended December 31, 2020 and 2019, and have issued our report thereon dated April 26, 2021. In connection therewith, we advise you as follows:

a. We are independent certified public accountants with respect to the Association and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Texas State Board of Public Accountancy.

b. The engagement partner, who is a certified public accountant, has 27 years of experience in public accounting and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and most of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

c. We understand that the Association intends to file its audited statutory financial statements and our report thereon with the Texas Department of Insurance and that the Insurance Commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Association.

   While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Association and Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements resulting from fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of the Association to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

d. We will retain the workpapers prepared in the conduct of our audit until the Texas Department of Insurance has filed a Report of Examination covering 2020, but not longer than seven years. After notification to the Association, we will make the workpapers available for review by the Texas Department of Insurance at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Texas Department of Insurance, photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Texas Department of Insurance.

e. The engagement partner has served in that capacity with respect to the Association since 2018, is licensed by the Texas State Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Texas Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Calh., Thomson & Matza, LLP

April 26, 2021

Calhoun, Thomson+Matza LLP
Certified Public Accountants

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Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

We have audited the accompanying statutory statements of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the "Association") as of December 31, 2020 and 2019 and the related statutory statements of income and changes in surplus and other funds, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As described more fully in the Summary of Significant Accounting Policies, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the differences between statutory accounting principles and accounting principles generally accepted in the United States of America identified above, as of December 31, 2020 and 2019 total assets were lower by approximately $12.5 million and $8.3 million, respectively. The differences identified above reduced total net position as of December 31, 2020 and 2019 by approximately $17.2 million and $11.3 million, respectively. The effects on change in net position for the years ended December 31, 2020 and 2019 were immaterial.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Texas Windstorm Insurance Association as of December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds of the Texas Windstorm Insurance Association as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in the Summary of Significant Accounting Policies – "Basis of Accounting".

Emphasis of Matters

As of December 31, 2020, the Association had approximately $61 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, any net gain from operations must be paid to the Catastrophe Reserve Trust Fund ("CRTF"). As of December 31, 2020, the balance in the CRTF was approximately $179.2 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association.

In accordance with Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess member insurance companies $1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place all these public securities and the sufficiency of that amount to cover future losses will depend upon market conditions and the financial and operating results of the Association.

Ultimate loss projections for Hurricane Harvey were estimated to be $1.7 billion by the Association's appointed actuary as of December 31, 2020. If the ultimate loss projection changes in the future it could have a material adverse effect on the financial condition of the Association.

Supplemental Information

Our audits of the statutory financial statements were conducted for the purpose of forming an opinion on those statements as a whole. The accompanying supplementary information is presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and Texas state law. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements.

The information has been subjected to the auditing procedures applied in the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

April 26, 2021

Texas Windstorm Insurance Association

Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds

(Amounts in Thousands)

December 31,		**2020**		2019
Admitted Assets				
Cash and cash equivalents	**$**	**481,676**	$	514,611
Assessment receivable		**-**		90,000
Other assets		**2,517**		1,506
Total admitted assets	**$**	**484,193**	$	606,117
Liabilities, Surplus and Other Funds				
Liabilities:				
Loss and loss adjustment expenses	**$**	**164,315**	$	169,130
Borrowed money – bonds and interest payable		**236,572**		331,742
Underwriting expenses payable		**11,038**		9,962
Unearned premiums		**185,917**		185,495
Ceded reinsurance premiums payable, net of ceding commissions		**25,908**		22,381
Funds held by company under reinsurance treaties		**-**		179
Statutory fund payable		**-**		52,641
Other liabilities		**20,894**		18,379
Total liabilities		**644,644**		789,909
Commitments and contingencies (Notes 7, 8, 9, 12, 14 and 15)				
Surplus and other funds:				
Unassigned deficit		**(160,451)**		(183,792)
Total liabilities and surplus and other funds	**$**	**484,193**	$	606,117

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Income

(Amounts in Thousands)

Years ended December 31,	**2020**	2019
Underwriting income:		
Premiums earned	**$ 369,179**	$ 381,571
Premiums ceded	**(107,605)**	(94,094)
Net premiums earned	**261,574**	287,477
Deductions:		
Losses and loss expenses incurred	**118,470**	113,398
Underwriting expenses incurred	**90,594**	92,415
Total underwriting deductions	**209,064**	205,813
Net underwriting gain	**52,510**	81,664
Investment loss:		
Net investment loss	**(23,693)**	(22,117)
Other income:		
Assessment income	**-**	90,000
Other income	**-**	43
Total other income	**-**	90,043
Net income before statutory fund cost and federal income tax expense	**28,817**	149,590
Statutory fund cost	**-**	52,641
Net income before federal income tax expense	**28,817**	96,949
Federal income taxes incurred	**-**	-
Net income	**$ 28,817**	$ 96,949

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Changes In Surplus and Other Funds

(Amounts in Thousands)

		Unassigned Deficit
Balance at January 1, 2019	$	(277,864)
Net income		96,949
Change in nonadmitted assets		135
Other		(3,012)
Balance at December 31, 2019		(183,792)
Net income		28,817
Change in nonadmitted assets		(4,430)
Other		(1,046)
Balance at December 31, 2020	$	(160,451)

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,	**2020**	2019
Cash from operations:		
Premiums collected, net of reinsurance	**$ 265,136**	$ 280,264
Net investment loss	**(24,971)**	(23,324)
Assessment income	**90,000**	-
Miscellaneous income	**-**	43
Benefit and loss related payments	**(89,540)**	(111,977)
Commissions, expenses paid and aggregate write-ins for deductions	**(174,473)**	(234,448)
Net cash from operations	**66,152**	(89,442)
Cash from financing and miscellaneous sources:		
Principal and interest paid	**(95,170)**	(51,958)
Other cash applied	**(3,917)**	(116)
Net cash from financing and miscellaneous sources	**(99,087)**	(52,074)
Net change in cash and cash equivalents	**(32,935)**	(141,516)
Cash and cash equivalents, beginning of year	**514,611**	656,127
Cash and cash equivalents, end of year	**$ 481,676**	$ 514,611

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Nature of Business
Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

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

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier counties and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan's Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance, or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance ("TDI"). Applications will be accompanied by a full annual premium or a deposit followed by installment payments. In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

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

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association's Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, the TDI inspectors or the TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

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

Approximately $4,200,000 in funding was secured for the 2020 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4,200,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2020 hurricane season is, in order;

- $100,000 in CRTF funds
- $500,000 in Class 1 public securities
- $500,000 in Class 1 member assessments
- $250,000 in Class 2 public securities
- $250,000 in Class 2 member assessments
- $250,000 in Class 3 public securities
- $250,000 in Class 3 member assessments
- $2,100,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

(Amounts in Thousands)

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of the assumption process.

The Association implemented the Assumption Reinsurance Depopulation Program ("Assumption Program") in 2016 and continued the Assumption Program through 2020. The Assumption Program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 1,007 policies were novated on May 31, 2020. The Assumption Program was restructured in 2020 and will resume in 2021.

Basis of Accounting

The accompanying financial statements have been prepared on a statutory basis in accordance with accounting practices prescribed or permitted by the TDI. Prescribed statutory accounting practices include state laws, regulations and general administrative rules applicable to all insurance companies domiciled in the State of Texas and the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual. Permitted statutory practices include practices not prescribed but allowed by the TDI.

Reconciliations of net income and policyholders' deficit between the amounts reported in the accompanying financial statements (Texas basis) and NAIC statutory accounting practices ("SAP") follow:

Years ended December 31,		**2020**		2019
Net income, Texas basis	**$**	**28,817**	$	96,949
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**-**		-
Net income, NAIC SAP basis	**$**	**28,817**	$	96,949

December 31,		**2020**		2019
Statutory deficit, Texas basis	**$**	**(160,451)**	$	(183,792)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**(83,405)**		(82,016)
Policyholders' deficit, NAIC SAP basis	**$**	**(243,856)**	$	(265,808)

The TDI has approved the permitted practice to allow the Association to admit the following restricted assets associated with the issuance of Series 2014 Pre-Event Class 1 Revenue Bonds (the "Bonds") as of December 31, 2020 and 2019, respectively:

- $83,405 and $82,016 held in the obligation revenue fund for repayment of the Bonds.

The restrictions are primarily due to debt service reserves and use of proceeds only when a large hurricane event occurs. The permitted practice will last the life of the Bonds or until rescinded by the TDI at an earlier date.

Significant differences between statutory accounting practices and accounting principles generally accepted in the United States of America ("GAAP"), as they relate to the Association include the following:

a) Certain assets designated as "non-admitted assets" are charged directly against surplus rather than capitalized and charged to income as used. These include certain past due member assessments, fixed assets, prepaid expenses and other assets.

b) Unearned premiums and loss and loss adjustment expense ("LAE") reserves are presented net of related reinsurance rather than on a gross basis as required under GAAP.

c) The statements of cash flows represent cash balances and cash equivalents with initial maturities of one year or less rather than cash and cash equivalents with initial maturities of three months or less.

Use of Significant Estimates
The preparation of financial statements in accordance with statutory accounting practices prescribed or permitted by the TDI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reverse Repurchase Agreements
Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

Furniture, Equipment and Depreciation
Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years. Amounts have been non-admitted.

Income Taxes
In 2010, the Association applied for and received a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"). The PLR requested acknowledgement that the Association's income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code ("IRC"). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2020, the statute of limitations remains open for the 2017 to 2020 tax years. No further federal income tax impact is expected in the future.

Premiums
All policies issued by the Association have a maximum term of one year from date of issuance. Premiums earned are taken into income over the periods covered by the policies whereas the related acquisition costs are expensed when incurred. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. Unearned premiums, net of deductions for reinsurance, are computed on a pro-rata basis over the term of the policies.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statutory statements of admitted assets, liabilities, surplus and other funds.

Those premiums received for policies which are not effective and not issued as of year-end are included in other liabilities within the Association's statutory statements of admitted assets, liabilities, surplus and other funds.

Loss and Loss Adjustment Expense Reserves
Loss and LAE reserves are based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance
In the normal course of business, the Association seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

Fair Value Measurements
Statement of Statutory Accounting Principles ("SSAP") No. 100R, Fair Value, requires disclosures of the aggregate fair value of all financial instruments, summarized by type of financial instrument, for which it is practicable to estimate fair value. SSAP No. 100R excludes obligations for pension benefits, substantively extinguished debt, insurance contracts, lease contracts, warranty obligations and rights, investments accounted for under the equity method and equity instruments issued by the entity. Accordingly, the aggregate fair value amounts presented herein do not necessarily represent the underlying value of the Association; similarly, care should be exercised in deriving conclusions about the Association's business or financial condition based on the fair value information presented herein.

The Association is required to categorize its assets and liabilities that are measured at fair value into the three-level fair value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

- Level 1 – Fair values are based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access as of the measurement date.

- Level 2 – Fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.

- Level 3 – Fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Association has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Association which may include the Association's own data.

(Amounts in Thousands)

1. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

December 31,		**2020**		2019
Cash	**$**	**196,419**	$	209,840
Cash equivalents:				
Reverse repurchase agreements		**83,406**		82,016
Money market mutual funds		**201,851**		222,755
Total cash equivalents		**285,257**		304,771
	$	**481,676**	$	514,611

Money Market Mutual Funds

The Association invests in money market mutual funds which are included in cash equivalents. The fair value of money market mutual funds was approximately $201,851 and $222,755 as of December 31, 2020 and 2019, respectively. The admitted value of money market mutual funds was $201,851 and $222,755 as of December 31, 2020 and 2019, respectively.

Reverse Repurchase Agreements

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (See Note 12). The TTSTC's minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $83,406 and $82,016 as of December 31, 2020 and 2019, respectively. The admitted value of reverse repurchase agreements was approximately $83,406 and $82,016 as of December 31, 2020 and 2019, respectively, and is included in cash and cash equivalents in the statutory statements of admitted assets, liabilities, surplus and other funds.

Repurchase agreements were Tri-Party during the years ended 2020 and 2019.

Original (flow) & residual maturity

	Fourth Quarter 2020			
		Maximum		Ending Balance
Overnight	$	83,406	$	83,406

(Amounts in Thousands)

Fourth Quarter 2019		
	Maximum	Ending Balance
Overnight	$ 82,016	$ 82,016

Securities acquired under repurchase agreements - sale

Fourth Quarter 2020		
	Maximum	Ending Balance
BACV	$ 83,406	$ 83,406
Nonadmitted – subset of BACV	-	-
Fair value	$ 83,406	$ 83,406

Book/Adjusting Carrying Value ("BACV")

Fourth Quarter 2019		
	Maximum	Ending Balance
BACV	$ 82,016	$ 82,016
Nonadmitted – subset of BACV	-	-
Fair value	$ 82,016	$ 82,016

Securities acquired under repurchase agreements – sale by NAIC designation

December 31, 2020	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ 83,406	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	83,406	-	-	-	-	-	-
Total assets – BACV	-	83,406	-	-	-	-	-	-
Total assets - FV	$ -	$ 83,406	$ -	$ -	$ -	$ -	$ -	$ -

December 31, 2019	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ 82,016	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	82,016	-	-	-	-	-	-
Total assets – BACV	-	82,016	-	-	-	-	-	-
Total assets - FV	$ -	$ 82,016	$ -	$ -	$ -	$ -	$ -	$ -

(Amounts in Thousands)

Proceeds Provided - Sale

Fourth Quarter 2020				
		Maximum		Ending Balance
Cash	$	83,406	$	83,406
Securities (FV)		-		-
Securities (BACV)		-		-
Nonadmitted subset	$	-	$	-

Fourth Quarter 2019				
		Maximum		Ending Balance
Cash	$	82,016	$	82,016
Securities (FV)		-		-
Securities (BACV)		-		-
Nonadmitted subset	$	-	$	-

Recognized forward resale commitment

Fourth Quarter 2020				
		Maximum		Ending Balance
Recognized forward resale commitment	$	83,406	$	83,406

Fourth Quarter 2019				
		Maximum		Ending Balance
Recognized forward resale commitment	$	82,016	$	82,016

(Amounts in Thousands)

2. Restricted Assets

Restricted assets are summarized below by restricted asset category. Certain assets included in the subject to reverse repurchase category are held by the TTSTC and are restricted for use for debt service reserves and for when a catastrophic event occurs (See Note 12). These assets are invested in overnight reverse repurchase agreements.

	Gross (Admitted & Nonadmitted) Restricted								Current Year		
	Current Year									Percentage	
	1	2	3	4	5	6	7	8	9	10	11
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Non-admitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Non-Admitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)
Subject to reverse repurchase	$ 83,406	$ -	$ -	$ -	$ 83,406	$ 82,016	$ 1,390	$ -	$ 83,406	16.93%	17.23%
Total restricted assets	$ 83,406	$ -	$ -	$ -	$ 83,406	$ 82,016	$ 1,390	$ -	$ 83,406	16.93%	17.23%

(Amounts in Thousands)

3. Furniture and Equipment

Furniture and equipment consist of the following:

December 31,		2020		2019
Furniture and equipment	**$**	**541**	$	541
Electronic data processing equipment and software		**15,043**		10,466
Leasehold improvements		**1,858**		1,858
		17,442		12,865
Less: accumulated depreciation		**(12,417)**		(12,212)
		5,025		653
Less: non-admitted furniture and equipment		**(5,025)**		(653)
	$		$	-

Depreciation and amortization expense was approximately $205 and $196 for the years ended December 31, 2020 and 2019, respectively.

4. Reinsurance

During 2020 and 2019, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Aggregate Excess of Loss

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (See Note 13).

The Association has unsecured reinsurance recoverables which exceed 3% of the Association's surplus with the following reinsurers as of December 31, 2020 and 2019 as a result of the Assumption Program:

Name of reinsurer		**2020**		2019
Weston Insurance Company	**$**	**65**	$	-
Safepoint Insurance Company		**88**		-
United Property & Casualty Insurance Company		**-**		3
Total	**$**	**153**	$	3

(Amounts in Thousands)

The effect of reinsurance on premiums written and earned for the years ended December 31, 2020 and 2019 is as follows:

	2020		2019	
	Written	**Earned**	Written	Earned
Direct premium	**$ 369,600**	**$ 369,179**	$ 372,017	$ 381,571
Excess of loss ceded premium	**(106,865)**	**(106,865)**	(92,403)	(92,403)
Depopulation ceded premium	**(740)**	**(740)**	(1,691)	(1,691)
Net	**$ 261,995**	**$ 261,574**	$ 277,923	$ 287,477

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 13).

As of December 31, 2020 and 2019, the Association had reinsurance recoverables of $66 and $7, respectively, of paid losses and LAE as a result of the Assumption Program and is included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds.

5. Unearned Premiums

Unearned premiums are reported net of ceded unearned premiums as follows:

December 31,	**2020**	2019
Gross unearned premiums	**$ 185,917**	$ 185,495
Ceded unearned premiums	**-**	-
	$ 185,917	$ 185,495

The amount of return commission that would have been due to reinsurers if they or the Association had cancelled the Association's excess of loss reinsurance agreement would have been $0 as of December 31, 2020 and 2019.

(Amounts in Thousands)

6. Loss and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances, net of reinsurance recoverables, for losses and loss adjustment expenses:

Years ended December 31,	**2020**	2019
Beginning balance	**$ 169,198**	$ 200,858
Reinsurance recoverable	**68**	78
Beginning net balance	**169,130**	200,780
Incurred related to:		
Current loss year	**118,363**	26,454
Prior loss years	**107**	86,944
Losses and loss adjustment expense incurred	**118,470**	113,398
Paid related to:		
Current loss year	**66,784**	19,918
Prior loss years	**56,501**	125,130
Paid losses and loss adjustment expense	**123,285**	145,048
Ending net balance	**164,315**	169,130
Reinsurance recoverable	**86**	68
Ending balance	**$ 164,401**	$ 169,198

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statutory statements of income. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statutory statements of income of $118,470 had relatively minimal unfavorable prior year development. During 2020, Association policyholders were impacted by Hurricanes Hanna, Laura and Delta which have an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020. The coverage area insured by the Association was previously impacted by Hurricane Harvey in 2017. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000 as of December 31, 2020. The ultimate losses and LAE attributable to Hurricane Harvey was increased by $90,000 in 2019 due to the increase in severity of claims development. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. Due to the inherently uncertain process involving loss and LAE reserve estimates, the final resolution of the ultimate liability may be different from that anticipated at the reporting date. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2020 and 2019 make a reasonable provision for the Association's claim liabilities.

7. Statutory Fund

In 1993, the Texas legislature created the CRTF. At the end of each year and pursuant to administrative rules, the Association shall deposit the net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the CRTF and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the CRTF.

When there is an occurrence or series of occurrences in a catastrophe area, the Association shall pay losses in excess of premium and other revenue of the Association from available reserves of the Association and available amounts in the CRTF. Administrative rules adopted by the Commissioner of Insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts ("comptroller") administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in, the TDI until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association's Plan of Operation.

The CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the state of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2020 and 2019, statutory fund costs were $0 and approximately $52,641, respectively, based on the direction of the TDI and based on its interpretation of the relevant statutes. The Association is required to use the net gain from operations of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although amounts held in the CRTF are not presented as assets in the statutory statements of admitted assets, liabilities, surplus and other funds, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law. No contribution to the CRTF has been accrued as of December 31, 2020, while the December 31, 2019 payable to the CRTF of $52,641 was remitted to the TTSTC on March 30, 2020.

For the years ended December 31, 2020 and 2019, the CRTF held $179,174 and $122,496, respectively.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The insurance group's assessment of $2,199 has been non-admitted by the Association as of December 31, 2020. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2020 and 2019, the deficit of the Association is $160,451 and $183,792, respectively.

(Amounts in Thousands)

8. Employee Benefit Plans

Defined Benefit Plan. The Association has a defined benefit pension plan (the "Plan"), which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve-month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest 5 years from date of hire. The Association makes contributions to the Plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act. Such contributions are included in general expenses. As of December 31, 2020 and 2019, the Association accrued in accordance with actuarially determined amounts with an offset to the pension cost accrual for the incremental asset amortization.

The following sets forth a summary of projected benefit obligations, plan assets, funded status, benefit costs and assumptions of the defined benefit pension plan as follows:

December 31,	**2020**	2019
Change in Projected Benefit Obligations (PBO) (Underfunded):		
Benefit obligation at beginning of year	**$ 30,989**	$ 22,937
Service cost	**2,276**	1,732
Interest cost	**1,095**	1,030
Actuarial loss	**2,893**	5,887
Benefits paid	**(663)**	(597)
Projected benefit obligation at end of year	**36,590**	30,989
Change in Plan Assets:		
Fair value of plan assets at beginning of year	**21,547**	16,171
Actual return on plan assets	**2,503**	3,614
Employer contributions	**2,568**	2,360
Benefits paid	**(663)**	(597)
Fair value of plan assets at end of year	**25,955**	21,548
Funded status	**$ (10,635)**	$ (9,441)

(Amounts in Thousands)

December 31,		**2020**		2019
Funded Status:				
Assets (non-admitted):				
Prepaid benefit costs	**$**	**-**	$	-
Total assets (non-admitted)		**-**		-
Liabilities recognized:				
Accrued benefit costs		**2,701**		2,554
Liability for pension benefits		**7,934**		6,887
Total liabilities recognized		**10,635**		9,441
Unrecognized liabilities as a component of net periodic benefit cost		**-**		-
Funded status	**$**	**(10,635)**	$	(9,441)
Accumulated benefit obligation	**$**	**32,057**	$	27,626

Years ended December 31,		**2020**		2019
Components of Net Periodic Benefit Costs:				
Service costs	**$**	**2,276**	$	1,731
Interest costs		**1,095**		1,031
Expected return on plan assets		**(1,110)**		(933)
Loss amortization		**410**		151
Prior service cost		**44**		44
Total net periodic benefit cost	**$**	**2,715**	$	2,024

(Amounts in Thousands)

Years ended December 31,		**2020**		2019
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:				
Items not yet recognized as a component of net periodic cost – prior year	**$**	**6,888**	$	3,876
Net transition asset or obligation recognized		**-**		-
Net prior service cost or credit arising during the period		**-**		-
Net prior service cost recognized		**(44)**		(44)
Net loss arising during the period		**1,500**		3,206
Net gain recognized		**(410)**		(151)
Items not yet recognized as a component of net periodic cost – current year	**$**	**7,934**	$	6,887

Years ended December 31,		**2020**		2019
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Amortization of net transition asset or obligation	**$**	**-**	$	-
Amortization of net prior service cost		**44**		44
Amortization of net loss	**$**	**359**	$	346

Years ended December 31,		**2020**		2019
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net transition asset or obligation	**$**	**-**	$	-
Net prior service cost		**267**		311
Net loss	**$**	**7,667**	$	6,576

(Amounts in Thousands)

Pension Assumptions:

December 31,	**2020**	2019
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	**3.50%**	4.50%
Rate of compensation increase	**2.50%**	2.50%
Expected long-term rate of return of plan assets	**5.00%**	5.50%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	**3.50%**	3.50%
Rate of compensation increase	**2.50%**	2.50%

The amount of accumulated benefit obligation for the defined benefit pension plan was approximately $32,057 and $27,626 as of December 31, 2020 and 2019, respectively.

Measurement Date
A measurement date of December 31, 2020 was used to determine the above.

Asset Allocation
The defined benefit pension plan asset allocation as of the measurement date presented as a percentage of total plan assets were as follows:

December 31,	**2020**	2019
Equity securities	**36.9%**	36.0%
Debt securities	**58.2%**	59.0%
Real estate	**4.4%**	4.8%
Other	**0.5%**	0.2%
	100.0%	100.0%

(Amounts in Thousands)

The investment policy of the Plan is to maximize the total return of the fund while maintaining a strong emphasis on preservation of capital. The total portfolio is expected to be less volatile than the market the vast majority of the time. The Plan assets are invested in a mix of equity and fixed income investments subject to target allocation ranges. The target allocation is to increase the percentage of fixed income investments depending on market conditions. Remaining funds not invested in the categories above are to be invested in short-term cash equivalents such as money market funds.

The long-term rate of return represents the expected average rate of return on the Plan assets based on the expected long-term asset allocation of the Plan. Several factors are considered, including historical market index returns, expectations of future returns in each asset classes, and the potential to outperform market index returns.

Future Payments

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years ending December 31,	Amount
2021	$ 744
2022	830
2023	934
2024	1,039
2025	1,159
2026 and thereafter	7,723

Planned Contributions

The Association expects to make contributions of $2,961 during 2021.

(Amounts in Thousands)

Fair value measurements of Plan assets as of December 31, 2020 and 2019:

	Fair Value Measurements at December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	**$ -**	**$ 126**	**$ -**	**$ 126**
Large cap equity	**5,748**	**-**	**-**	**5,748**
Small cap equity	**810**	**-**	**-**	**810**
Mid cap equity	**1,853**	**-**	**-**	**1,853**
International equity	**-**	**2,804**	**-**	**2,804**
Realty fund	**-**	**1,421**	**-**	**1,421**
Fixed income	**-**	**13,193**	**-**	**13,193**
Total plan assets	**$ 8,411**	**$ 17,544**	**$ -**	**$ 25,955**

	Fair Value Measurements at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ -	$ 81	$ -	$ 81
Large cap equity	4,793	-	-	4,793
Small cap equity	650	-	-	650
Mid cap equity	1,468	-	-	1,468
International equity	-	2,402	-	2,402
Realty fund	-	1,300	-	1,300
Fixed income	-	10,852	-	10,852
Limited partnerships	-	-	2	2
Total plan assets	$ 6,911	$ 14,635	$ 2	$ 21,548

(Amounts in Thousands)

Defined Contribution Plan. The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. Matching contributions totaling $935 and $949 (before allocation to Texas FAIR Plan Association ("TFPA")) were made for the years ended December 31, 2020 and 2019, respectively. The Association's portion was approximately $644 and $645 for the years ended December 31, 2020 and 2019, respectively.

9. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2020:

Years ending December 31,		Amount
2021	$	1,062
2022		1,088
2023		-
2024		-
2025 and thereafter		-
	$	2,150

Rental expense under the non-cancelable operating lease was approximately $1,413 and $1,422 for the years ended December 31, 2020 and 2019, respectively.

10. Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

11. Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2020 and 2019, the Association paid expenses for TFPA under its management contract and was reimbursed $14,314 and $14,133, respectively. As of December 31, 2020 and 2019, the Association incurred or paid expenses for which it has not been reimbursed of $1,132 and $1,076, respectively, on behalf of TFPA, and are included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

12. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued the Bonds on behalf of the Association for the purposes of financing future costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for $500,000 of which $227,200 and $318,600 principal balance was outstanding as of December 31, 2020 and 2019, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds. The bonds mature July 1, 2024 and can be redeemed in whole or in part by the Issuer beginning July 1, 2019. The original Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the debt service and related accounts held by the TTSTC.

There are various general and special covenants associated with the Bonds. The primary covenants, which exist as long as there are outstanding Class 1 Public Securities and administrative expenses, require that; (1) the Association will take actions that produce projected net coverage revenues in an amount not less than 125% of the obligations and administrative expenses due in the succeeding four quarters and; (2) that actual net coverage revenues for the preceding four quarters will be in an amount not less than 110% of the actual obligations and administrative expenses for the same period. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the net premiums and other revenue held for the benefit of the bondholders. As of December 31, 2020, the Association estimates projected net coverage revenues will be 140% of the obligations and administrative expenses for the next four quarters ending December 31, 2021 which exceeds the required 125% threshold.

On May 11, 2020, the Association completed a voluntary early redemption of $45 million principal of the Bonds and paid $1.3 million interest associated with the redeemed securities. While the redemption was optional, the $46.3 million paid to redeem these securities is required to be included as a debt obligation impacting the preceding four quarters "look back" calculation. The coverage ratio for the four quarters ended December 31, 2020 is 44% or 66 percentage points below the specified ratio of 110% due to the inclusion of the $46.3 million redemption amount and losses from Hurricanes Hanna, Laura and Delta which struck the Association's coverage areas along the Texas coast during the 2020 hurricane season. Pursuant to the Bond documents, if either the actual net coverage revenue test or the projected net coverage revenue test falls below the applicable threshold (110% and 125%, respectively) the Association is required to disclose to the Authority the action or actions (including but not limited to rate changes, reinsurance costs adjustments, and other fiscal steps) necessary to meet the requirements in the future. Future periods are forecasted to produce sufficient projected net coverage revenues as the early redemption and non-catastrophic losses from the 2020 hurricane season are excluded from the coverage calculation due to the passage of time. As a result, neither a rate adjustment nor an adjustment to reinsurance costs are deemed necessary to produce future projected net coverage revenues equal to or in excess of 125% of the obligations and administrative expenses.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption. On February 18, 2020 the Association Board of Directors approved an early redemption in the amount of $45 million and directed Association staff to request approval from the Commissioner of Insurance. On February 24, 2020, the Association received approval from the Commissioner of Insurance to redeem the requested $45 million of bond principal. The redemption was completed on May 11, 2020.

As of December 31, 2020, and 2019, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as an investment expense and was $21,999 and $28,343 for the years ended December 31, 2020 and 2019, respectively, and is included in net investment loss in the statutory statements of income. Interest expense of $25,769 and $30,401 was paid for the years ended December 31, 2020 and 2019, respectively. Interest payable was $9,372 and $13,142 as of December 31, 2020 and 2019, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds.

(Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2020 is as follows:

Description		Bonds Outstanding January 1, 2020		Bonds Issued		Bonds Matured/Redeemed		Bonds Outstanding December 31, 2020
Bonds	**$**	**318,600**	**$**	**-**	**$**	**91,400**	**$**	**227,200**

Changes in borrowed money - bonds payable for the year ended December 31, 2019 is as follows:

Description		Bonds Outstanding January 1, 2019		Bonds Issued		Bonds Matured		Bonds Outstanding December 31, 2019
Bonds	$	368,500	$	-	$	49,900	$	318,600

The aggregate maturities for the next five years and thereafter is as follows:

Years ending December 31,		Amount
2021	$	50,200
2022		54,400
2023		58,900
2024		63,700
2025		-
On Demand		-
	$	227,200

13. Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2020. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured in 2020 and as a result, there was no round five implemented on December 1, 2020. Round 5 commenced in early 2021 and the novation to the carriers will occur on March 1, 2022.

Effective December 1, 2019, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year four of the Assumption Program. A total of 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies transferred to participating companies on June 1, 2020. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 were settled at the end of the treaty period, June 1, 2020.

As of December 31, 2020 and 2019, funds held by company under reinsurance treaties was $0 and $179, respectively, and is included in the statutory statements of admitted assets, liabilities, surplus and other funds.

During 2020 and 2019, the Association recognized ceded written premiums of $740 and $1,691, respectively, as a result of the Assumption Program.

14. Commitments and Contingencies

The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2020. The line of credit agreement was entered into June 1, 2020 subsequent to the Association's Board of Directors approval on May 12, 2020. No amounts have been drawn against the line of credit. Issuance fees for the line of credit were $500 and the Association paid the lenders a 0.8% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2021, however, the line of credit was terminated by the Association on December 28, 2020 without penalty.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2019. The line of credit agreement was entered into July 1, 2019 subsequent to the Association's board of directors approval on May 7, 2019. No amounts were drawn against the line of credit. Issuance fees for the committed line of credit were $500 and the Association pays the lenders a 0.4% commitment fee against the unused portion of the line of credit. The commitment originally matured May 27, 2020, however the line of credit was terminated by the Association on December 26, 2019 without penalty.

15. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $61,000,000 of insurance exposure as of December 31, 2020 and 2019.

(Amounts in Thousands)

16. Nonadmitted Assets

Nonadmitted assets consisted of the following:

December 31,		**2020**		2019
Prepaid expenses and receivables	**$**	**1,302**	$	1,245
Member assessment receivable		**2,199**		2,199
Electronic data processing equipment and software		**4,578**		-
Furniture and equipment		**448**		653
Total nonadmitted assets	**$**	**8,527**	$	4,097

17. Fair Value Measurements

The following table reflects the fair values and admitted assets and liabilities that are financial instruments. The fair values are also categorized into the three-level fair value hierarchy. Cash and cash equivalents are the only financial instruments held by the Association. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV.

Fair Value Measurements at December 31, 2020 Using:

		Aggregate Fair Value		**Net Asset Value**		**Admitted Assets**		**Level 1**		**Level 2**		**Level 3**
Cash	**$**	**196,419**	**$**	**-**	**$**	**196,419**	**$**	**196,419**	**$**	**-**	**$**	**-**
Cash equivalents*		**83,406**		**201,851**		**285,257**		**83,406**		**-**		**-**
	$	**279,825**	**$**	**201,851**	**$**	**481,676**	**$**	**279,825**	**$**	**-**	**$**	**-**

Fair Value Measurements at December 31, 2019 Using:

		Aggregate Fair Value		Net Asset Value		Admitted Assets		Level 1		Level 2		Level 3
Cash	$	209,840	$	-	$	209,840	$	209,840	$	-	$	-
Cash equivalents*		82,016		222,755		304,771		82,016		-		-
	$	291,856	$	222,755	$	514,611	$	291,856	$	-	$	-

* In accordance with SSAP 100R, certain investments that were measured at NAV have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the line items presented in the statutory statements of admitted assets, liabilities, surplus and other funds.

18. Reconciliation with Annual Statement

There were no differences between the 2020 annual statement and 2019 annual statement as filed with the TDI and the 2020 and 2019 audited statutory financial statements.

19. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2020, the date of the most recent statutory statements of admitted assets, liabilities, surplus, and other funds through April 26, 2021, the date the statutory financial statements were issued. The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the statutory financial statements.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2020
(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Long- Term Bonds (Schedule D, Part 1):				
U.S. Governments	$ -	-	$ -	-
All other governments	-	-	-	-
U.S. states, territories and possessions, etc. guaranteed	-	-	-	-
U.S. political subdivisions of states, territories, and possessions, guaranteed	-	-	-	-
U.S. special revenue and special assessment obligations, etc. non-guaranteed	-	-	-	-
Industrial and miscellaneous	-	-	-	-
Hybrid securities	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
SVO identified funds	-	-	-	-
Unaffiliated bank loans	-	-	-	-
Total long-term bonds	-	-	-	-
Preferred stocks (Schedule D, Part 2, Section 1):				
Industrial and miscellaneous (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
Total preferred stocks	-	-	-	-
Common stocks (Schedule D, Part 2, Section 2):				
Industrial and miscellaneous Publicly traded (Unaffiliated)	-	-	-	-
Industrial and miscellaneous Other (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
Parent, subsidiaries and affiliates Other	-	-	-	-
Mutual funds	-	-	-	-
Unit investments trusts	-	-	-	-
Closed-end funds	-	-	-	-
Total common stocks	-	-	-	-
Mortgage loans (Schedule B):				
Farm mortgages	-	-	-	-
Residential mortgages	-	-	-	-
Commercial mortgages	-	-	-	-
Mezzanine real estate loans	-	-	-	-
Total mortgage loans	-	-	-	-
Real Estate (Schedule A):				
Properties occupied by company	-	-	-	-
Properties held for production of income	-	-	-	-
Properties held for sale	-	-	-	-
Total real estate	-	-	-	-

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2020
(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Cash, cash equivalents and short-term investments:				
Cash (Schedule E, Part 1)	196,419	40.78	196,419	40.78
Cash equivalents (Schedule E, Part 2)	285,257	59.22	285,257	59.22
Short-term investments (Schedule DA)	-	-	-	-
Total cash, cash equivalents and short-term investments	481,676	100.00	481,676	100.00
Contract loans	-	-	-	-
Derivatives (Schedule DB)	-	-	-	-
Other invested assets (Schedule BA)	-	-	-	-
Receivables for securities	-	-	-	-
Securities Lending (Schedule DL, Part 1)	-	-	-	-
Other invested assets (Page 2, Line 11)	-	-	-	-
Total invested assets	$ 481,676	100.00	$ 481,676	100.00

**Gross investment holdings as valued in compliance with the NAIC Accounting Procedures Manual.*

*** The Association has no securities lending reinvested collateral at December 31, 2020.*

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Supplemental Investment Risk Interrogatories
December 31, 2020
(Amounts in Thousands)

1) Reporting entity's total admitted assets as reported in the accompanying financial statements. $ 484,193

Questions 2 through 19 are not applicable.

20) Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
	Amount	Percentage of Total Admitted Assets	1st Qtr	2nd Qtr	3rd Qtr
Reverse repurchase agreements	$ 83,406	17.23%	$ 89,235	$ 108,267	$ 66,163

Questions 21 through 23 are not applicable.

See accompanying independent auditors' report on supplemental information.

7.1	Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?	YES[ ] NO [X]
7.2	If yes, indicate the number of reinsurance contracts containing such provisions.	N/A
7.3	If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?	YES[ ] N/A [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year–end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity; or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. YES[ ] NO [X]

See accompanying independent auditors' report on supplemental information.

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract? YES[ ] NO [X]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

N/A

9.4 Except for transactions meeting the requirements of paragraph 36 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (“SAP”) and as a deposit under generally accepted accounting principles (“GAAP”); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? YES [ ] NO [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP. N/A

See accompanying independent auditors' report on supplemental information.

5E3. GASB

Texas Windstorm Insurance Association

Financial Statements and Required Supplementary Information

For the Years Ended December 31, 2020 and 2019

Calhoun, Thomson + Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Financial Statements and Required Supplementary Information

For the Years Ended December 31, 2020 and 2019

Texas Windstorm Insurance Association

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Calhoun, Thomson+Matza LLP
Certified Public Accountants

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Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Texas Windstorm Insurance Association (the "Association"), a component unit of the State of Texas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Windstorm Insurance Association as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in the Summary of Significant Accounting Policies, the financial statements present only the Association and do not purport to, and do not, fairly present the financial position of the State of Texas, the changes in its financial position, or, where applicable, its cash flows for the years ended 2020 and 2019, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to these matters.

As discussed in Note 14, as of December 31, 2020, the Association had approximately $61 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. As discussed in Note 9, by state statute, any net gain from operations must be paid to the Catastrophe Reserve Trust Fund ("CRTF"). As of December 31, 2020, the balance in the CRTF was approximately $179.2 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

As discussed in the summary of significant accounting policies, in accordance with Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess member insurance companies $1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place these public securities and the sufficiency of that amount to cover future losses will depend on market conditions and the financial and operating results of the Association. Our opinion is not modified with respect to these matters.

As discussed in Note 5, ultimate loss projections for Hurricane Harvey were estimated to be $1.7 billion by the Association's appointed actuary as of December 31, 2020. If the ultimate loss projection changes in the future it could have a material adverse impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 6 to 15, schedules of changes in net pension liability and related ratios, on page 46, and schedules of employer contributions on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cohn, Thomas & Matza, LLP

April 26, 2021

Our discussion and analysis of the financial performance of Texas Windstorm Insurance Association (the "Association") provides an overview of the Association's financial activities for the years ended December 31, 2020 and 2019. The information should be read in conjunction with the Association's financial statements.

Nature of Business

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Association is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

(Amounts in Thousands)

Financial Summary

A summary of the statements of net position for the Association is presented below:

December 31,		**2020**		2019
Cash and cash equivalents	**$**	**481,676**	$	514,611
Assessment receivable		**2,199**		92,199
Capital assets		**5,025**		1,161
Other assets		**3,906**		2,819
Total assets		**492,806**		610,790
Deferred outflows of resources		**3,881**		3,639
	$	**496,687**	$	614,429
Other liabilities	**$**	**401,046**	$	453,298
Borrowed money – bonds and interest payable		**236,572**		331,742
Total liabilities		**637,618**		785,040
Deferred inflows of resources		**2,351**		1,840
Total liabilities and deferred inflows of resources		**639,969**		786,880
Net position:				
Investment in capital assets		**5,025**		1,161
Unrestricted		**(148,307)**		(173,612)
Total net position		**(143,282)**		(172,451)
	$	**496,687**	$	614,429

(Amounts in Thousands)

A summary of the statements of revenues, expenses, and changes in net position for the Association is presented below:

Years ended December 31,		**2020**		2019
Operating revenues:				
Net premiums earned	**$**	**261,574**	$	287,477
Operating expenses:				
Losses and loss adjustment expenses		**118,470**		113,398
Underwriting expenses		**90,242**		94,068
Total expenses		**208,712**		207,466
Operating income		**52,862**		80,011
Nonoperating (expense) revenue		**(23,693)**		15,284
Increase in net position before federal income tax expense		**29,169**		95,295
Federal income tax expense		**-**		-
Change in net position		**29,169**		95,295
Net position at beginning of year		**(172,451)**		(267,746)
Net position at end of year	**$**	**(143,282)**	$	(172,451)

ANALYSIS OF FINANCIAL POSITION

Assets

The Association maintains cash and cash equivalents at banks consisting of cash, certificates of deposit, reverse repurchase agreements, and money market mutual funds. Money market mutual funds are recorded at net asset value, which approximates fair value. Reverse repurchase agreements are recorded at fair value. As of December 31, 2020, cash and cash equivalents decreased $32,935 from December 31, 2019. The decrease was partially attributable to repayments of bond principal and is offset by assessments collected from insurance carriers resulting from Hurricane Harvey payments. As of December 31, 2019, cash and cash equivalents decreased $141,516 from December 31, 2018.The decrease was primarily attributable to the contribution to the CRTF of $110,590 which was accrued as of December 31, 2018 and a decrease in written premium year over year.

The assessment receivable was $2,199 and $92,199 as of December 31, 2020 and 2019, respectively. The decrease was related to the $90,000 assessment receipts during 2020. The assessment receivable was $92,199 and $2,199 as of December 31, 2019 and 2018, respectively. The increase was related to the $90,000 member assessment approved by the Commissioner of Insurance on January 10, 2020 (see Note 9).

Liabilities

The statutory fund payable account was $0 and $52,641 as of December 31, 2020 and 2019, respectively. These funds are payable to the CRTF, and under control of the Texas Department of Insurance ("TDI"). The decrease is related to no accrued CRTF payable as there was no net gain from operations for the year 2020. The statutory fund payable account was $52,641 and $110,590 as of December 31, 2019 and 2018, respectively. These funds are payable to the CRTF, and under control of the TDI. The decrease is related to lower premium volume and the designation of $45,000 for an anticipated partial bond redemption in May 2020 (see Note 8).

Loss and loss adjustment expense ("LAE") reserves are based on past loss experience and consideration of current claim trends as well as prevailing social, economic and legal conditions. Loss and LAE reserves are not discounted. A review of the reserves is conducted quarterly by management to evaluate the accuracy of the determination of the loss and LAE reserves and to observe adherence to corporate policy.

The reserve for losses and LAE is based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims.

The December 31, 2020 direct loss and LAE reserves decreased $4,797 from 2019. This decrease in reserves was the result of prior year payments of reserves offset by current year storm activity. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2020 and 2019 make a reasonable provision for the Association's claim liabilities.

The December 31, 2019 direct loss and LAE reserves decreased $31,660 from 2018. This decrease in reserves was the result of favorable storm activity during 2019 and continued settlement of prior year claims from 2017 storm activity. The ultimate estimate for losses and LAE related to Hurricane Harvey was increased by $90,000 during the second quarter of 2019 due to a greater number and severity of supplemental payments on reopened claims. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2019 and 2018 make a reasonable provision for the Association's claim liabilities.

Borrowed money – bonds and interest payable

Bonds consist of $500,000 in Texas Public Finance Authority Class 1 Revenue Bonds (Texas Windstorm Insurance Association Program), Taxable Series 2014 (the "Bonds"), as permitted by Texas Statute. The Bonds fully mature by 2024. The principal balance of Bonds outstanding as of December 31, 2020 and 2019 was $227,200 and $318,600, respectively. The decrease is attributable to scheduled principal payments during the year and early partial redemption of $45,000 paid during 2020. Total interest payable as of December 31, 2020 and 2019 was $9,372 and $13,142, respectively. The principal balance of Bonds outstanding as of December 31, 2019 and 2018 was $318,600 and $368,500, respectively. The decrease is attributable to scheduled principal payments during the year. Total interest payable as of December 31, 2019 and 2018 was $13,142 and $15,201, respectively.

Capital and Surplus

The net statutory gain from operations of the Association must be transferred to the CRTF following the close of each business year. Under the statutory agreement with the TDI, monies in the CRTF are to be used for purposes directly related to funding the payment of insured losses from windstorm and hail catastrophe losses in excess of premium and other revenue of the Association in a catastrophe year.

During 2020 and 2019, the Association paid $52,641 and $110,590 to the CRTF representing the 2019 and 2018 net gain from operations. The Association accrued $0 and $52,641 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2020 and 2019, respectively. During 2019 and 2018, the Association paid $110,590 and $0 to the CRTF representing the 2018 and 2017 net gain from operations. The Association accrued $52,641 and $110,590 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2019 and 2018, respectively.

Reinsurance

During 2020 and 2019, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Reinsurance Depopulation Program ("Assumption Program") (see Note 10).

(Amounts in Thousands)

The effect on premiums written and earned for the years ended December 31, 2020 and 2019 is as follows:

	2020		2019	
	Written	**Earned**	Written	Earned
Direct premium	**$ 369,600**	**369,179**	$ 372,017	$ 381,571
Excess of loss ceded premium	**(106,865)**	**(106,865)**	(92,403)	(92,403)
Depopulation ceded premium	**(740)**	**(740)**	(1,691)	(1,691)
Net	**$ 261,995**	**261,574**	$ 277,923	$ 287,477

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

Unearned premiums are reported as follows:

December 31,	**2020**	2019
Gross unearned premiums	**$ 185,917**	$ 185,495
Ceded unearned premiums	**-**	-
	$ 185,917	$ 185,495

Commitments and Contingencies

The Association leases office space under a non-cancelable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancelable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2020.

The minimum aggregate rental commitments are as follows:

Years Ending December 31,	Amount
2021	$ 1,062
2022	1,088
2023	-
2024	-
2025 and thereafter	-
	$ 2,150

Rental expense under the non-cancelable operating lease was approximately $1,413 and $1,422 for the years ended December 31, 2020 and 2019, respectively.

Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2020. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured in 2020 and as a result, there was no round five implemented on December 1, 2020. Round 5 commenced in early 2021 and the novation to the carriers will occur on March 1, 2022.

Effective December 1, 2019, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year four of the Assumption Program. A total of 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies transferred to participating companies on June 1, 2020. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 were settled at the end of the treaty period, June 1, 2020.

As of December 31, 2020 and 2019, funds held by company under reinsurance treaties was $0 and $179, respectively, and is included in the statements of net position.

During 2020 and 2019, the Association recognized ceded written premiums of $740 and $1,691, respectively, as a result of the Assumption Program.

Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2020 and 2019, the Association paid expenses for TFPA under its management contract and was reimbursed $14,314 and $14,133, respectively. As of December 31, 2020 and 2019, the Association incurred or paid expenses for which it has not been reimbursed of $1,132 and $1,076, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days. During 2019 and 2018, the Association paid expenses for TFPA under its management contract and was reimbursed $14,133 and $13,787, respectively. As of December 31, 2019 and 2018, the Association incurred or paid expenses for which it has not been reimbursed of $1,076 and $1,029, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

RESULTS OF OPERATIONS

Revenues

Direct written premium was $369,600 and $372,017 for the years ended December 31, 2020 and 2019 respectively. The 1% decrease from 2019 to 2020 was the result of lower policy count and continued depopulation efforts. Direct written premium was $372,017 and $395,552 for the years ended December 31, 2019 and 2018 respectively. The 6% decrease from 2018 to 2019 was the result of a decrease in policy count and depopulation efforts during 2019 and 2018.

Net earned premium was $261,574 and $287,477 for the years ended December 31, 2020 and 2019, respectively. The 9% decrease from 2019 to 2020 was a result of continued reductions in written premium from the prior two years. Net earned premium was $287,477 and $301,515 for the years ended December 31, 2019 and 2018, respectively. The 5% decrease from 2018 to 2019 was a result of a decrease in policy count and depopulation efforts during 2019 and 2018.

Net investment (expense) income was $1,694 and $6,226 for the years ended December 31, 2020 and 2019, respectively. The decrease in net investment income reflects the sharp drop in interest rate return during 2020. Net investment income was $6,226 and $5,014 for the years ended December 31, 2019 and 2018, respectively. In 2019, the increase in net investment income reflects an improved rate environment.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2020 and 2019, the negative position of the Association is $143,282 and $172,451, respectively. As of December 31, 2019 and 2018, the net negative position of the Association is $172,451 and $267,746, respectively.

Net Loss and Loss Adjustment Expenses

Net loss and LAE was $118,470 and $113,398 for the years ended December 31, 2020 and 2019, respectively. The increase in net loss and LAE is primarily due to the Association being impacted by Hurricanes Hanna, Laura and Delta which had an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020 offset by no development from Hurricane Harvey in 2020 that was experienced in 2019. Net loss and LAE was $113,398 and $175,998 for the years ended December 31, 2019 and 2018, respectively. The decrease in net loss and LAE is primarily due to a relatively quiet storm season in 2019 and lower levels of unfavorable development associated with Hurricane Harvey in 2019 compared to 2018. Unfavorable development of losses and LAE related to Hurricane Harvey resulted in the Association recording an increase in the ultimate loss estimate for Hurricane Harvey of $90,000 and $164,000 in 2019 and 2018, respectively.

Underwriting Expenses

Underwriting expenses were $90,242 and $94,068 for the years ended December 31, 2020 and 2019, respectively. Underwriting expenses decreased in 2020 approximately 4% while direct written premium decreased approximately 1%. Reductions in commission and premium were offset by costs associated with system implementations. Underwriting expenses were $94,068 and $96,982 for the years ended December 31, 2019 and 2018, respectively. Underwriting expenses decreased in 2019 approximately 3% while direct written premium decreased approximately 6%. Reductions in commission and premium were offset by costs associated with system implementations.

Texas Windstorm Insurance Association

Statements of Net Position
(Amounts in Thousands)

December 31,		**2020**		2019
Assets and deferred outflows of resources				
Assets				
Cash and cash equivalents	**$**	**481,676**	$	514,611
Assessment receivable		**2,199**		92,199
Capital assets, net		**5,025**		1,161
Other assets		**3,906**		2,819
Total assets		**492,806**		610,790
Deferred outflows of resources related to pensions				
Differences between expected and actual experience		**701**		468
Changes in assumptions		**3,180**		3,171
Total deferred outflows of resources		**3,881**		3,639
	$	**496,687**	$	614,429

See accompanying summary of significant accounting policies and notes to financial statements.

Statements of Net Position
(Amounts in Thousands)
(Continued)

December 31,		**2020**		2019
Liabilities, deferred inflows of resources and net position				
Liabilities				
Losses and loss adjustment expense reserves	**$**	**164,401**	$	169,198
Unearned premiums		**185,917**		185,495
Ceded reinsurance premiums payable, net of ceding commissions		**25,908**		22,381
Funds held by company under reinsurance treaties		**-**		179
Borrowed money – bonds and interest payable		**236,572**		331,742
Statutory fund payable		**-**		52,641
Other liabilities		**24,820**		23,404
Total liabilities		**637,618**		785,040
Deferred inflows of resources related to pensions				
Net difference between projected and actual earnings on plan investments		**2,183**		1,588
Differences between expected and actual experience		**113**		183
Changes in assumptions		**55**		69
Total deferred inflows of resources		**2,351**		1,840
Total liabilities and deferred inflows of resources		**639,969**		786,880
Net position				
Investment in capital assets		**5,025**		1,161
Unrestricted		**(148,307)**		(173,612)
Total net position		**(143,282)**		(172,451)
	$	**496,687**	$	614,429

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Revenues, Expenses and Changes in Net Position
(Amounts in Thousands)

Years ended December 31,		**2020**		2019
Operating revenues				
Premiums earned	**$**	**369,179**	$	381,571
Premiums ceded		**(107,605)**		(94,094)
Total operating revenues		**261,574**		287,477
Operating expenses				
Losses and loss adjustment expenses		**118,470**		113,398
Underwriting expenses		**90,242**		94,068
Total operating expenses		**208,712**		207,466
Operating income		**52,862**		80,011
Nonoperating revenues and (expenses)				
Net investment (loss) income earned		**(1,694)**		6,226
Interest expense		**(21,999)**		(28,343)
Assessment income		**-**		90,000
Statutory fund costs		**-**		(52,641)
Other income		**-**		42
Total nonoperating (expenses) revenues		**(23,693)**		15,284
Increase in net position before federal income tax expense		**29,169**		95,295
Federal income tax expense		**-**		-
Change in net position		**29,169**		95,295
Net position:				
Net position, beginning of year		**(172,451)**		(267,746)
Change in net position		**29,169**		95,295
Net position, end of year	**$**	**(143,282)**	$	(172,451)

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,	**2020**	2019
Cash flows from operating activities:		
Premiums collected, net of reinsurance	**$ 264,820**	$ 280,281
Losses and loss adjustment expense paid	**(123,321)**	(145,048)
Underwriting expenses paid	**(88,413)**	(92,383)
Receivable from affiliate	**(57)**	(47)
Net cash provided by operating activities	**53,029**	42,803
Cash flows from noncapital financing activities:		
Bond principal paid	**(91,400)**	(49,900)
Financing costs paid	**(3,058)**	(2,296)
Bond interest paid	**(25,769)**	(30,401)
Statutory fund paid	**(52,641)**	(110,590)
Assessment income received	**90,000**	-
Other	**-**	42
Net cash used in noncapital financing activities	**(82,868)**	(193,145)
Cash flows from capital and related financing activities:		
Capital assets	**(4,577)**	(70)
Net cash used in capital and related financing activities	**(4,577)**	(70)
Cash flows from investing activities:		
Net investment income	**1,481**	8,896
Net cash provided by investing activities	**1,481**	8,896
Net decrease in cash and cash equivalents	**(32,935)**	(141,516)
Cash and cash equivalents, beginning of year	**514,611**	656,127
Cash and cash equivalents, end of year	**$ 481,676**	$ 514,611

See accompanying summary of significant accounting policies and notes to financial statements.

(Amounts in Thousands)

Years ended December 31,		**2020**		2019
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	**$**	**52,862**	$	80,011
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		**713**		1,743
Changes in assets and liabilities:				
Losses and loss adjustment expense reserves		**(4,797)**		(31,660)
Unearned premiums		**422**		(9,555)
Ceded reinsurance premiums payable		**3,527**		2,209
Other liabilities		**1,844**		1,193
Other assets		**(1,542)**		(1,138)
Net cash provided by operating activities	**$**	**53,029**	$	42,803

See accompanying summary of significant accounting policies and notes to financial statements.

Nature of Business

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the “Act”), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas (“seacoast territory”). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

Organization

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

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association’s primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier counties and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan’s Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance, or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance ("TDI"). Applications will be accompanied by a full annual premium or a deposit followed by installment payments. In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

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

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association's Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, the TDI inspectors or the TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

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

Approximately $4,200,000 in funding was secured for the 2020 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4,200,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2020 hurricane season is, in order:

- $100,000 in CRTF funds
- $500,000 in Class 1 public securities
- $500,000 in Class 1 member assessments
- $250,000 in Class 2 public securities
- $250,000 in Class 2 member assessments
- $250,000 in Class 3 public securities
- $250,000 in Class 3 member assessments
- $2,100,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of the assumption process.

The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2020. The Assumption Program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 1,007 policies were novated on May 31, 2020. The Assumption Program was restructured in 2020 and will resume in 2021.

Basis of Accounting
While the Association is an instrumentality of the State of Texas, the State of Texas General Fund is not liable for the Associations claims, losses, or other liabilities. However, the Association meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

The Association is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Association uses the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

In May of 2020, the Governmental Accounting Standards Board ("GASB") issued Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance. This statement postpones the effective date of GASB 87 to fiscal years beginning after June 15, 2021.

In January of 2020, GASB issued Statement No. 92, Omnibus 2020. This statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3. The requirements related to the effective date of Statement No. 87 and Implementation Guide 2019-3 are effective for periods beginning after December 15, 2019. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

In June of 2017, the GASB issued Statement No. 87, Leases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

Use of Significant Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The reserves for unpaid losses and loss adjustment expense are significant estimates made by management.

Cash Equivalents
For the purposes of the statements of cash flows, the Association considers all highly liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents, which include money market mutual funds, are recorded at Net Asset Value ("NAV"), which approximates fair value.

Reverse Repurchase Agreements
Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

Capital Assets
The Association has invested funds in electronic data processing equipment and software, in addition to furniture and equipment and is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years.

Income Taxes
In 2010, the Association applied for and received a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"). The PLR requested acknowledgement that the Association's income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code ("IRC"). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2020, the statute of limitations remains open for the 2017 to 2020 tax years. No further federal income tax impact is expected in the future.

Operating Revenues and Expenses
Operating revenues are those revenues that are generated directly from the primary activity of the Association. For the Association, these revenues are primarily the premiums charged to policyholders. Operating expenses include incurred losses and necessary costs incurred to provide and administer claims.

All revenue not meeting the definition of operating revenue and expenses are reported as nonoperating revenues and expenses. Significant or major components of nonoperating revenues and expenses include interest expense, assessment income, statutory fund costs, and statutory fund income and are included in the statements of revenues, expenses and changes in net position.

Premiums
All policies issued by the Association have a maximum term of one year from date of issuance. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. The liability for unearned premiums as of the end of the Association's year is computed on a pro-rata basis over the term of the policies. All premium rates charged by the Association must be approved by the TDI Commissioner.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statements of net position.

Those premiums received for policies which are not effective and not issued as of year-end are included in other liabilities within the Association's statements of net position.

Policy Acquisition Costs
Acquisition costs consisting of commissions and premium taxes, vary with and are primarily related to the issuance of new and renewal insurance policies. Acquisition costs are expensed as incurred.

Losses and Loss Adjustment Expenses
Loss and LAE reserves are based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance
In the normal course of business, the Association seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

Long-Lived Assets – Impairment and Disposal
The Association reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

(Amounts in Thousands)

1. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

December 31,		**2020**		2019
Cash	**$**	**196,419**	$	209,840
Cash equivalents:				
Reverse repurchase agreements		**83,406**		82,016
Money market mutual funds		**201,851**		222,755
Cash equivalents		**285,257**		304,771
	$	**481,676**	$	514,611

Money Market Mutual Funds

The Association invests in money market mutual funds which are included in cash equivalents. The fair value of money market mutual funds was approximately $201,851 and $222,755 as of December 31, 2020 and 2019, respectively.

Reverse Repurchase Agreements

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (see Note 8). The TTSTC's minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S. Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $83,406 and $82,016 as of December 31, 2020 and 2019, respectively, and is included in cash and cash equivalents in the statements of net position.

Reverse Repurchase Agreement

Fair Value as of December 31,		**2020**		2019
Open	**$**	**-**	$	-
30 days or less		**83,406**		82,016
31 to 60 days		**-**		-
61 to 90 days		**-**		-
Greater than 90 days		**-**		-
Securities received		**-**		-
	$	**83,406**	$	82,016

(Amounts in Thousands)

2. Capital assets

Capital assets consist of the following:

December 31,		**2020**		2019
Furniture and fixtures	**$**	540	$	540
Electronic data processing equipment and software		15,043		10,466
Leasehold improvements		1,858		1,858
		17,441		12,864
Less: accumulated depreciation		(12,416)		(11,703)
	$	5,025	$	1,161

Depreciation and amortization expense was $713 and $1,743 for the years ended December 31, 2020 and 2019, respectively.

3. Reinsurance

During 2020 and 2019, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Aggregate Excess of Loss

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

(Amounts in Thousands)

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (see Note 10).

The effect of reinsurance on premiums written and earned for the years ended December 31, 2020 and 2019 is as follows:

	2020		2019	
	Written	**Earned**	Written	Earned
Direct premium	**$ 369,600**	**369,179**	$ 372,017	$ 381,571
Excess of loss ceded premium	**(106,865)**	**(106,865)**	(92,403)	(92,403)
Depopulation ceded premium	**(740)**	**(740)**	(1,691)	(1,691)
Net	**$ 261,995**	**261,574**	$ 277,923	$ 287,477

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

As of December 31, 2020 and 2019, the Association had reinsurance recoverables of $66 and $7, respectively, of paid losses and LAE as a result of the Assumption Program and are included in other assets in the statements of net position.

4. Unearned Premiums

Unearned premiums are reported as follows:

December 31,	2020	2019
Gross unearned premiums	**$ 185,917**	$ 185,495
Ceded unearned premiums	**-**	-
	$ 185,917	$ 185,495

(Amounts in Thousands)

5. **Losses and Loss Adjustment Expense Reserves**

The following table provides a reconciliation of the beginning and ending reserve balances, net of reinsurance recoverables, for losses and loss adjustment expenses:

Years ended December 31,	**2020**	2019
Beginning balance	**$ 169,198**	$ 200,858
Reinsurance recoverable	**68**	78
Beginning net balance	**169,130**	200,780
Incurred related to:		
Current loss year	**118,363**	26,454
Prior loss years	**107**	86,944
Losses and loss adjustment expense incurred	**118,470**	113,398
Paid related to:		
Current loss year	**66,784**	19,918
Prior loss years	**56,501**	125,130
Paid losses and loss adjustment expense	**123,285**	145,048
Ending net balance	**164,315**	169,130
Reinsurance recoverable	**86**	68
Ending balance	**$ 164,401**	$ 169,198

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statements of revenues, expenses and changes in net position. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statements of revenues, expenses and changes in net position of $118,470 had relatively minimal unfavorable prior year development. During 2020, Association policyholders were impacted by Hurricanes Hanna, Laura and Delta which have an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020. The coverage area insured by the Association was previously impacted by Hurricane Harvey in 2017. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000 as of December 31, 2020. The ultimate losses and LAE attributable to Hurricane Harvey was increased by $90,000 in 2019 due to the increase in severity of claims development. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. Due to the inherently uncertain process involving loss and LAE reserve estimates, the final resolution of the ultimate liability may be different from that anticipated at the reporting date. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2020 and 2019 make a reasonable provision for the Association's claim liabilities.

6. Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

7. Service Contract with Texas FAIR Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2020 and 2019 the Association paid expenses for TFPA under its management contract and was reimbursed $14,314 and $14,133, respectively. As of December 31, 2020 and 2019, the Association incurred or paid expenses for which it has not been reimbursed of $1,132 and $1,076, respectively, on behalf of TFPA, and are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

8. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued Bonds on behalf of the Association for the purposes of financing future costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for $500,000 of which $227,200 and $318,600 principal balance was outstanding as of December 31, 2020 and 2019, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position. The bonds mature July 1, 2024 and can be redeemed in whole or in part by the Issuer beginning July 1, 2019. The original Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made on January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the debt service and related accounts held by the TTSTC.

There are various general and special covenants associated with the Bonds. The primary covenants, which exist as long as there are outstanding Class 1 Public Securities and administrative expenses, require that; (1) the Association will take actions that produce projected net coverage revenues in an amount not less than 125% of the obligations and administrative expenses due in the succeeding four quarters and; (2) that actual net coverage revenues for the preceding four quarters will be in an amount not less than 110% of the actual obligations and administrative expenses for the same period. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the net premiums and other revenue held for the benefit of the bondholders. As of December 31, 2020, the Association estimates projected net coverage revenues will be 140% of the obligations and administrative expenses for the next four quarters ending December 31, 2021 which exceeds the required 125% threshold.

On May 11, 2020, the Association completed a voluntary early redemption of $45 million principal of the Bonds and paid $1.3 million interest associated with the redeemed securities. While the redemption was optional, the $46.3 million paid to redeem these securities is required to be included as a debt obligation impacting the preceding four quarters “look back” calculation. The coverage ratio for the four quarters ended December 31, 2020 is 44% or 66 percentage points below the specified ratio of 110% due to the inclusion of the $46.3 million redemption amount and losses from Hurricanes Hanna, Laura and Delta which struck the Association’s coverage areas along the Texas coast during the 2020 hurricane season. Pursuant to the Bond documents, if either the actual net coverage revenue test or the projected net coverage revenue test falls below the applicable threshold (110% and 125%, respectively) the Association is required to disclose to the Authority the action or actions (including but not limited to rate changes, reinsurance costs adjustments, and other fiscal steps) necessary to meet the requirements in the future. Future periods are forecasted to produce sufficient projected net coverage revenues as the early redemption and non-catastrophic losses from the 2020 hurricane season are excluded from the coverage calculation due to the passage of time. As a result, neither a rate adjustment nor an adjustment to reinsurance costs are deemed necessary to produce future projected net coverage revenues equal to or in excess of 125% of the obligations and administrative expenses.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption. On February 18, 2020 the Association Board of Directors approved an early redemption in the amount of $45 million and directed Association staff to request approval from the Commissioner of Insurance. On February 24, 2020, the Association received approval from the Commissioner of Insurance to redeem the requested $45 million of bond principal. The redemption was completed on May 11, 2020.

As of December 31, 2020 and 2019, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as a nonoperating expense and was $21,999 and $28,343 for the years ended December 31, 2020 and 2019, respectively, and is included in the statements of revenues, expenses and changes in net position. Interest expense of $25,769 and $30,401 was paid for the years ended December 31, 2020 and 2019, respectively. Interest payable was $9,372 and $13,142 as of December 31, 2020 and 2019, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position.

(Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2020 is as follows:

Description	Bonds Outstanding January 1, 2020	Bonds Issued	Bonds Matured/Redeemed	Bonds Outstanding December 31, 2020
Taxable Series 2014	**$ 318,600**	**$ -**	**$ 91,400**	**$ 227,200**

Changes in borrowed money - bonds payable for the year ended December 31, 2019 is as follows:

Description	Bonds Outstanding January 1, 2018	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2018
Taxable Series 2014	$ 368,500	$ -	$ 49,900	$ 318,600

The aggregate maturities for the next five years and thereafter is as follows:

Years ending December 31,	Amount
2021	$ 50,200
2022	54,400
2023	58,900
2024	63,700
2025	-
On Demand	-
	$ 227,200

9. Statutory Fund

In 1993, the Texas legislature created the CRTF. At the end of each year and pursuant to administrative rules, the Association shall deposit the statutory net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the CRTF and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the CRTF.

When an occurrence or series of occurrences in a catastrophe area occurs, the Association shall pay losses in excess of premium and other revenue of the Association from available reserves of the Association and available amounts in the CRTF. Administrative rules adopted by the commissioner of insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts ("comptroller") administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in the TDI until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association's Plan of Operation.

The CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the State of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2020 and 2019, statutory fund costs were $0 and $52,641, respectively, based on the direction of the TDI and based on its interpretation of the relevant statutes. The Association is required to use the net gain from operations of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although amounts held in the CRTF are not presented as assets in the statements of net position, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law. No contribution to the CRTF has been accrued as of December 31, 2020, while the December 31, 2019 payable to the CRTF of $52,641 was remitted to the TTSTC on March 30, 2020.

For the years ended December 31, 2020 and 2019, the CRTF held $179,174 and $122,496, respectively.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The insurance group's assessment of $2,199 has been non-admitted by the Association as of December 31, 2020. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2020 and 2019, the negative net position of the Association is $143,282 and $172,451, respectively.

10. Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2020. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured in 2020 and as a result, there was no round five implemented on December 1, 2020. Round 5 commenced in early 2021 and the novation to the carriers will occur on March 1, 2022.

Effective December 1, 2019, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year four of the Assumption Program. A total of 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies transferred to participating companies on June 1, 2020. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 were settled at the end of the treaty period, June 1, 2020.

As of December 31, 2020 and 2019, funds held by company under reinsurance treaties was $0 and $179, respectively, and is included in the statements of net position.

During 2020 and 2019, the Association recognized ceded written premiums of $740 and $1,691, respectively, as a result of the Assumption Program.

(Amounts in Thousands)

11. Employee Benefit Plans

Defined Benefit Plan

Plan Description. The Association is a participating employer in The Pension Plan for Insurance Organizations (PPIO) (the "Plan") which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The PPIO is an agent multi-employer defined benefit pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations (c/o Greenberg Traurig, LLP). The authority to establish and amend the benefit provisions of the plans that participate in the multiple-employer pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations is assigned to the respective employer entities. For the Association, that authority rests with the Association's Board of Directors. The Named Fiduciaries of The Pension Plan for Insurance Organizations issue publicly available information about the Plan that is prepared to comply with the Employee Retirement Income Security Act of 1974 (ERISA). That information may be obtained from the plan administrator, The Named Fiduciaries of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP, 200 Park Avenue, 20th Floor, New York, NY 10166.

Covered employees are the only class of employees covered under the pension plan and are employees who have completed 1,000 hours of service within a 12-month consecutive period. The benefits are paid based on specific events and in the form of a monthly benefit payment. A lump sum benefit is payable if its present value of the monthly benefit is less than $20,000. The key elements of the pension formula consist of a percentage of average earnings multiplied by years and months of service. There are no automatic post-employment benefit changes or automatic cost of living adjustments affecting benefit payments.

Employees covered by benefit terms: As of December 31, 2020 and 2019, the following employees were covered by the benefit terms:

December 31,	**2020**	2019
Inactive employees or beneficiaries currently receiving benefits	**55**	50
Inactive employees entitled to but not yet receiving benefits	**61**	62
Active employees	**218**	220
Total	**334**	332

Contributions. PPIO members are not required to contribute to the Plan. The Association is required to contribute at an actuarially determined rate: current covered payroll rate is 14.98% percent and 15.34 percent of annual covered payroll for the years 2020 and 2019, respectively. The contribution requirements of plan members and the Association are established and may be amended by The Named Fiduciaries of the PPIO.

(Amounts in Thousands)

Net Pension Liability

The Association's net pension liability was measured as of December 31, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

Actuarial assumptions. The total pension liability in the December 31, 2020 and 2019 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

December 31,	**2020**	2019
Inflation	**2.50%**	2.50%
Salary increases	**2.50%**	2.50%
Investment rate of return	**5.00%**	5.50%

As of December 31, 2020, mortality rates were based on the Pri-2012 separate employee, retiree and contingent annuitant rates, and the MP-2020 mortality improvement scale. As of December 31, 2019, mortality rates were based on the Pri-2012 white collar mortality tables with separate employee, retiree and contingent annuitant rates, and the MP-2019 mortality improvement scale.

Long-term expected rate of return: The long-term expected rate of return on pension plan investments was determined using an expected geometric mean return and portfolio weighting method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The overall 20-year geometric mean portfolio real return is 2.06% and 2.8% during 2020 and 2019, respectively. The overall 20-year geometric median portfolio real return is 1.92% and 2.7% during 2020 and 2019, respectively. The overall 20-year geometric 75th percentile portfolio real return is 2.95% and 3.7% during 2020 and 2019, respectively. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension valuation assumes an annual inflation rate of 2.5%. The expected returns above assume passive investing and do not include any premium for active management.

(Amounts in Thousands)

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2020 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	18.2%	4.29%
Mid cap U.S. equity	5.6%	4.30%
Small cap U.S. equity	2.7%	3.91%
Real estate	4.8%	2.66%
International equity	9.5%	4.29%
Fixed income	59.0%	(0.08)%
Cash	0.2%	(0.02%)
Total	100.0%	

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2019 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	16.5%	4.41%
Mid cap U.S. equity	5.2%	4.41%
Small cap U.S. equity	2.6%	4.04%
Real estate	5.1%	3.12%
International equity	7.5%	4.41%
Fixed income	61.3%	1.35%
Cash	1.8%	0.64%
Total	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 4.50 percent and 5.50 percent during 2020 and 2019, respectively. Willis Towers Watson used their firm's proprietary capital market assumptions as of January 2020 for the various asset classes and applied those to the asset allocation of the PPIO as of January 1, 2020 to develop an overall average rate. As the Plan is a Qualified Plan under ERISA, the assumption has been made that the Plan will be sufficiently funded to pay benefits at all times. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There are no non-employer contributing entities and there are no employee contributions.

(Amounts in Thousands)

Changes in Net Pension Liability. The Association's changes in net pension liability for the years ended December 31, 2020 and 2019 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance, January 1, 2020	**$ 26,054**	**$ 21,548**	**$ 4,506**
Changes for the year:			
Service cost	**1,606**	**-**	**1,606**
Interest	**1,366**	**-**	**1,366**
Demographic losses	**373**	**-**	**373**
Contributions - employer	**-**	**2,568**	**(2,568)**
Net investment income	**-**	**2,426**	**(2,426)**
Assumption changes	**743**	**-**	**743**
Benefit payments	**(663)**	**(663)**	**-**
Administrative expenses	**-**	**77**	**(77)**
Balance, December 31, 2020	**$ 29,479**	**$ 25,956**	**$ 3,523**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance, January 1, 2019	$ 21,328	$ 16,171	$ 5,157
Changes for the year:			
Service cost	1,396	-	1,396
Interest	1,233	-	1,233
Demographic losses	317	-	317
Contributions - employer	-	2,360	(2,360)
Net investment loss	-	3,702	(3,702)
Assumption changes	2,377	-	2,377
Benefit payments	(597)	(597)	-
Administrative expenses	-	(88)	88
Balance, December 31, 2019	$ 26,054	$ 21,548	$ 4,506

(Amounts in Thousands)

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Association as of December 31, 2020 and 2019, respectively, calculated using the discount rate of 4.50 percent and 5.50 percent as well as what the Association's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50 percent and 4.50 percent) or 1-percentage-point higher (5.50 percent and 6.50 percent) than the current rate:

December 31, 2020	1% Increase (5.50%)	Current Discount Rate (4.50%)	1% Decrease (3.50%)
Net pension liability	**$ (431)**	**$ 3,523**	**$ 8,382**

December 31, 2019	1% Increase (6.50%)	Current Discount Rate (5.50%)	1% Decrease (4.50%)
Net pension liability	$ 935	$ 4,506	$ 8,963

Pension Plan Fiduciary Net Position: The pension plan's basic financial statements can be obtained from the Plan Administrator located at: The Managing Fiduciary of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP; 200 Park Avenue, 20th Floor; New York, NY 10166.

(Amounts in Thousands)

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension: For the years ended December 31, 2020 and 2019, the Association recognized pension expense of $1,854 and $2,131, respectively. During December 31, 2020 and 2019, the Association allocated pension expense of $882 and $699, respectively, to TFPA. Net pension expense included in underwriting expenses in the statements of revenues, expenses and changes in net position was $972 and $1,432 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 701**	**$ 113**
Changes in assumptions	**3,180**	**55**
Net difference between projected and actual earnings on plan investments	**-**	**2,183**
Total	**$ 3,881**	**$ 2,351**

December 31, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 468	$ 183
Changes in assumptions	3,171	69
Net difference between projected and actual earnings on plan investments	-	1,588
Total	$ 3,639	$ 1,840

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31,	Amount
2021	$ 119
2022	317
2023	(58)
2024	380
2025	566
Thereafter	206
	$ 1,530

(Amounts in Thousands)

Defined Contribution Plan:
The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. Matching contributions totaling $935 and $949 (before allocation to Texas FAIR Plan Association ("TFPA")) were made for the years ended December 31, 2020 and 2019, respectively. The Association's portion was approximately $644 and $645 for the years ended December 31, 2020 and 2019, respectively.

12. Lease Commitments
The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2020.

Years ending December 31,	Amount
2021	$ 1,062
2022	1,088
2023	-
2024	-
2025 and thereafter	-
	$ 2,150

Rental expense under the non-cancelable operating lease was approximately $1,413 and $1,422 for the years ended December 31, 2020 and 2019, respectively.

13. Commitments and Contingencies
The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2020. The line of credit agreement was entered into June 1, 2020 subsequent to the Association's Board of Directors approval on May 12, 2020. No amounts have been drawn against the line of credit. Issuance fees for the line of credit were $500 and the Association paid the lenders a 0.8% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2021, however, the line of credit was terminated by the Association on December 28, 2020 without penalty.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2019. The line of credit agreement was entered into July 1, 2019 subsequent to the Association's board of directors approval on May 7, 2019. No amounts were drawn against the line of credit. Issuance fees for the committed line of credit were $500 and the Association pays the lenders a 0.4% commitment fee against the unused portion of the line of credit. The commitment originally matured May 27, 2020, however the line of credit was terminated by the Association on December 26, 2019 without penalty.

14. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $61,000,000 of insurance exposure as of December 31, 2020 and 2019.

15. Fair Value Measurements

GASB Statement No. 72, Fair Value Measurement and Application, ("GASB Statement No. 72") requires the Association to make estimates of the fair value for financial assets and financial liabilities based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Association's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Fair values are based on inputs using quoted prices (unadjusted) for identical assets or liabilities in active markets that can be accessed on the measurement date.

- Level 2 – Fair values are based on inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

- Level 3 – Fair values are based on unobservable inputs for an asset or liability.

The Association's financial assets measured at estimated fair value on a recurring basis included cash as of December 31, 2020 and 2019 as follows:

- Cash of $196,419 and $209,840, respectively, is valued using quoted market prices (Level 1 inputs).

- Reverse repurchase agreements of $83,406 and $82,016, respectively, are valued using quoted market prices (Level 1 inputs).

In accordance with GASB Statement No. 72, cash equivalents that were measured at NAV have not been classified in the fair value hierarchy. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV. The Association's financial assets measured at NAV included in cash equivalents as of December 31, 2019 and 2018 are as follows:

- Money market mutual funds of $201,851 and $222,755, respectively, are valued using NAV per share of $1.

The Association has no financial liabilities measured at estimated fair value on a recurring basis.

16. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2020, the date of the most recent statements of net position through April 26, 2021, the date the financial statements were issued. The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the financial statements.

Required Supplementary Information

Texas Windstorm Insurance Association

Schedules of Changes in Net Pension Liability and Related Ratios
(Amounts in Thousands)

December 31,	**2020**	2019	2018	2017	2016	2015	2014	2013
Total pension liability:								
Service cost	**$ 1,606**	$ 1,396	$ 1,378	$ 1,116	$ 1,043	$ 880	$ 812	$ 867
Interest	**1,366**	1,233	1,109	1,018	951	848	716	673
Plan amendments	**-**	-	-	-	-	398	-	-
Demographic losses (gains)	**373**	317	133	(105)	58	146	(455)	1
Assumption changes	**743**	2,377	221	(113)	1,046	481	728	-
Benefit payments	**(663)**	(597)	(578)	(506)	(511)	(428)	(360)	(276)
Net change in total pension liability	**3,425**	4,726	2,263	1,410	2,587	2,325	1,441	1,265
Total pension liability – beginning	**26,054**	21,328	19,065	17,655	15,068	12,743	11,302	10,037
Total pension liability – ending	**$ 29,479**	$ 26,054	$ 21,328	$ 19,065	$ 17,655	$ 15,068	$ 12,743	$ 11,302
Plan fiduciary net position:								
Contributions – employer	**$ 2,568**	$ 2,360	$ 2,180	$ 1,594	$ 1,024	$ 931	$ 1,034	$ 1,034
Net investment income (loss)	**2,426**	3,702	(959)	1,870	869	(134)	759	1,076
Benefit payments	**(663)**	(597)	(578)	(506)	(511)	(428)	(360)	(276)
Administrative expenses	**77**	(88)	(69)	(72)	(75)	(53)	(55)	(49)
Net change in plan fiduciary net position	**4,408**	5,377	574	2,886	1,307	316	1,378	1,785
Plan fiduciary net position – beginning	**21,548**	16,171	15,597	12,711	11,404	11,088	9,710	7,925
Plan fiduciary net position – ending	**$ 25,956**	$ 21,548	$ 16,171	$ 15,597	$ 12,711	$ 11,404	$ 11,088	$ 9,710
Net pension liability - ending	**$ 3,523**	$ 4,506	$ 5,157	$ 3,468	$ 4,944	$ 3,664	$ 1,655	$ 1,592
Plan fiduciary net position as a percentage of the total pension liability	**88.05%**	82.71%	75.82%	81.81%	72.00%	75.68%	87.01%	85.91%
Covered payroll	**$ 15,730**	$ 15,388	$ 15,086	$ 12,747	$ 13,214	$ 13,847	$ 13,365	$ 12,359
Net pension liability as a percentage of covered payroll	**22.40%**	29.28%	34.18%	27.21%	37.41%	26.46%	12.38%	12.88%

See accompanying independent auditors' report.

Texas Windstorm Insurance Association

Schedules of Employer Contributions
(Amounts in Thousands)

Date	Actuarial Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2020	$ 2,568	$ 2,568	$ -	$ 15,730	16.33%
2019	$ 2,360	$ 2,360	$ -	$ 15,388	15.34%
2018	$ 2,180	$ 2,180	$ -	$ 15,086	14.45%
2017	$ 1,594	$ 1,594	$ -	$ 12,747	12.50%
2016	$ 1,024	$ 1,024	$ -	$ 13,214	7.75%
2015	$ 931	$ 931	$ -	$ 13,847	6.72%
2014	$ 1,034	$ 1,034	$ -	$ 13,365	7.74%
2013	$ 1,034	$ 1,034	$ -	$ 12,359	8.37%

See accompanying independent auditors' report.

5E4. Internal Control Letter

ctm Calhoun, Thomson+Matza LLP
Certified Public Accountants

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April 26, 2021

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

In planning and performing our audit of the financial statements of Texas Windstorm Insurance Association, (the "Association") as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the board of directors, and for filing with the Texas Department of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

Calhoun, Thomson & Matza, LLP

6. Actuarial

6A. Reserve Adequacy

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

REVIEW DATE: April 22, 2021

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of March 31, 2021

The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of March 31, 2021.

The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of $1.66 billion to $1.7 billion. I have observed consistent favorable loss and expense development since first quarter of 2020, the ultimate loss and loss adjustment expense estimate is adjusted down by $20M to $1.68B after careful consideration of inputs from claim and legal experts. The actual ultimate costs of Hurricane Harvey may differ substantially from the selected $1.68B. This variability arises from the assumptions we made regarding the adequacy of case reserves for 531 open claims, the outcome of disputed claims and the potential impact of future re-openings of closed claims as of March 31, 2021. About 290 of the 531 open claims are in some stage of litigation. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. The Actuarial team will continue to monitor current case reserve adequacy, current & future litigation/disputes and future re-openings to ensure all outstanding obligations are properly reserved.

As of March 31, 2021, TWIA carried $111.7 million in total gross loss and loss adjustment expense reserves with $31.3K 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 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.

The complete actuarial analysis is available on request.

Xiuyu Li, ACAS, MAAA
Senior Actuary

MEMORANDUM

DATE: April 27, 2021

TO: Jerry Fadden, Chief Financial Officer

RE: Estimate of Ultimate Losses for Hurricane Harvey

As of March 31, 2021, ultimate loss and loss adjustment expenses related to Hurricane Harvey were estimated to be in the range of $1.66 to $1.7 billion.

The following table outlines the details:

Estimated Ultimate Loss & LAE from Harvey	Low Estimate		High Estimate
Paid Losses and Allocated Loss Adjustment Expenses	1,507,982,693		1,507,982,693
Paid Unallocated Loss Adjustment Expenses	110,072,807		110,072,807
Loss and Allocated Loss Adjustment Expense Case Reserves	27,359,167		27,359,167
Incurred But Not Reported Reserve	17,177,497		51,532,490
Estimated Ultimate Loss & LAE from Hurricane	1,662,592,163		1,696,947,156
Selected Ultimate Loss & LAE from Hurricane		**1,680,000,000**	

The determination of an estimate of ultimate liabilities for Hurricane Harvey is unusually difficult due to the hurricane's unique nature. Consequently, such an estimate is subject to significantly greater than normal variation and uncertainty. The actual ultimate costs of Hurricane Harvey may differ substantially from the selected $1.68B. This variability arises from the assumptions we made regarding the adequacy of case reserves for 531 open claims, the outcome of disputed claims and the potential impact of future re-openings of closed claims as of March 31, 2021. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. The selected estimate of ultimate loss and loss adjustment expenses is $1.68B which is our best estimate of the expected cost of Hurricane Harvey based on all the information known as of March 31, 2021.

XL

6B. Policy Count/Exposures

Texas Windstorm Insurance Association
Statistical Report
As of March 31, 2021

County	Policies In-Force 3/31/20	Policies In-Force 3/31/21	PIF Growth Actual	PIF Growth Percentage	Exposure In-Force 3/31/20	Exposure In-Force 3/31/21	Exposure Growth Actual	Exposure Growth Percentage	YTD Written Premium 3/31/20	YTD Written Premium 3/31/21	Premium Growth Actual	Premium Growth Percentage
Aransas	5,045	5,185	140	2.80%	1,673,829,131	1,745,608,641	$71,779,510	4.30%	2,361,456	2,373,184	$11,728	0.50%
Brazoria	30,271	28,896	-1,375	-4.50%	8,862,804,034	8,515,151,014	-$347,653,020	-3.90%	11,451,555	11,464,026	$12,471	0.10%
Calhoun	3,538	3,555	17	0.50%	940,927,245	970,830,656	$29,903,411	3.20%	1,363,415	1,386,754	$23,339	1.70%
Cameron	10,598	9,831	-767	-7.20%	2,959,991,586	2,837,093,378	-$122,898,208	-4.20%	5,539,206	3,219,842	-$2,319,364	-41.90%
Chambers	3,951	3,853	-98	-2.50%	1,297,613,910	1,303,565,098	$5,951,188	0.50%	1,650,268	1,692,550	$42,282	2.60%
Galveston	57,172	58,787	1,615	2.80%	19,148,731,718	19,924,503,556	$775,771,838	4.10%	26,621,384	28,428,803	$1,807,419	6.80%
Harris	3,366	3,427	61	1.80%	1,020,826,149	1,060,691,562	$39,865,413	3.90%	888,625	910,753	$22,128	2.50%
Jefferson	24,398	24,139	-259	-1.10%	5,701,145,878	5,688,989,044	-$12,156,834	-0.20%	7,476,807	7,641,713	$164,906	2.20%
Kenedy	16	19	3	18.80%	6,305,341	4,995,326	-$1,310,015	-20.80%	18,936	18,188	-$748	-4.00%
Kleberg	798	745	-53	-6.60%	179,517,372	168,671,534	-$10,845,838	-6.00%	216,751	213,420	-$3,331	-1.50%
Matagorda	4,253	4,256	3	0.10%	1,078,819,296	1,093,761,043	$14,941,747	1.40%	1,456,086	1,541,166	$85,080	5.80%
Nueces	37,309	36,377	-932	-2.50%	10,539,943,072	10,487,937,967	-$52,005,105	-0.50%	13,101,359	13,753,570	$652,211	5.00%
Refugio	335	328	-7	-2.10%	91,483,710	93,387,389	$1,903,679	2.10%	123,613	128,357	$4,744	3.80%
San Patricio	5,796	5,558	-238	-4.10%	1,560,188,183	1,533,452,695	-$26,735,488	-1.70%	2,248,774	2,279,611	$30,837	1.40%
Willacy	343	342	-1	-0.30%	84,673,038	85,669,552	$996,514	1.20%	72,962	70,209	-$2,753	-3.80%
Total	187,189	185,298	-1,891	-1.00%	55,146,799,663	55,514,308,455	$367,508,792	0.70%	74,591,197	75,122,146	$530,949	0.70%

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2021

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
Aransas										
Commercial	64	64	74	74	176,689	176,689	202,075,941	4,288,770	278	547
Manufactured Home	31	31	32	32	46,486	46,486	5,937,382	0	113	114
Residential	1,039	1,039	1,082	1,082	2,150,009	2,150,009	1,537,595,318	128,113,591	4,794	5,046
Total	1,134	1,134	1,188	1,188	2,373,184	2,373,184	1,745,608,641	132,402,361	5,185	5,707
Brazoria										
Commercial	165	165	289	289	1,112,963	1,112,963	361,907,961	7,098,049	664	1,057
Manufactured Home	40	40	40	40	62,443	62,443	10,174,542	0	158	159
Residential	6,118	6,118	6,253	6,253	10,288,620	10,288,620	8,143,068,511	1,047,924,606	28,074	28,791
SUM:	6,323	6,323	6,582	6,582	11,464,026	11,464,026	8,515,151,014	1,055,022,655	28,896	30,007
Calhoun										
Commercial	45	45	85	85	228,420	228,420	105,464,112	2,048,950	183	368
Manufactured Home	12	12	12	12	17,851	17,851	3,986,234	0	71	72
Residential	632	632	759	759	1,140,483	1,140,483	861,380,310	71,491,487	3,301	3,647
SUM:	689	689	856	856	1,386,754	1,386,754	970,830,656	73,540,437	3,555	4,087
Cameron										
Commercial	175	175	249	249	986,626	986,626	1,001,830,934	6,220,495	601	1,180
Manufactured Home	10	10	10	10	12,506	12,506	2,343,944	0	54	54
Residential	1,844	1,844	1,867	1,867	2,220,710	2,220,710	1,832,918,500	187,172,574	9,176	9,359
SUM:	2,029	2,029	2,126	2,126	3,219,842	3,219,842	2,837,093,378	193,393,069	9,831	10,593

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2021

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Chambers										
Commercial	16	16	18	18	109,255	109,255	44,988,546	607,900	86	131
Manufactured Home	5	5	5	5	6,750	6,750	1,601,447	0	27	27
Residential	833	833	867	867	1,576,545	1,576,545	1,256,975,105	165,317,329	3,740	3,922
SUM:	854	854	890	890	1,692,550	1,692,550	1,303,565,098	165,925,229	3,853	4,080
Galveston										
Commercial	426	426	757	757	5,420,311	5,420,311	2,252,676,407	48,317,465	1,806	3,265
Manufactured Home	31	31	32	32	48,171	48,171	10,330,169	0	209	211
Residential	12,229	12,229	12,741	12,741	22,960,321	22,960,321	17,661,496,980	1,960,139,690	56,772	58,717
SUM:	12,686	12,686	13,530	13,530	28,428,803	28,428,803	19,924,503,556	2,008,457,155	58,787	62,193
Harris										
Commercial	8	8	11	11	46,604	46,604	32,279,485	480,630	53	96
Manufactured Home	0	0	0	0	0	0	135,300	0	4	4
Residential	651	651	659	659	864,149	864,149	1,028,276,777	133,422,345	3,370	3,447
SUM:	659	659	670	670	910,753	910,753	1,060,691,562	133,902,975	3,427	3,547
Jefferson										
Commercial	126	126	166	166	679,921	679,921	273,283,804	8,813,779	607	904
Manufactured Home	6	6	6	6	11,583	11,583	1,967,500	0	27	27
Residential	4,589	4,589	4,681	4,681	6,950,209	6,950,209	5,413,737,740	685,102,311	23,505	24,009
SUM:	4,721	4,721	4,853	4,853	7,641,713	7,641,713	5,688,989,044	693,916,090	24,139	24,940

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2021

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Kenedy										
Commercial	1	1	5	5	13,292	13,292	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	2	2	4	4	4,896	4,896	4,300,885	35,600	18	31
SUM:	3	3	9	9	18,188	18,188	4,995,326	35,600	19	36
Kleberg										
Commercial	7	7	12	12	21,469	21,469	13,068,309	515,760	34	59
Manufactured Home	0	0	0	0	0	0	144,500	0	2	2
Residential	141	141	141	141	191,951	191,951	155,458,725	16,193,830	709	742
SUM:	148	148	153	153	213,420	213,420	168,671,534	16,709,590	745	803
Matagorda										
Commercial	31	31	44	44	119,191	119,191	74,569,111	1,899,585	152	243
Manufactured Home	5	5	5	5	10,025	10,025	1,387,907	0	21	21
Residential	987	987	1,012	1,012	1,411,950	1,411,950	1,017,804,025	103,305,085	4,083	4,214
SUM:	1,023	1,023	1,061	1,061	1,541,166	1,541,166	1,093,761,043	105,204,670	4,256	4,478
Nueces										
Commercial	382	382	689	689	2,487,667	2,487,667	1,428,787,497	36,051,894	1,656	3,153
Manufactured Home	3	3	3	3	6,950	6,950	1,336,900	0	24	24
Residential	7,298	7,298	7,500	7,500	11,258,953	11,258,953	9,057,813,570	1,013,591,427	34,697	35,690
SUM:	7,683	7,683	8,192	8,192	13,753,570	13,753,570	10,487,937,967	1,049,643,321	36,377	38,867

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2021

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Refugio										
Commercial	4	4	10	10	6,848	6,848	20,510,135	90,000	30	58
Manufactured Home	4	4	4	4	5,440	5,440	1,123,004	0	16	19
Residential	73	73	78	78	116,069	116,069	71,754,250	6,914,115	282	316
SUM:	81	81	92	92	128,357	128,357	93,387,389	7,004,115	328	393
San Patricio										
Commercial	57	57	105	105	352,263	352,263	107,935,123	3,022,245	225	393
Manufactured Home	8	8	8	8	14,613	14,613	2,004,695	0	30	30
Residential	1,141	1,141	1,211	1,211	1,912,735	1,912,735	1,423,512,877	168,241,367	5,303	5,487
SUM:	1,206	1,206	1,324	1,324	2,279,611	2,279,611	1,533,452,695	171,263,612	5,558	5,910
Willacy										
Commercial	6	6	13	13	5,670	5,670	12,536,473	98,550	29	56
Manufactured Home	2	2	2	2	2,500	2,500	325,590	0	6	6
Residential	46	46	50	50	62,039	62,039	72,807,489	5,161,615	307	328
SUM:	54	54	65	65	70,209	70,209	85,669,552	5,260,165	342	390
Total All Counties										
Commercial	1,513	1,513	2,527	2,527	11,767,189	11,767,189	5,932,608,279	119,554,072	6,405	11,515
Manufactured Home	157	157	159	159	245,318	245,318	42,799,114	0	762	770
Residential	37,623	37,623	38,905	38,905	63,109,639	63,109,639	49,538,901,062	5,692,126,971	178,131	183,746
SUM:	39,293	39,293	41,591	41,591	75,122,146	75,122,146	55,514,308,455	5,811,681,043	185,298	196,031

7. Internal Audit
7A. Internal Audit Status & Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: May 18, 2021

SUBJECT: Status of Internal Audit Activities

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

- **Current Activities:**

Activity Description	Status
Legal & Compliance	Final report in review by management
Communications & Legislative Affairs	Final report in review by management
Disaster Recovery	Final report in review by management
Governance	Completed fieldwork – report in progress
Cash Management	Fieldwork in progress

- **Upcoming Audits and Activities:**

Activity Description	Timing
Information Security	2nd Quarter
Premium taxes	2nd Quarter
Fraud Risk Assessment	2nd / 3rd Quarter
Plan of Operation	3rd Quarter
Actuarial	3rd / 4th Quarter

- **ELT meetings:**
    - Attended Executive Leadership Team and Operations meetings.

Texas Windstorm Insurance Association
Internal Audit Plan – Lookback (2018-2020) and Prospective (2021-2023)

Process Area	2020 Inherent Risk Rating	2018	2019	2020	2021	2022	2023
Information Security	High	x			x		
Claims Processing	High		x	x		x	
Reinsurance	High			x		x	
Database and Application Administration	High			x			x
Communications	High	x		x		x	
Actuarial (Pricing and Reserving)	High	x			x		
Legal & Compliance	High	x		x			x
Underwriting	Moderate	x		x			x
Depopulation	Moderate			x		x	
Plan Of Operation	Moderate				x		x
Business Continuity of Operations	Moderate		x		x		
Disaster Recovery	Moderate			x	x		
Governance	Moderate				x		
Financial Close and Reporting	Moderate			x			x
Accounts Payable and Expense Processing	Moderate		x			x	
Application Development	Moderate	x				x	
Information Technology Services	Moderate					x	
Vendor Management	Moderate		x		x		
Facilities and Services	Moderate			x			x
Cash Management	Moderate	x			x		
Fraud Risk Assessment	Low				x		
Premium Taxes	Low				x		
Accounts Receivable	Low		x			X	
Payroll	Low		x			x	

8. Underwriting
8A. Operational Review Update

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

DATE: April 28, 2021

TO: John Polak, General Manager

FROM: Denise Larzalere, Vice President Underwriting

RE: Update on Underwriting Operational Highlights

First Quarter 2021 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 80% of new business and 94% of 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 continue to meet expectations. We are starting to see the phone volume and call patterns return to pre pandemic levels.

d. Underwriting is operating below budget, largely due to managing headcount and more efficient use of virtual and aerial inspections.

II. Underwriting Activities of Note:

a. Legislative Programs launched in 2020

i. Installments

1. The program to allow policyholders to pay in installments launched in November. It allows policyholders to pay in two installments. An additional 4-pay option is planned for implementation next year.

2. Uptake of the installment plan is low. Currently, less than 2% of renewal payments are installments. New business numbers are slightly higher, with approximately 5% of payments submitted as installments.

ii. Policyholder Online Payments

1. TWIA launched the ability for policyholders to pay premium online directly to TWIA in November 2020.
    a. During the first quarter, approximately 3% of all payments received were made via credit card or debit cards directly by the policyholder.
    b. Approximately 6% of payments were received from the policyholder via electronic check.

b. Automated and Outsourced Cash Receipts
    i. Increasing effort is being focused on electronic payment methods and lockbox processing. Both of these methods improve efficiency internally and also allow the policyholder or agent to receive confirmation of payment faster than other payment methods which require manual processing.
    ii. Comparing statistics from first quarter 2021 (75.6%) to first quarter 2020 (39.8%), we are seeing an improvement in utilizing these automated and outsourced methods, largely attributed to the introduction of lockbox and policyholder direct pay portal.

c. **Policy Form, Endorsement, and Application Filings.**
    i. In preparation for system updates being implemented next year in the ELEVATE program, certain policy endorsement forms must be filed with TDI. We are taking steps to ensure all filings are completed as early as possible, as TDI has no statutory deadline for their review. Staff met with TDI on April 16 to preview the forms planned for filing and receive any initial feedback. Planned filings include:
        1. Additional Coverage for Other Structures: A new optional endorsement will, for additional premium, provide additional coverage. A rate analysis and filing is required to accompany this form filing. The rate impact is zero.
        2. Building Exclusions: We propose moving information currently captured in declarations pages to a new endorsement to call this information out and communicate more clearly with agents and policyholders.
        3. Indirect Losses: While the coverages themselves are not changing, we are reorganizing the existing ALE/wind-driven rain/consequential loss provisions for clarity, so that there is one provision per endorsement, rather than the existing framework combining different coverages in each endorsement.

III. Agency Compliance Audits:

a. Standard audits were performed on a sample of agents in the first quarter of 2021 to verify compliance with the declination of coverage and flood insurance requirements.

   i. While 80% of agencies have completed their responses, several agencies have not yet responded or requested extensions to respond. Staff are pursuing responses from these agencies and escalating issues as necessary.
   ii. Of the agents who have responded, 63% policies reviewed were compliant with the requirement for proof of declination of coverage, and staff are working to bring the remaining agencies into compliance.
   iii. Three percent of the policies/properties selected for review required flood insurance. While most were compliant with TWIA's flood insurance requirements, one insured declined to purchase the required flood coverage and a Notice of Cancellation was issued for the policy.
   iv. All agents audited have an active property and casualty insurance license.

8B. Depopulation

TEXAS WINDSTORM INSURANCE ASSOCIATION

Depopulation Programs

April 2021

DEPOPULATION STATUS

Depopulation Programs Summary

Assumption Reinsurance Depopulation Program

Program Year	2016-2017	2017-2018	2018-2019	2019-2020	2021-2022
Participating Carriers	4	3	2	2	1
Policies Selected by Carriers	102,171	109,356	75,039	64,380	32,318
Agent-Approved Offers	18,047	3,091	3,967	1,866	TBD
Policies Assumed as of June 1	11,164	1,634	2,080	1,002	TBD

Carrier	2016-2017	2017-2018	2018-2019	2019-2020	2021-2022
Maison Insurance Company	Y	N	N	N	N
SafePoint Insurance Company	N	Y	Y	Y	Y
United Property & Casualty	Y	Y	N	N	N
Weston Insurance Company	Y	Y	Y	Y	N
The Woodlands Insurance Company	Y	N	N	N	N

Voluntary Market Depopulation Program

Policies Bound Through Program, Month End March 2021
4,536

Assumption Reinsurance Depopulation Program

Round 4: Status

The assumption of policies became effective June 1, 2020, with 1,002 policies transferring to the two participating carriers. TWIA will handle policy changes for the assumed policies until they renew on assumption carriers' policy forms. After removing opt-outs and any policies no longer in-force (due to cancellations, non-renewals, etc.), approximately 330 policies remain on TWIA paper from Round 4.

Round 5: Status

Commissioner's Order 2018-5528 was issued September 23, 2020, approving amendments to the Assumption Reinsurance Depopulation Program that reflect changes made during the 86th Texas legislative session. TWIA has initiated Round 5 of the Assumption Program and will continue in accordance with the newly approved process and timeline.

Two carriers, Weston Insurance Company and SafePoint Insurance Company, submitted applications to participate in Round 5 of the Assumption Program. Commissioner's Order 2021-6672 was issued January

29, 2021 approving SafePoint Insurance Company's participation. Weston elected to withdraw its application to participate in the upcoming cycle of the Assumption Program in early February 2021.

SafePoint submitted its list of policies selected for offers through the program on March 1. The 32,318 proposed offers on unique policies will be available for agents' review and selection on the TWIA depopulation website during the Agent Period of Round 5 from April 1 through May 31.

Voluntary Market Depopulation Program

Four participating carriers have reported a total of 4,536 policies bound through the Voluntary Market Depopulation Program. The one current participating carrier in the Voluntary Program is Weston Insurance Company, who reported 2,506 policies bound to date. State National Insurance Company, United Property and Casualty (UPC), and USAA Casualty Insurance Company also previously received approval to participate. UPC reported 71 policies bound before electing to discontinue participation, while State National and USAA reported 1,876 and 83 policies bound, respectively, before becoming inactive in the program. There has been no activity in the program since November 2019.

9. Claims
9A. Claims Operations

TWIA Claims Operations 2021

TWIA Claims - 2021 Results (through Q1)					
Key Cycle Times (In days)	**Industry Average, TX**	**TWIA**	**TWIA Plan**	**Variance to Plan**	**% Variance to Plan**
FNOL to Inspect Property	5.6	3.7	<3	0.7	23%
Inspect Property to Receipt by TWIA	3.5	2.0	<8	-6.0	-75%
Total Cycle Time FNOL to Payment	N/A	9.7	<12	-2.3	-14%
TDI Complaint Ratio					
2020	0.13% - 19 complaints from 14,432 new claims				
2021	0.18% - 4 complaints from 2,177 new claims				

Year	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Actual Volume	312	197	205	340	955	561	1,245	2,776	2,808	4,020	531	482	892	675	610
Actuarial Projected	599	418	418	1,379	1,379	409	400	400	574	562	273	273	614	428	428
Median Staffing	417	417	417	417	417	417	417	417	417	417	417	417	521	521	521
Open Inventory	1,656	1,596	1,526	1,256	1,661	1,243	1,958	5,078	6,379	9,609	9,294	8,822	8,763	8,814	8,545

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	2,177

Hurricane Harvey

TWIA Harvey	As of 1/7/21	As of 3/31/21	Change	% Change
Claims	76,713	76,716	3	0.00%
Open	586	546	-40	-6.8%
Closed	76,127	76,170	43	0.1%
% Closed	99.2%	99.3%	0.1%	0.1%
Paid Indemnity	$1,354,992,071	$1,360,549,421	$5,557,350	0.4%
Paid Expense	$147,289,855	$147,911,631	$621,776	0.4%
Active Appraisals	33	24	-9	-27.3%

2020 Hurricane Season

(Data for all storms through 3/31/21. *Due to low Beta new claim volume no detailed CAT reports provided)

Hanna, Laura, Delta Combined	TWIA	TFPA*
New Claims	9,900	474
Open Claims	5,964	
Closed Claims	4,182	
Paid Indemnity	$39,460,622	$2,908,811
Paid Expense	$9,342,584	
Total Paid	$48,803,206	
TDI Complaints	7	
ACV Claims	9,682	
RCV Claims	3,956	
Supplemental Claims	407	
Contents Claims	1,104	
ALE Claims	41	
ICC Claims	21	

Comments:

- Information here and on following pages for Claim types, Avg. days to payment, and claim cycle times provide for new regulatory requirements and Sunset claims reporting recommendations.
- **ACV** - Actual Cash Value (initial claim type opened). TWIA has up to 60 days to make initial claim decision.
- **RCV** - Replacement Cost Value. Where claim remains open, ACV claim type converts to RCV claim type after initial payment if policyholder has purchased replacement cost coverage. Policyholder has minimum of 545 days after initial claim decision to claim full replacement cost.
- **Supplemental Claims** - claims with additional damage reported after TWIA has made an initial claim decision
- **Contents claims** - personal or business property.
- **ALE** - Additional Living Expense.
- **ICC** - Increased Cost of Construction (code upgrade coverage). Policyholder has up to two years after date of loss to claim ICC coverage.

Beta (9/20)*	TWIA	TFPA
New Claims	238	134
Paid Indemnity	$521,643	$274,554

February 2021 Winter Storm

2021 February Winter Storm Report	TWIA				
	February Winter Storm				
	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	290	5	284	1	0
Closed Claims	247	4	242	1	
Open Inventory	43	1	42	0	
% Closed	85.2%	80.0%	85.2%	100.0%	
Closed With Payment	0	0	0	0	
% Closed With Payment	0.0%	-	-	-	
Closed Without Payment	247	4	242	1	
% Closed Without Payment	85.2%	80.0%	85.2%	100.0%	
Open With Payment	12	0	12	0	
% Open With Payment	4.1%	-	4.2%	-	
Open Without Payment	31	1	30	0	
% Open Without Payment	10.7%	20.0%	10.6%	-	
Paid Indemnity	$ 63,708	$ -	$ 63,708	$ -	
Paid Expense	$ 48,164	$ 5,209	$ 42,485	$ 470	
Outstanding Indemnity	$ 86,246	$ 7,000	$ 79,246	$ -	
Outstanding Expense	$ 12,641	$ 2,200	$ 10,441	$ -	
Total Incurred	$ 210,759	$ 14,409	$195,879	$ 470	
Average Paid	-	-	$ 5,309	-	
Avg # Days - FNOL to Inspect	3.6	3.2	4.5	3.9	
Avg # Days - Inspect to TWIA	1.5	2.4	1.5	2.4	
Avg # Days - TWIA to Payment	-	-	10.1		
Avg # Days - FNOL to Payment	-	-	16.7		
TDI Claims Complaints	0	0	0	0	0
# TDI Complaints as a % of All Claims	0.000%	0.000%	0.000%	-	-

(1) Data current as of: 04/04/2021

(2) Data from daily claims system extracts

(3) Does not include IBNR

(4) Dates of Loss included: 02/14 - 02/19/2021

9B. Claims Litigation

TWIA Litigation Tracking Activity

Litigation Quarter Summary
First Quarter 2021

1st Quarter 2021 — Summary of TWIA Claims in Suit

	New	Settled	Closed
Jan	2	0	7
Feb	3	0	16
Mar	1	0	4
	6	**0**	**27**

1st Quarter 2021 — Summary of TWIA Claims with LORs

	New	Settled	Closed
Jan	56	0	25
Feb	38	0	35
Mar	63	0	30
	157	**0**	**90**

TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Claims Litigation
March 2021

Mar-21

TWIA Claims in Suit

Category	Beginning Inventory	New	Closed	Ending Inventory
Pre-HB3	8	0	0	8
HB3	370	1	(4)	367
TOTAL	378	1	(4)	375

Mar-21

TWIA Claims with LORs

Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
Pre-HB3	0	0	0	0	0
HB3	325	63	(30)	(1)	357
TOTAL	325	63	(30)	(1)	357

Mar-21

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			Suits		LORs			
	Res	Comm	Res	Comm	Total	Res	Comm	Res	Comm	Total	
Pre-HB3	2	6	0	0	8	0	0	0	0	0	8
HB3	331	33	307	33	704	3	0	15	2	20	724
TOTAL	333	39	307	33	712	3	0	15	2	20	732

TEXAS WINDSTORM INSURANCE ASSOCIATION

Mar-21

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

Mar-21

TWIA Active HB3 Claims with Suits/LORs: Breakdown by County

Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kenedy	Matagorda	Nueces	Refugio	San Patricio	Willacy	Grand Total
64	16	11	25	2	81	16	302	1	4	134	6	39	3	704

Mar-21

TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm

Firm	#
Daly & Black	263
Furlow Law Firm	95
Baker Law	76
Scott Law Offices	32
Carrigan & Anderson	25
Omar Ochoa Law Firm	17
Chad T. Wilson	14
Lane Law Firm	13
Brent Coon & Associates	12
Lindsay, Lindsay & Parsons	10
Hodge Law Firm	8
Remaining 70 firms	139
TOTAL	704

10. TWIA Operations
10A. IT Systems Update

TEXAS WINDSTORM INSURANCE ASSOCIATION

TEXAS FAIR PLAN ASSOCIATION

MEMORANDUM

DATE: April 28, 2021

TO: John Polak, General Manager

FROM: Camron Malik, CIO / VP IT

RE: TWIA Information Technology status

The Elevate program continues to make good progress in the Construction phase. The project teams are focused on maintaining their velocity and the development teams are providing quality releases to the Quality Assurance teams.

The New Normal program, which will accommodate a flexible workforce capable of working seamlessly on-site or remotely, is on schedule. The New Normal program comprises 4 major work threads, consisting of People, Change Management, Space management and Technology and Infrastructure. All work threads are progressing well.

The Systems Development/Production Support releases continue with their monthly cadence, delivering functionality for the business with quality and timeliness. The Infrastructure and Operations team continues to support remote work with excellent quality. All technology support and projects are on-track.

10B. Ethics Policy

MEMORANDUM

DATE: May 10, 2021

TO: John Polak, CPCU
General Manager

FROM: David Durden
Vice President, Legal and Compliance

RE: Ethics Policy Revisions

As part of our normal cycle for the review of policies we have reviewed and revised the Associations' Ethics Policy. The current Ethics Policy was initially adopted in 2011 and revised in 2016. The Ethics Policy was developed in compliance with Section 2210.107 of the Insurance Code which requires the TWIA Board of Directors establish a code of conduct.

The revised document includes editorial changes such as updating the mission and values statements, changing the references to 'TFPA/TWIA' and 'Associations' to the "Association" and adding examples to selected sections.

Other notable changes include

1. **Section 3.3.2 Ongoing Responsibility** requires annual update or confirmation of relationship disclosures. Also, the list of relationships requiring disclosure in **Appendix B** is expanded to require disclosure if an individual subject to the policy, or an immediate family member, is an Association policyholder.

2. **Section 3.4 Review of Relationship Disclosures** streamlines the review process for disclosures by removing the Conflict of Interest Committee and providing that the VP of Legal and Compliance may consult with members of the Executive Leadership Team when warranted.

3. **Section 3.6.4 Gifts** under ***Additional Exceptions*** streamlines the process for review of an exception sought by the General Manager by requiring the request to be evaluated by the VP of Legal and Compliance. The policy currently requires review by the CFO, Compliance Manager and Director of HR in addition to Legal.

Attached are a marked version of the Ethics Policy which shows the revisions and an unmarked version of the Policy. The proposed effective date for the revised policy is June 1, 2021.

Ethics Policy

Version 3.0

Approval Authority: TWIA Board of Directors
and TFPA Governing Committee
Responsible Executive: Vice President of Legal & Compliance
Responsible Office: Vice President of Legal & Compliance
Originally Issued: 9/28/2011
Effective Date: 6/1/2021
Next Review Date: Q2 2023

TEXAS FAIR PLAN ASSOCIATION

TEXAS WINDSTORM INSURANCE ASSOCIATION

Our Mission

provide essential wind and hail property insurance to coastal Texans when no one else will.

Our Vision

To be respected and trusted by our stakeholders

Our Values

Service & Respect

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

Efficiency & Stability

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

Integrity & Accountability

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

Our Goals

Customer Service
Enhance the policyholder experience by providing consistent quality service.

Operational Efficiency
Continuously improve operations to proactively manage costs and be a financial steward of policyholders' premiums.

People
Promote a culture that values people and attracts those who want to work here, stay here, grow here, and perform at their best.

Stakeholder Engagement
Communicate clearly and honestly to help stakeholders make informed decisions.

Technology
Maximize the use of technology to provide efficient and effective insurance services, improve operational efficiency and enhance customer experience.

Table of Contents

History

Date	Version	Author	Comment
9/28/11	1.0	David Weber	Initial Version Authored and Published
1/13/16	2.0	Jessica Crass	Revised Draft
1/26/16	2.0	ELT	ELT Review
1/29/16	2.0	Jessica Crass	Revisions based on ELT Review
2/2/16	2.0	ELT	ELT Review
2/2/16	2.0	Jessica Crass	Revisions based on ELT Review
2/22/16 & 2/23/16	2.0	Governing Committee & Board	Reviewed and approved
6/1/16	2.0	Compliance	Publication
11/11/16	2.0	Compliance	Update to Gift Disclosure Form to account for gifts of monetary value (to parallel approved policy language)
4/15/2021	3.0	Compliance	Revised Draft
4/30/2021	3.0	ELT	ELT Review
	3.0	BOD & GC	

Introduction

1.1 Background

The Texas Windstorm Insurance Association (TWIA) and Texas FAIR Plan Association (TFPA) (the "Association") are insurance organizations providing essential property insurance products and services to eligible Texas properties when no one else will. In accomplishing this mission, we share a vision to be respected and trusted by our stakeholders. As stewards of the public trust, we adhere to our core values of integrity and accountability, holding ourselves to a high standard of ethics as outlined in this Ethics Policy (the "Policy").

1.2 Applicability

This Policy applies to all individuals serving on the TWIA Board of Directors, the TFPA Governing Committee (together, "board members") all Association employees and contractors. Collectively, this group shall be known as "individuals subject to this Policy."

1.3 Noncompliance

All individuals subject to this Policy who fail to comply with this Policy will be subject to disciplinary action, up to and including termination of employment or contract. In addition, depending on the nature of the policy violation, an employee may be subject to civil and/or criminal penalties. Board member violations of this Policy will be reported to the Commissioner of Insurance.

Ethical Conduct

2.1 Policy Statement

All individuals subject to this Policy are expected to act with integrity and exercise good judgment at all times. This includes conducting personal and financial affairs in an ethical manner so as to avoid actual or perceived conflict between personal interests and the interests of the Association. All persons subject to this policy are expected to communicate professionally when carrying out Association business. The Association is subject to the Public Information Act, under which any member of the public may request records from the Association. This may include but is not limited to, emails, instant messages, handwritten notes, and electronic documents.

It is the policy of the Association that no person subject to this Policy shall permit their private interests to conflict with the proper execution of any of their Association duties and responsibilities; nor shall they use their position, or any knowledge gained therein, in such a manner as to give the appearance of such conflict. Conflicts of interest exist when the actions or activities of an individual subject to this Policy could result in improper personal gain or advantage to the individual or a family member, adverse effect upon the Association's interests, or improper gain or advantage to a third party.

2.1.1 Applying the Ethics Policy

While this Policy discusses many important issues, it cannot describe all possible scenarios or contain every Association standard. The Association expects you to demonstrate ethical conduct in following both the explicit standards and the general principles of this Policy.

Read the Policy carefully and understand how it applies to you. Situations involving business ethics can be complex. When determining whether a course of action is ethical, you should consider the following questions:

- Is it legal?
- Does it comply with the Association's Ethics Policy and other Association policies?
- Is it consistent with the Association's Mission, Vision, Values and Goals?
- How will it affect others, such as the Association, policyholders, coworkers, and the citizens of Texas?
- How will it look to others?
- Would you be comfortable defending this decision to your manager; conversely, would you, as a manager, agree with your employee defending this decision to you?
- Would you be comfortable defending the decision in a public forum, such as in front of a judge, the media, or a legislator?
- Is it the right thing to do?

Ask, Then Act

If you are uncertain about whether an action or decision is ethical, always ***ask before acting***. The Association offers several ways to seek advice regarding ethical issues, including discussing the issue with your supervisor, a Compliance representative, a Human Resources representative, by sending an email to Compliance@twia.org or opening a KACE ticket for Legal / Compliance .

2.2 Standards of Ethical Conduct

Individuals subject to this Policy are expected to act fairly, impartially, and in the Association's best interest in carrying out their job duties. In order to uphold the Association's high standards of ethics, individuals subject to this Policy must avoid certain behaviors. Prohibiting these behaviors helps the Association avoid both actual conflicts of interest and perceived improprieties.

Individuals subject to this Policy shall not:

1. accept or solicit any gift, favor, or service that the person knows is intended to or could, by reasonable standards influence the person in the performance or nonperformance of their job duties
2. accept other employment or engage in any activity that the person might reasonably expect would require or induce the person to disclose confidential information the person gained through their responsibilities or position within the Association;
3. accept other employment or compensation that could reasonably be expected to impair the person's independent judgment in the performance of their job;
4. make personal investments that could reasonably be expected to create a substantial conflict between the person's private interest and the interest of the Association;
5. intentionally or knowingly solicit, accept, or agree to accept any benefit, financial or otherwise, for exercising the person's authority or performing the person's job duties in favor of another; or,
6. own personally or by or through a family member any interest in a business that provides services for compensation to either Association, unless that ownership is limited to common stock available to any member of the public for purchase or the ownership is disclosed, and any deviation of this Policy is waived pursuant to the "Deviation from this Policy" section.

Conflicts of Interest

3.1 Background

All persons subject to this Policy must avoid situations that involve, or appear to involve, a conflict of interest. A conflict of interest exists when a person's relationships or interests outside of the Association affect or could reasonably be expected to affect that person's business decisions, job performance, or the Association's interests.

3.2 Prohibited Relationships

As detailed in Texas Insurance Code, Section 2210.013, the Association has strict prohibitions against employing persons who are related to each other. Individuals subject to this Policy may not appoint, employ, or contract with any person who is related to themselves or any other board member or employee in connection with the operation or business of either Association. See **Appendix D** for more details.

3.3 Required Relationship Disclosures

One way we demonstrate our integrity is by maintaining an awareness of Association representatives' relationships with other stakeholders. We can then ensure that we uphold appropriate levels of accountability, impartiality, and fairness. To that end, individuals subject to this Policy must annually disclose the relationships described below by completing the Required Relationship Disclosure Form (**Appendix B**) and submitting the form to the Compliance Department. Examples of **potentia**l conflicts of interest could include:

- Having a relative who works for one of our vendors.
- Having a relative or previous employer who is an insurance agent who writes TWIA/TFPA policies.
- Having a financial interest in a company that is a vendor of the Association.
- Having a previous employer who is one of our vendors.

3.3.1 At the Time of Appointment or Onboarding

At the time an individual subject to this Policy is employed, appointed as a board member, or engaged by the Association, they must disclose the following:

1. any previous, current, or future business or personal relationship between themself and any third party which has, had, or may have a financial interest in the operations of the Association;
2. any business relationship or transaction the Association has, had, or may have with a third party if the employee, board member, contractor or a family member:
    a. has, had, or may have a direct or indirect interest; and/or
    b. derived or may derive a benefit;

3. any business relationship or proposed transaction with any business that employs a family member, if the relationship or transaction may give rise to an actual or perceived conflict of interest; or

4. if an individual subject to this Policy, or an immediate family member is a TWIA or TFPA policyholder.

3.3.2 Ongoing Responsibility

Since relationships form and change over time, any individual subject to this Policy is required to disclose the existence of any of the relationships described in the section above as soon as the individual becomes aware of the relationship. At minimum, all individuals subject to this Policy must complete the Required Relationship Disclosure Form (**Appendix B**) and submit the form to the Compliance Department annually.

3.4 Review of Relationship Disclosures

The Compliance Department will review all required disclosures provided under this Policy, assess any actual or potential conflict of interest and the magnitude of any risk to the Association and determine what conditions and restrictions, if any, should be imposed by the Association to manage, reduce, or eliminate the conflict of interest. The existence and disclosure of a relationship does not mean further action will be required by the Association.

The Compliance Department may, in its discretion, escalate disclosures that warrant further review to the Vice President of Legal and Compliance who may consult with other members of the Executive Leadership Team, including the General Manager. The Compliance Department and appropriate members of the Executive Leadership Team shall evaluate the conflict to determine an appropriate course of action.

Such actions may include but are not limited to: determining that no further action is required seeking an exception; requiring that the conflict be eliminated; or reassigning or terminating individuals if the conflict cannot be otherwise resolved. Any decision by the Compliance Department and members of the Executive Leadership Team regarding a disclosure of a conflict of interest will be documented and maintained as a permanent record by the Compliance Department.

3.5 Outside Employment

No individual subject to this Policy shall engage in outside employment or business ventures that interfere or conflict with their duties and/or obligations to the Association.

3.6 Gifts

3.6.1 Background

The Association strives to operate transparently and to engage third parties using unbiased, independent decision making. Any form of bribe, kickback, or other benefit offering an unfair advantage is unacceptable. Some third parties may try to use gifts, services, entertainment, favors, mementos, awards, food, or other items of value ("gifts") to encourage employees and board members to engage in or continue business with the third party. In order to foster a culture of accountability and fairness as it relates to third parties, this Policy limits the value and number of gifts that individuals subject to this Policy may accept and requires the individuals to disclose offers and acceptances of gifts.

3.6.2 Acceptable Gifts and Prohibited Gifts

Individuals subject to this Policy may accept non-cash items of $50 or less in value, not to exceed $250 per third party vendor, per calendar year, per recipient. Any offer of any benefit exceeding $50 shall be rejected.

Individuals subject to this Policy shall not accept, in any amount, a gift in the form of cash, check, loan, gift card, or negotiable instrument.

For Example:

A vendor sends you a $10 gift certificate. Although the value is under $50, the gift is a cash equivalent and must be declined and returned to the vendor. The declination must be reported to the Compliance Department.

A policyholder sends you a $30 box of cookies. The value is under $50 and the gift is not a cash equivalent so it may be accepted. The acceptance must be reported to the Compliance Department.

The Compliance Department can assist with drafting a letter or email explaining the Association policy on gifts.

3.6.3 Disclosing Gifts

An individual subject to this Policy must disclose the following to the Compliance Department using the Gift Disclosure Form (**Appendix C**):

1. the acceptance of any gift with value of $50 or less; and
2. the rejection of a gift that exceeds $50 or that the individual is otherwise prohibited from accepting.

These disclosures must be made within 30 days of the action described in this section. Disclosures may be submitted electronically to the Compliance Department who maintain a record of all disclosure forms.

3.6.4 Exceptions
An individual subject to this Policy may accept gifts in the following scenarios:

Business Courtesies. Individuals subject to this Policy may accept items of business courtesy, i.e., items with little intrinsic value which are intended solely for presentation or advertisement, such as pens, plaques, certificates, trophies, greeting cards, and small promotional items commonly distributed to the general public. These items are exempted from the reporting requirement in this section, so long as they are:

- of nominal value;
- offered to all who are similarly situated (e.g., all conference attendees or all employees on a team)
- not tied to any expectations for reciprocal gifts or favors of any kind;
- offered infrequently; and
- not always offered to or by the same person or organization.

Individuals subject to this Policy do not need to disclose acceptance of gifts that fall under the above exception.

Conferences and Other Business Events. Notwithstanding the dollar amount threshold described above, individuals subject to this Policy may accept the waiver or reduction of fees associated with attendance at a conference, seminar, training, or other business event, including any meals and expenses that would otherwise be included in the registration fee itself and available to all event attendees, if: (1) attendance is of reasonable business benefit to the Association; (2) the individual's manager provides written preapproval to attend the event; and (3) acceptance of the waiver and attendance at the event is otherwise in accordance with this Ethics Policy, the Training Policy, and the Travel and Travel Expense Reimbursement Policy.

Independent Relationships. Individuals subject to this Policy may accept a benefit from a person with whom they have a relationship independent of their employment status, such as a friend or relative, if the benefit is given on account of that independent relationship rather than any employment status with the Association. These instances do not need to be reported to the Compliance Department.

Additional Exceptions. There may be additional circumstances in which acceptance of a gift from a third party is of reasonable business benefit to the Association and does not involve undue risk of fraud, partiality, or improper advantage. Any such circumstance must be evaluated and approved in writing in advance by the General Manager. If the General Manager seeks approval of such a benefit, the request will be evaluated by the Vice President of Legal and Compliance. Any decision regarding an exception to this section will be documented and maintained as a permanent record by the Compliance Department. Exceptions approved for the General Manager will be reported to the TWIA Board of Directors and/or the TFPA Governing Committee, as applicable, within 30 days of approval.

3.6.5 Application to Family Members

Any offers or provision of gifts to an immediate family member of an individual subject to this Policy will be construed as offering or providing an item directly to the individual covered by this Policy. The covered individual must report any offer to provide a gift to an immediate family member in the same manner as if the individual had received the offer themself.

3.7 Self-Dealing

An individual subject to this Policy may not enter into the following business dealings:

1. Representing the Association in any activity requiring his or her judgment or discretion that affects a person or entity with which they have a material family, financial, or other relationship;
2. Representing another company or person in a transaction with the Association; or,
3. Using Association property, corporate time, or confidential information for personal gain. For example, an employee who is using Association resources or time to operate a side business.

3.8 Reporting Improper Activity

3.8.1 Required Reporting

All individuals subject to this Policy who reasonably suspect that a fraudulent insurance act has been or is about to be committed by an employee, board member, vendor, insured or third party must, within 30 days of discovering the conduct, report the conduct and identity of the person engaging in the conduct to the Texas Department of Insurance and may report the conduct and the identity of the person engaging in the conduct to other relevant authorized governmental agencies.

3.8.2 Reporting Resources

For any questions on fraud reporting, please contact the Compliance Department, refer to the Association Fraud Reporting Procedures available on the Employee Reference Drive, and refer to the Association Suspected Insurance Fraud Referral Form and accompanying Comprehensive Fraud Reporting guidelines.

In addition, if any individual subject to this Policy at any time believes that they, or any other Association officer, employee, contractor, or board member, might be engaged in improper activities, the individual must immediately report the activities to the Compliance Department, their manager, the Vice President of Human Resources and Administration or the General Manager. Improper activities include but are not limited to: removing or copying business records without express approval; possible criminal activity; improper use of Association equipment or other resources; or any violations of Association policies.

Anyone who does not want to report the activities to the Compliance Department, their manager, the Vice President of Human Resources and Administration, or the General Manager may instead anonymously disclose any improper activities described by this Policy through the Association's Whistleblower Resources (see **Appendix E**).

Compliance with Other Laws and Regulations

Every individual subject to this Policy is required to comply with all applicable laws and regulations when conducting any Association business. Any questions about the legality of an existing or anticipated course of action shall be brought to the Vice President of Legal and Compliance or the Compliance Department. This section does not attempt to address all conduct that may constitute a violation of law, but in no event shall any individual subject to this Policy:

1. Steal, embezzle, or misapply funds or assets of the Association, or their customers or vendors;
2. Obtain unauthorized access to policyholder records or confidential information;
3. Improperly disclose policyholder records or confidential information;
4. Make false reports to government officials or regulatory agencies;
5. Assist criminals to avoid detection, capture, or punishment, knowing that a criminal offense has been committed;
6. Engage or abet in any criminal activity, including insurance fraud;
7. Gain unauthorized access to the Association's information or computer systems;
8. Fraudulently request, obtain, disclose, or cause to be disclosed any customer information to a third party for any purpose not permitted by law or Association policy;
9. Use threats or physical force against another person; or
10. Engage in any form of harassment or unfair discrimination.

Annual Statement of Compliance

All individuals subject to this Policy shall review the Ethics Policy and electronically acknowledge their responsibility to abide by its terms upon onboarding and annually thereafter. Individuals unable to acknowledge the Policy electronically must email the Annual Certification (**Appendix A**) to the Compliance Department. All individuals subject to this Policy shall also complete the Required Relationship Disclosure Form (**Appendix B**) and submit the form to the Compliance Department annually.

Deviation from this Policy

The requirements of this Policy may only be waived by a majority vote by the TWIA Board of Directors, the TFPA Governing Committee, or either Associations' Executive Committee. This action should be documented with the applicable reason or basis for deviation from this Policy and placed within the minutes for that meeting. This Policy may only be amended in accordance with the procedures outlined in the Association's Policy Management Protocol.

Appendix A

Annual Certification

Authority. The Ethics Policy has been approved by the General Manager, Texas Windstorm Insurance Association Board of Directors, and Texas FAIR Plan Association Governing Committee.

Summary. The Policy requires board members, employees and contractors to act with integrity and good judgment, avoid conflicts of interest, and adhere to both the explicit standards and general principles of the Policy. The Policy also requires the disclosure of certain relationships and the offer or acceptance of certain gifts. These standards and disclosures are in line with our core values of accountability and integrity and allow us to execute our vision to be respected and trusted by our stakeholders.

Reporting Misconduct. If any individual subject to this Policy believes at any time that someone might be engaged in prohibited activities described in the Policy, the employee or board member must immediately report the activities to the Compliance Department or authorized governmental agency as appropriate under fraud reporting requirements. Alternatively, a person can report the activities through the Association's Whistleblower Resources (see **Appendix E**).

Certification

I have read the Association Ethics Policy and agree to abide by its terms. By my signature below, I certify that I know of no circumstance or conduct, whether involving me or any other board member, employee, or contractor that violates the Ethics Policy or that is required by the Ethics Policy to be reported. I certify that I have disclosed all business and personal relationships requiring such disclosure by this Ethics Policy.

Signature	Printed Name
Date	Department

Appendix B

Annual Relationship Disclosure

The Association Ethics Policy requires the disclosure of certain relationships. This disclosure is required at the time of onboarding and annually thereafter. This disclosure should be updated when you become aware of any relationship requiring disclosure. At minimum, all individuals subject to this Policy must complete this form and submit the form to the Compliance Department annually.

Please read the list below and confirm whether you have relationships to disclose:

1. any previous, current, or future business or personal relationship between you or any member of your family and any third party who has, had, or may have a financial interest in the operations of the Association;
2. any business relationship or proposed transaction the Association has, had, or may have with a third party in which or from which you or a family member:
   a. has, had, or may have a direct or indirect interest; and/or
   b. derived or may derive a benefit; and
3. any business relationship or proposed transaction with any business where a family member is employed, if the relationship or transaction may give rise to an actual or perceived conflict of interest.
4. if you, or an immediate family member is a TWIA or TFPA policyholder

If you have no relationships to disclose, please sign below:

By my signature below, I state that I have received and read the Ethics Policy. My signature below confirms my acknowledgement of the Policy and its relationship disclosure requirements, and it constitutes my certification that I am not aware of any conflict or potential conflict covered by the Policy that is not disclosed on this form or its attachments.

Signature Printed Name

Date Department

Appendix B

Annual Relationship Disclosure

If you have relationships to disclose, please provide the information below:

Entity or Individual Name	**Nature of Relationship (Personal, Business, Previous Employer, Policy Number)**

If you have additional information to disclose, please attach a separate sheet of paper to this document with that information.

By my signature below, I state that I have received and read the Ethics Policy. My signature below confirms my acknowledgement of the Policy and its relationship disclosure requirements, and it constitutes my certification that I am not aware of any additional conflict or potential conflict covered by the Policy that is not disclosed on this form or its attachments.

Signature Printed Name

Date Department

Appendix B

Annual Relationship Disclosure

If you have previously made a relationship disclosure and have no changes to make, please read and sign below:

By my signature below, I state that I have received and read the Ethics Policy. My signature below confirms my acknowledgement of the Policy and its relationship disclosure requirements, and it constitutes my certification that I have reviewed my previous relationship disclosures and I have no other conflicts or potential conflicts covered by the Policy.

Signature	Printed Name
Date	Department

TEXAS FAIR PLAN ASSOCIATION

TEXAS WINDSTORM INSURANCE ASSOCIATION

Appendix C

Gift Disclosure Form

Return completed forms to the Compliance Department in person or via Compliance@twia.org.

Association Employee Name: ______________________________

Date: ______________________________

Accepting Gifts of $50 or Less

Gift (services, entertainment, favors, mementos, awards, food, or other items of value) of $50 or less in value, not to exceed $250 per vendor per calendar year per recipient, may be accepted and must be disclosed. Note that gifts of $50 or less in value that are rejected do not need to be disclosed.

Date: ______________________________

Gift Description: ______________________________

Approximate Value: ______________________________

Name of Individual(s) Providing Gift: ______________________________

Entity Associated with Individual(s): ______________________________

Rejecting and Disclosing Gifts Exceeding $50 or of Monetary Value

Gifts of more than $50 must be rejected; additionally, the following must be rejected and disclosed: any gifts presented to you that are more than $50 in value, and any gift of any value in the form of cash, checks, loans, gift cards or negotiable instruments.

Date: ______________________________

Gift Description: ______________________________

Approximate Value: ______________________________

Name of Individual(s) Offering Gift: ______________________________

Entity Associated with Individual(s): ______________________________

Appendix D

Prohibited Relationships

As described in the Ethics Policy, the Association generally cannot employ relatives. Board members and employees must not appoint, employ, or contract with any person who is related to themselves or any other board member or employee in connection with the operation or business of either Association, if the person is to be directly or indirectly compensated from funds of either Association, and if the relationship is within the degree described by Section 573.002, Government Code.

While the prohibited relationships are described in further detail below, generally, the Association cannot appoint, employ, or contract with the following relatives of individuals subject to this policy: parents, grandparents, aunts, great aunts, uncles, great uncles, first or second cousins, nieces, nephews, grand nieces, or grand nephews. This applies to relatives by blood, adoption, and marriage.

The degrees of relationship described by Section 573.002 are those within the third degree by consanguinity or within the second degree by affinity.

Two individuals are related to each other by **consanguinity** if:

1. one is a descendant of the other; or
2. they share a common ancestor.

An adopted child is considered to be a child of the adoptive parent for this purpose.

Two individuals are related to each other by **affinity** if:

1. they are married to each other; or
2. the spouse of one of the individuals is related by consanguinity to the other individual.

The ending of a marriage by divorce or the death of a spouse ends relationships by affinity created by that marriage unless a child of that marriage is living, in which case the marriage is considered to continue as long as a child of that marriage lives.

TEXAS FAIR PLAN ASSOCIATION

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Consanguinity and Affinity Relationship Chart[2]

Officer or Employee					
Consanguinity (Includes individuals related by blood to the Officer or Employee)			Affinity (Includes the Officer's or Employee's Spouse and individuals related to the Spouse)		
First Degree	Second Degree	Third Degree	First Degree	Second Degree	Third Degree
Father or Mother	Grandparents	Great Grandparents	Spouse	Grandparents	Great Grandparents
Son or Daughter (& Spouse)	Grandchildren (& Spouse)	Great Grandchildren (& Spouse)	Father or Mother	Grandchildren	Great Grandchildren
	Uncle or Aunt (& Spouse)	Great Uncle or Aunt (& Spouse)	Son or Daughter	Uncle or Aunt	Great Uncle or Aunt
	First Cousin (& Spouse)	Children of Great Uncle or Aunt (& Spouse)		First Cousin	Children of Great Uncle or Aunt
	Nephew or Niece (& Spouse)	Second Cousin (& Spouse)		Nephew or Niece	Second Cousin
	Brother or Sister (& Spouse)	Children of First Cousin (& Spouse)		Brother or Sister	Children of First Cousin
		Grand Nephew or Niece (& Spouse)			Grand Nephew or Niece

[2] Source – Texas State, Finance and Support Services Division, Human Resources.

A board member or employee is the starting point from which all degrees of relationship are calculated.

Under the Degrees of Consanguinity, where Spouse is indicated, the relationship of the spouse is in the same degree as that of the person related by consanguinity, but the spouse is related only by affinity.

Although the same statutory language does not exist for TFPA under Chapter 2211, these standards will be applied in any TFPA operations or procedures.

Any employee who violates these requirements is subject to termination by TWIA or TFPA. In addition, a person who violates these requirements may be subject to any applicable civil or criminal penalty if the violation also constitutes a violation of any statute or rule. Any board member or governing committee member who violates these requirements will be reported to the Commissioner of Insurance and may be subject to removal by the Commissioner of Insurance pursuant to Chapters 2210 and 2211, Texas Insurance Code as applicable.

TEXAS FAIR PLAN ASSOCIATION

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Appendix E

Whistleblower Resources

All board members and employees, including interns and part time, temporary and contract employees can anonymously report ethics and compliance related concerns.

First and foremost, the Association encourages you to speak to your manager when you encounter a problem or circumstance that requires intervention in order to reach a resolution. However, if an incident or situation arises that you feel you cannot report to your supervisor, Compliance Department, or Human Resources Department, an external system is provided to give an alternative reporting source.

Please note that the information provided by you may be the basis of an internal and/or external investigation and your anonymity will be protected to the extent possible by law. Reports are submitted by our service provider, Lighthouse Services, to the Association's designee for investigation according to our company policies. While your identity may become known during the course of the investigation because of the information you have provided, the Association will not tolerate retaliation against good faith reporters.

Lighthouse Services' toll-free number and other methods of reporting are available 24 hours a day, 7 days a week for use by employees and staff.

- **Telephone:** English: (877) 472-2110
  Spanish: (800) 216-1288
- **Website:** Lighthouse Homepage: www.lighthouse-services.com/TWIA
  (Click "Submit Incident Report")
- **E-mail:** reports@lighthouse-services.com (must include company name with report)
- **Fax:** (215) 689-3885 (must include company name with report)

TEXAS WINDSTORM INSURANCE ASSOCIATION

TEXAS FAIR PLAN ASSOCIATION

Ethics Policy

Version ~~2~~3.0

Approval Authority: TWIA Board of Directors
and TFPA Governing Committee
Responsible Executive: Vice President of Legal & Compliance
Responsible Office: Vice President of Legal & Compliance
Originally Issued: 9/28/2011
Effective Date: 6/1/2021
~~6/1/2016~~ Next Review
Date: Q2 ~~2017~~2023

Our Mission

~~To P~~provide~~ing~~ essential wind and hail property insurance to coastal Texans~~products and services for~~ to ~~eligible Texas properties~~ when no one else will.

Our Vision

To be respected and trusted by our stakeholders

Our Values

Service & Respect

We are committed to serving as a reliable, credible, and respectful provider ~~Provide quality service to our policyholders and respect the interests of a broad spectrum of stakeholders~~

~~Stability &~~ Efficiency & Stability

We are financially stable and can be counted on to fulfill our obligations ~~Be good stewards of the public trust by ensuring financial stability and operating efficiently~~

~~Accountability &~~ Integrity & Accountability

We are an ethical organization that is accountable to those we serve ~~Be accountable for performance and operate with integrity by holding ourselves to a high standard of ethics~~

Our Goals

1. ~~Secure sufficient funding to pay claims and other financial obligations~~
2. ~~Drive operational efficiency throughout the enterprise~~
3. ~~Build a collaborative culture of continuous improvement, service, and accountability~~
4. ~~Operate transparently through open consistent communication with stakeholders~~
5. ~~Maintain a workforce with the right talent to meet organizational needs Attract, develop, and retain talented people~~

Customer Service
Enhance the policyholder experience by providing consistent quality service.

Operational Efficiency
Continuously improve operations to proactively manage costs and be a financial steward of policyholders' premiums.

People

Promote a culture that values people and attracts those who want to work here, stay here, grow here, and perform at their best.

Stakeholder Engagement
Communicate clearly and honestly to help stakeholders make informed decisions.

Technology
Maximize the use of technology to provide efficient and effective insurance services, improve operational efficiency and enhance customer experience.

TEXAS FAIR PLAN ASSOCIATION

TEXAS WINDSTORM INSURANCE ASSOCIATION

Table of Contents

History

Date	Version	Author	Comment
9/28/11	1.0	David Weber	Initial Version Authored and Published
1/13/16	2.0	Jessica Crass	Revised Draft
1/26/16	2.0	ELT	ELT Review
1/29/16	2.0	Jessica Crass	Revisions based on ELT Review
2/2/16	2.0	ELT	ELT Review
2/2/16	2.0	Jessica Crass	Revisions based on ELT Review
2/22/16 & 2/23/16	2.0	Governing Committee & Board	Reviewed and approved
6/1/16	2.0	Compliance	Publication
11/11/16	2.0	Compliance	Update to Gift Disclosure Form to account for gifts of monetary value (to parallel approved policy language)
4/15/2021	3.0	Compliance	Revised Draft
4/30/2021	3.0	ELT	ELT Review
	3.0	BOD & GC	

Introduction

1.1 Background

The Texas Windstorm Insurance Association (TWIA) and Texas FAIR Plan Association (TFPA) (the “~~Associations~~Association”) are insurance organizations providing essential property insurance products and services ~~for~~ to eligible Texas properties when no one else will. In accomplishing this mission, we share a vision to be respected and trusted by our stakeholders. As stewards of the public trust, we adhere to our core values of ~~accountability and~~ integrity and accountability, holding ourselves to a high standard of ethics as outlined in this Ethics Policy (the “Policy”).

1.2 Applicability

This Policy applies to all ~~members~~ individuals serving on the TWIA Board of Directors, ~~or~~ the TFPA Governing Committee (together, “board members”) ~~and~~ all Association employees and contractors. Collectively, this group shall be known as “individuals subject to this Policy~~” or “Association staff~~.”

1.3 Noncompliance

All individuals subject to this Policy~~Association employees~~ who fail to comply with this Policy will be subject to disciplinary action~~e~~, up to and including termination of employment~~,~~, or contract~~, or board or position~~. In addition, depending on the nature of the policy violation, an employee may be subject to civil and/or criminal penalties. Board member violations of this Policy will be reported to the Commissioner of Insurance.

Ethical Conduct

2.1 Policy Statement

All individuals subject to this Policy ~~Association staff~~ are expected to ~~shall~~ act with integrity and exercise good judgment at all times. This includes conducting personal and financial affairs in an ethical manner so as to avoid actual or perceived conflict between personal interests and the interests of the ~~Associations~~Association. ~~;, see the Association’s Social Media Policy~~

All persons subject to this policy are expected to communicate professionally when carrying out Association business. The Association is subject to the Public Information Act, under which any member of the public may request records from the Association. This may include but is not limited to, emails, instant messages, handwritten notes, and electronic documents. ~~All persons subject to this policy are expected to communicate professionally when carrying out Association business.~~

It is the policy of the ~~Associations~~Association that no person subject to this Policy ~~board member nor employee of the Associations~~ Association shall permit their private interests to conflict with the proper execution of any of their Association duties and responsibilities; nor shall they use their position, or any knowledge gained therein, in such a manner as to give the appearance of such conflict. Conflicts of interest ~~may?~~ exist when the actions or activities of an individual subject to this Policy could result in improper personal gain or advantage to the individual or a family member, adverse effect upon the ~~Associations~~Association's interests, or improper gain or advantage to a third party.

2.1.1 Applying the Ethics Policy

While this Policy discusses many important issues, it cannot describe all possible scenarios or contain every Association standard. ~~TWIA and TFPA~~The Association expects you to demonstrate ethical conduct in following both the explicit standards and the general principles of this Policy.

Read the Policy carefully and understand how it applies to you. Situations involving business ethics can be complex. When determining whether a course of action is ethical, you should consider the following questions:

- Is it legal?
- Does it comply with the ~~Associations~~Association's Ethics Policy and other Association policies?
- Is it consistent with the Association's M~~m~~ission, V~~v~~ision, V~~v~~alues and G~~g~~oals?
- How will it affect others, such as the Association, policyholders, coworkers~~employees~~, and the citizens of Texas?
- How will it look to others?
- Would you be comfortable defending this decision to your manager; conversely, would you, as a manager, agree with your employee defending this decision to you?
- Would you be comfortable defending the decision in a public forum, such as in front of a judge, the media, or a legislator?
- Is it the right thing to do?

Ask, Then Act

If you are uncertain about whether an action or decision is ethical, always ***ask before acting***. The ~~Associations~~Association offers several ways to seek advice regarding ethical issues, including discussing the issue with your supervisor, a Compliance representative, ~~or~~ a Human Resources representative, ~~;~~ ~~or~~ by sending an email to Compliance@twia.org or opening a KACE ticket for Legal / Compliance .

2.2 Standards of Ethical Conduct

~~You~~ Individuals subject to this Policy are expected to act fairly, impartially, and in the

~~Associations~~Association's best interest in carrying out their ~~your~~ job duties. In order to uphold the ~~Associations~~Association's high standards of ethics, individuals subject to~~covered by~~ this Policy must avoid certain behaviors. Prohibiting these behaviors helps the ~~Associations~~Association avoid both actual conflicts of interest and perceived improprieties.

Individuals subject to this Policy shall not:

1. accept or solicit any gift, favor, or service that the person knows is intended to or could, by reasonable~~ness~~ standards~~, tend to~~ influence the person in the performance or nonperformance of their~~his or her~~ job duties ~~and/or that the person knows or should know is being offered to influence the person's actions;~~
2. accept other employment or engage in any activity that the person might reasonably expect would require or induce the person to disclose confidential information the person gained through their~~his or her~~ responsibilities or position within the Association;
3. accept other employment or compensation that could reasonably be expected to impair the person's independent judgment in the performance of their~~his or her~~ job;
4. make personal investments that could reasonably be expected to create a substantial conflict between the person's private interest and the interest of the ~~Associations~~Association;
5. intentionally or knowingly solicit, accept, or agree to accept any benefit, financial or otherwise, for exercising the person's authority or performing the person's job duties in favor of another; or,
6. own personally or by or through a family member any interest in a business that provides services for compensation to either Association, unless that ownership is limited to common stock available to any member of the public for purchase or the ownership is disclosed, and any deviation of this Policy is waived pursuant to the "Deviation from this Policy" section.

Conflicts of Interest

3.1 Background

~~Employees and board members~~All persons subject to this Policy must avoid situations that involve, or appear to involve, a conflict of interest. A conflict of interest exists when a person's relationships or interests outside of the Association affect or could reasonably be expected to affect that person's business decisions, job performance, or the Association's interests.

3.2 Prohibited Relationships

As detailed in Texas Insurance Code, ~~Chapter~~Section 2210.013, t~~T~~he ~~Associations~~Association ha~~ve~~s strict prohibitions against employing persons who are related to each other. ~~Employees and Board members and employees~~Individuals subject to this Policy ~~must~~ may not appoint, employ, or contract with any person who is related to themselves or any other board member or employee in connection with the operation or business of either Association. See **Appendix D** for more details.

3.3 Required Relationship Disclosures

One way we demonstrate our integrity is by maintaining an awareness of Association ~~staff's~~ representative~~'~~s' relationships with other stakeholders. We can then ensure that we uphold appropriate levels of accountability, impartiality, and fairness. To that end, individuals subject to this Policy must annually disclose the relationships described below by completing the Required Relationship Disclosure Form (**Appendix B**) and submitting the form to the Compliance Department. Examples of **potential** conflicts of interest could include:

- Having a relative who works for one of our vendors.
- Having a relative or previous employer who is an insurance agent who writes TWIA/TFPA policies.
- Having a financial interest in a company that is a vendor of the Association.
- Having a previous employer who is one of our vendors.

3.3.1 At the Time of Appointment or Onboarding

At the time an individual subject to this Policy is employed, appointed as a board member, ~~or employed~~or engaged by the ~~Associations~~Association, they~~he or she~~ must disclose the following ~~relationships~~:

1. any previous, current, or future business or personal relationship between themself~~employee or board member~~ and any third party which has, had, or may have a financial interest in the operations of the ~~Associations~~Association;

2. any business relationship or ~~proposed~~ transaction the Association has, had, or may have with a third party ~~in which~~if ~~or from which~~ the employee,~~or~~ board member, contractor or a family member~~thereof~~:

   a. has, had, or may have a direct or indirect interest; and/or

   b. derived or may derive a benefit;~~and~~

   ~~b.~~

~~3.~~ any business relationship or proposed transaction with any business ~~where~~ that employs a family member ~~is employed~~, if the relationship or transaction may give rise to an actual or perceived conflict of interest; or~~.~~

3.

4. ~~i~~If ~~t~~an individual subject to this Policy~~hey~~, or an immediate family member ~~are~~is a TWIA or TFPA policyholder.

~~Examples of **potentia**l conflicts of interest could include:~~

- ~~Having a friend or relative who works for one of our vendors.~~
- ~~Having a friend, relative , or previous employer who is an insurance agent who writes TWIA/TFPA policies.~~
- ~~Having a financial interest in a company that is a vendor of the Associations do business with.~~
- ~~Having a A previous employer who is being one of our vendors.~~

~~4.~~

3.3.2 Ongoing Responsibility

Since relationships form and change over time, any individual subject to this Policy is required to disclose the existence of any of the relationships described in the section above as soon as the individual becomes aware of the relationship. At minimum, all individuals subject to this Policy must complete the Required Relationship Disclosure Form (**Appendix B**) and submit the form to the Compliance Department annually.

3.4 Review of Relationship Disclosures

The Compliance Department will review all required disclosures provided under this Policy, assess any actual or potential conflict of interest and the magnitude of any risk to the Association~~,~~ and determine what conditions and restrictions, if any, should be imposed by the Association to manage, reduce, or eliminate the conflict of interest. The existence and disclosure of a relationship ~~described above~~ does not mean further action will be required by the ~~Associations~~Association.

The Compliance Department may, in its discretion, escalate disclosures that warrant further review to the ~~Conflict of Interest Committee disclosures~~Vice President of Legal and Compliance who may consult with other members of the Executive Leadership Team, including the General Manager ~~which warrant further review. The Conflict of Interest Committee will consist of the General Manager, the Vice President of Legal and Compliance, the Chief Financial Officer, the Compliance Manager, and the Director of Human Resources~~. The ~~Committee~~ Compliance Department and ~~applicable~~appropriate members of the Executive Leadership ~~shall~~Team shall evaluate the conflict to determine an appropriate course of action.

Such actions may include~~,~~ but are not limited to: determining that no further action is required~~; or~~ seeking an exception ~~or deviation as outlined in this Policy~~; requiring that the conflict be eliminated; or reassigning or terminating individuals if the conflict cannot be otherwise resolved. Any decision by ~~the Committee~~ the Compliance Department and members of the Executive Leadership Team regarding a disclosure of a conflict of interest will be documented and maintained as a permanent record by the Compliance Department.

3.5 Outside Employment

No individual subject to this Policy shall engage in outside employment or business ventures that interfere~~s~~ or conflict~~s~~ with their~~his or her~~ duties and/or obligations to the ~~Associations~~Association.

3.6 Gifts

3.6.1 Background

The ~~Associations~~Association strives to operate transparently and to engage third parties using unbiased, independent decision making. Any form of bribe, kickback, or other benefit offering an unfair advantage is unacceptable. Some third parties may try to use gifts, services, entertainment, favors, mementos, awards, food, or other items of value ("gifts") to encourage employees and board members to engage in or continue business with the third party. In order to foster a culture of accountability and fairness as it relates to third parties, this Policy limits the value and

~~amount~~number of gifts that individuals subject to this Policy may accept~~,~~ and requires the individuals to disclose ~~certain~~ offers and acceptances of gifts.

3.6.2 Acceptable Gifts and Prohibited Gifts

Individuals subject to this Policy may accept non-cash items of $50 or less in value, not to exceed $250 per third party vendor, per calendar year, per recipient. Any offer of any benefit exceeding $50 shall be rejected.

Individuals subject to this Policy shall not accept, in any amount, a gift in the form of cash, check, loan, gift card, or negotiable instrument.

For Example:

A vendor sends you a $10 gift certificate. Although the value is under $50, the gift ~~has~~is a cash equivalent ~~monetary value~~ and must be declined and returned to the vendor. The declination must be reported to the Compliance Department.

A policyholder sends you a $30 box of cookies. The value is under $50 and the gift ~~does~~is not a cash equivalent ~~not have monetary value~~ so it may be accepted. The acceptance must be reported to the Compliance Department.

The Compliance Department can assist with drafting a letter or email explaining the Association~~our~~ policy on gifts.

3.6.3 Disclosing Gifts

An individual subject to this Policy must disclose the following to the Compliance Department using the Gift Disclosure Form (**Appendix C**):

1. the acceptance of any gift with ~~of retail, resale, or monetary~~ value of $50 or less; and
2. the rejection of a gift ~~physically presented to the individual~~ that exceeds $50 or that the individual is otherwise prohibited from accepting.

These disclosures must be made within 30 days of the action described in this section. Disclosures may be submitted electronically~~via physical or electronic delivery~~ t~~.~~o t~~T~~he Compliance Department who maintain ~~maintains~~ a record of all disclosure forms.

3.6.4 Exceptions

An individual subject to this Policy may accept gifts in the following scenarios:

Business Courtesies. Individuals subject to this Policy may accept items of business courtesy, i.e., items with little intrinsic value which are intended solely for presentation or advertisement, such as pens, plaques, certificates, trophies, greeting cards, and small promotional items commonly distributed to the general public. These items are exempted from the reporting requirement in this section, so long as they are:

- of nominal value;
- offered to all who are similarly situated (e.g., all conference attendees or all employees on a team)~~;~~
- not tied to any expectations for reciprocal gifts or favors of any kind;
- offered infrequently; and
- not always offered to or by the same person or organization. ~~1~~
- Individuals subject to this Policy do not need to disclose acceptance of gifts that fall under the above exception.

Conferences and Other Business Events. Notwithstanding the dollar amount threshold described above, individuals subject to this Policy may accept the waiver or reduction of fees associated with

~~1 Parameters for acceptable business courtesies are based on those outlined by the Association of Corporate Counsel. See http://www.ethicsxchange.com/topic/84053-business-courtesies.~~

attendance at a conference, seminar, training, or other business event, including any meals and expenses that would otherwise be included in the registration fee itself and available to all event attendees, if: (1) attendance is of reasonable business benefit to the ~~Associations~~Association; (2) the individual's manager provides written preapproval to attend the event; and (3) acceptance of the waiver and attendance at the event is otherwise in accordance with this Ethics Policy, the Training Policy, and the Travel and Travel Expense Reimbursement Policy.

Independent Relationships. Individuals subject to this Policy may accept a benefit from a person with whom they have a relationship independent of their employment status, such as a friend or relative, if the benefit is given on account of that independent relationship rather than any employment status with the ~~Associations~~Association. These instances do not need to be reported to the Compliance Department.

Additional Exceptions. There may be additional circumstances in which acceptance of a gift from a third party is of reasonable business benefit to the ~~Associations~~Association and does not involve undue risk of fraud, partiality, or improper advantage. Any such circumstance must be evaluated and approved in writing in advance by the General Manager. If the General Manager seeks approval of such a benefit, the request will be evaluated by the Vice President of Legal and Compliance~~, the Chief Financial Officer, the Compliance Manager, and the Director of Human Resources~~. Any decision regarding an exception to this ~~S~~section will be documented and maintained as a permanent record by the Compliance Department. Exceptions approved for the General Manager will be reported to the TWIA Board of Directors and/or the TFPA Governing Committee, as applicable, within 30 days of approval.

3.6.5 Application to Family Members

Any offers or provision of gifts to an immediate family member of an individual subject to this Policy will be construed as offering or providing an item directly to the individual covered by this Policy. The covered individual must report any offer to provide a gift to an immediate family member in the same manner as if the individual had received the offer themself ~~him- or herself~~.

3.7 Self-Dealing

An individual subject to this Policy may not enter into the following business dealings:

1. Representing ~~TWIA/TFPA~~the Association in any activity requiring his or her judgment or discretion that affects a person or entity with which they~~he or she~~ haves a material family, financial, or other relationship;

~~1.~~

2. Representing another company or person in a transaction with ~~TWIA/TFPA~~the Association; or,

3. Using ~~TWIA/TFPA~~Association property, corporate time, or confidential information for personal gain ~~or other thing of value~~. For example, an employee who is using Association resources or time to operate a side business.

3.8 Reporting Improper Activity

3.8.1 Required Reporting

All i~~I~~ndividuals subject to this Policy who reasonably suspect that a fraudulent insurance act has been or is about to be committed by an employee, board member, vendor, ~~or~~ insured or third party ~~or employee of the association~~ must, within 30 days of discovering the conduct, report the conduct and identity of the person

engaging in the conduct to the Texas Department of Insurance and may report the conduct and the identity of the person engaging in the conduct to other relevant ~~another~~ authorized governmental agenc~~y~~ies.

3.8.2 Reporting Resources

For any questions on fraud reporting, please contact the Compliance Department, refer to the ~~Associations~~Association~~'~~ Fraud Reporting Procedures available on the Employee Reference Drive, and refer to the ~~Associations~~Association~~'~~ Suspected Insurance Fraud Referral Form and accompanying Comprehensive Fraud Reporting guidelines.

In addition, if any individual subject to this Policy at any time believes that they~~he or she~~, or any other Association officer, employee, contractor, or board member, ~~employee, or contractor,~~ might be engaged in improper activities, the individual must immediately report the activities to the Compliance Department, their manager, the Vice President of Human Resources and Administration or the General Manager~~–~~. Improper activities include but are not limited to: removing or copying business records without express approval; possible criminal activity; improper use of Association equipment or other resources; or any violations of the ~~Associations~~Association~~'~~ policies~~, including the Ethics, Confidentiality, and Harassment policies~~.

Anyone who does not want to report the activities to the Compliance Department, their~~his or her~~ manager~~, the Compliance Department~~, the Vice President of~~Director of~~ Human Resources and Administration, or the General Manager may instead anonymously disclose any improper activities described by this Policy through the ~~TWIA/TFPA~~Association's Whistleblower ~~Program r~~Resources (see **Appendix E**).

Compliance with Other Laws and Regulations

Every individual subject to this Policy is required to comply with all applicable laws and regulations when~~in~~ conducting any Association business. Any questions about the legality of an existing or anticipated course of action shall be brought to the Vice President of ~~for~~ Legal and Compliance or the Compliance Department. This s~~S~~ection does not attempt to address all conduct that may constitute a violation of law, but in no event shall any individual subject to this Policy:~~board member or employee:~~

1. Steal, embezzle, or misapply funds or assets of the ~~Associations~~Association, or their customers or vendors;
2. Obtain unauthorized access to policyholder records or confidential information;
3. Improperly disclose policyholder records or confidential information;
4. Make false reports to government officials or regulatory agencies;
5. Assist criminals to avoid detection, capture, or punishment, knowing that a criminal offense has been committed;
6. Engage or abet in any criminal activity, including insurance fraud;
7. Gain unauthorized access to ~~TWIA/TFPA's~~the Association's information or computer systems;
8. Fraudulently request, obtain, disclose, or cause to be disclosed any customer information to a third party for any purpose not permitted by law or Association policy;
9. Use threats or physical force against another person; or
10. Engage in any ~~sexual~~ form of harassment or unfair discrimination.

~~10.~~

Annual Statement of Compliance

All individuals subject to this Policy shall review ~~and~~the Ethics Policy and electronically acknowledge their responsibility to ~~At least annually, an individual subject to this Policy shall certify, either via the Annual Certification included as **Appendix A**, or by its equivalent electronic means as prescribed by the Associations, that he or she has read the Ethics Policy and agrees to~~ abide by its terms upon onboarding and annually thereafter. Individuals unable to acknowledge the Policy electronically must email the Annual Certification (**Appendix A**) to the Compliance Department. All individuals subject to this Policy shall also complete the Required Relationship Disclosure Form (**Appendix B**) and submit the form to the Compliance Department annually.

~~subject to this Policy must deliver their certifications to the Compliance Department or provide complete disclosure to the Compliance Department of the reasons why they are unable to complete the certification.~~

Deviation from this Policy

The requirements of this Policy may only be waived by a majority vote by the TWIA Board of Directors, the TFPA Governing Committee, or either Associations' Executive Committee. This action should be documented with the applicable reason or basis for deviation from this Policy and placed within the minutes for that meeting. This Policy may only be amended in accordance with the procedures outlined in the ~~Associations~~Association's Policy Management Protocol.

Appendix A

Annual Certification

Authority. The Ethics Policy has been approved by the General Manager, Texas Windstorm Insurance Association Board of Directors, and Texas FAIR Plan Association Governing Committee.

Summary. The Policy requires board members, ~~and~~ employees and contractors to act with integrity and good judgment, avoid conflicts of interest, and adhere to both the explicit standards and general principles of the Policy. The Policy also requires the~~board members and employees to~~ disclosure of certain relationships and the offer or acceptance of certain gifts. These standards and disclosures are in line with our core values of accountability and integrity~~,~~ and allow us to execute our vision to be respected and trusted by our stakeholders.

Reporting Misconduct. If any individual subject to this Policy ~~employee or board member~~ believes at any time that someone might be engaged in prohibited activities described in the Policy, the employee or board member must immediately report the activities to the Compliance Department or authorized governmental agency as appropriate under fraud reporting requirements. Alternatively, a person can report the activities through the ~~Associations~~Association's~~'~~ Whistleblower ~~Program r~~Resources (see **Appendix E**).

Certification

I have read the ~~Associations~~Association~~'~~ Ethics Policy and agree to abide by its terms. By my signature below, I certify that I know of no circumstance or conduct, whether involving me or any other board member, ~~or~~ employee, or contractor that violates the Ethics Policy or that is required by the Ethics Policy to be reported. I certify that I have disclosed all business and personal relationships requiring such disclosure by this Ethics Policy.

Signature	Printed Name
Date	Department

TEXAS FAIR PLAN ASSOCIATION

TEXAS WINDSTORM INSURANCE ASSOCIATION

Appendix B

Annual~~Required~~ Relationship Disclosure ~~Form~~

The ~~Associations~~Association' Ethics Policy requires the disclosure of certain relationships. ~~with third parties.~~ This disclosure is required at the time of onboarding and annually thereafter. This disclosure ~~can~~should be updated ~~at any time and it you begin your employment, and it is your continuing responsibility to update this disclosure form during your employment if~~ when you become aware of any relationship requiring disclosure. At minimum, all individuals subject to this Policy must complete this form and submit the form to the Compliance Department annually.

Please read the list below and confirm whether you have relationships to disclose ~~the following~~:

1. any previous, current, or future business or personal relationship between you or any member of your family and any third party who has, had, or may have a financial interest in the operations of the ~~Associations~~Association;
2. any business relationship or proposed transaction the Association has, had, or may have with a third party in which or from which you or a family member:
   a. has, had, or may have a direct or indirect interest; and/or
   b. derived or may derive a benefit; and
3. any business relationship or proposed transaction with any business where a family member is employed, if the relationship or transaction may give rise to an actual or perceived conflict of interest.
4. if you, or an immediate family member is a TWIA or TFPA policyholder

If you have no relationships to disclose, please sign below:

By my signature below, I state that I have received and read the Ethics Policy. My signature below confirms my acknowledgement of the Policy and its relationship disclosure requirements, and it constitutes my certification that I am not aware of any conflict or potential conflict covered by the Policy that is not disclosed on this form or its attachments.

Signature Printed Name

Date Department

Appendix B

Annual Relationship Disclosure

If you ~~do~~ have relationships to disclose, please provide the information below:

~~3.~~

~~Entity or Individual Name~~ ~~Nature of Relationship (Business, Personal, Previous Employer)~~

Entity or Individual Name	Nature of Relationship (Personal, Business, Previous Employer, Policy Number)

If you have additional information to disclose, please attach a separate sheet of paper to this document with that information. ~~Let's just create a supplemental form and have them use that.~~

Appendix B

By my signature below, I state that I have received and read the Ethics Policy. My signature below confirms my acknowledgement of the Policy and its relationship disclosure requirements, and it constitutes my certification that I am not aware of any additional conflict~~s~~ or potential conflict~~s~~ covered by the Policy that is not disclosed on this form or its attachments.

~~By my signature below, I state that I have received and read the Ethics Policy. My signature below confirms my acknowledgement of the Policy and its relationship disclosure requirements, and it constitutes my certification that I am not aware of any conflict or potential conflict covered by the Policy that is not disclosed on this form or its attachments.~~

Signature Printed Name

Date Department

Annual Relationship Disclosure

If you have previously made a relationship disclosure and have no changes to make, please read and sign below:

By my signature below, I state that I have received and read the Ethics Policy. My signature below confirms my acknowledgement of the Policy and its relationship disclosure requirements, and it constitutes my certification that I have reviewed my previous relationship disclosures and I have no other ~~additional~~ conflicts or potential conflicts covered by the Policy.

Signature Printed Name

Date Department

Appendix B

Appendix C

Gift Disclosure Form

Return completed forms to the Compliance Department in person or via Compliance@twia.org.

~~TWIA/TFPA~~Association **Employee Name:** ______

Date: ______________________________

Accepting Gifts of $50 or Less

Gift (services, entertainment, favors, mementos, awards, food, or other items of value) of $50 or less in value, not to exceed $250 per vendor per calendar year per recipient, may be accepted and must be disclosed. Note that gifts of $50 or less in value that are rejected do not need to be disclosed.

Date: ______________________________

Gift Description: ______________________________

Approximate Value: ______________________________

Name of Individual(s) Providing Gift: ______________________________

Entity Associated w~~W~~**ith Individual(s):** ______________________________

Rejecting and Disclosing Gifts Exceeding $50 or of Monetary Value

Gifts of more than $50 must be rejected; additionally, the following must be rejected and disclosed: any gifts ~~physically~~ presented to you that are more than $50 in value, and any gift of any value in the form of cash, checks, loans, gift cards or negotiable instruments.

Date: ______________________________

Gift Description: ______________________________

Approximate Value: ______________________________

Name of Individual(s) Offering Gift: ______________________________

Entity Associated w~~W~~**ith Individual(s):** ______________________________

Appendix D

Prohibited Relationships

As described in the Ethics Policy, the ~~Associations~~Association generally cannot employ relatives. Board members and employees must not appoint, employ, or contract with any person who is related to themselves or any other board member or employee in connection with the operation or business of either ~~Associations~~Association, if the person is to be directly or indirectly compensated from funds of either Association, and if the relationship is within the degree described by Section 573.002, Government Code.

While the prohibited relationships are described in further detail below, generally, the ~~Associations~~Association cannot appoint, employ, or contract with the following relatives of individuals subject to this policy: parents, grandparents, aunts, great aunts, uncles, great uncles, first or second cousins, nieces, nephews, grand nieces, or grand nephews. This applies to relatives by blood, adoption, and marriage.

The degrees of relationship described by Section 573.002 are those within the third degree by consanguinity or within the second degree by affinity.

Two individuals are related to each other by **consanguinity** if:

1. one is a descendant of the other; or
2. they share a common ancestor.

An adopted child is considered to be a child of the adoptive parent for this purpose.

Two individuals are related to each other by **affinity** if:

1. they are married to each other; or
2. the spouse of one of the individuals is related by consanguinity to the other individual.

The ending of a marriage by divorce or the death of a spouse ends relationships by affinity created by that marriage unless a child of that marriage is living, in which case the marriage is considered to continue as long as a child of that marriage lives.

Consanguinity and Affinity Relationship Chart[2]

Officer or Employee					
Consanguinity (Includes individuals related by blood to the Officer or Employee)			Affinity (Includes the Officer's or Employee's Spouse and individuals related to the Spouse)		
First Degree	Second Degree	Third Degree	First Degree	Second Degree	Third Degree
Father or Mother	Grandparents	Great Grandparents	Spouse	Grandparents	Great Grandparents
Son or Daughter (& Spouse)	Grandchildren (& Spouse)	Great Grandchildren (& Spouse)	Father or Mother	Grandchildren	Great Grandchildren
	Uncle or Aunt (& Spouse)	Great Uncle or Aunt (& Spouse)	Son or Daughter	Uncle or Aunt	Great Uncle or Aunt
	First Cousin (& Spouse)	Children of Great Uncle or Aunt (& Spouse)		First Cousin	Children of Great Uncle or Aunt
	Nephew or Niece (& Spouse)	Second Cousin (& Spouse)		Nephew or Niece	Second Cousin
	Brother or Sister (& Spouse)	Children of First Cousin (& Spouse)		Brother or Sister	Children of First Cousin
		Grand Nephew or Niece (& Spouse)			Grand Nephew or Niece

[2] Source – Texas State, Finance and Support Services Division, Human Resources.

A board member or employee is the starting point from which all degrees of relationship are calculated.

Under the Degrees of Consanguinity, where Spouse is indicated, the relationship of the spouse is in the same degree as that of the person related by consanguinity, but the spouse is related only by affinity.

Although the same statutory language does not exist for TFPA under Chapter 2211, these standards will be applied in any TFPA operations or procedures.

Any ~~board member or~~ employee who violates these requirements is subject to termination by TWIA or TFPA. In addition, a person who violates these requirements may be subject to any applicable civil or criminal penalty if the violation also constitutes a violation of any statute or rule. Any ~~director or governing~~ board member or governing committee member who violates these requirements will be reported to the Commissioner of Insurance and may be subject to removal by the Commissioner of Insurance pursuant to Chapters 2210 and 2211, Texas Insurance Code as applicable.

Appendix E

Whistleblower ~~Program~~Resources

All board members and employees, including interns and part time, temporary and contract employees can anonymously report ethics- and compliance -related concerns.

First and foremost, the ~~Associations~~Association encourages you to speak to your manager when you encounter a problem or circumstance that requires intervention in order to reach a resolution. However, if an incident or situation arises that you feel you cannot report to your supervisor, Compliance Department, or Human Resources Department, an external system is provided to give an alternative reporting source.

Please note that the information provided by you may be the basis of an internal and/or external investigation ~~into the issue you are reporting~~ and your anonymity will be protected to the extent possible by law. Reports are submitted by our service provider, Lighthouse Services, to the ~~Associations~~Association's designee for investigation according to our company policies. While your identity may become known during the course of the investigation because of the information you have provided, the ~~Associations~~Association will not tolerate~~have a strict policy prohibiting~~ retaliation against good faith reporters.

Lighthouse Services' toll-free number and other methods of reporting are available 24 hours a day, 7 days a week for use by employees and staff.

- **Telephone:** English: (877) 472-2110
  Spanish: (800) 216-1288
- **Website:** Lighthouse Homepage: www.lighthouse-services.com/TWIA
  (Click "Submit Incident Report")
- **E-mail:** reports@lighthouse-services.com (must include company name with report)
- **Fax:** (215) 689-3885 (must include company name with report)

10C. Communications Update

MEMORANDUM

DATE: April 28, 2021

TO: TWIA Board of Directors

FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs

RE: Communications & Legislative Affairs Operational Highlights

I. **Legislative & Regulatory Affairs**

a) The 87th Session of the Texas Legislature opened on January 12. Due to the ongoing COVID-19 pandemic and the February winter storm, the Legislature and its committees met less frequently than usual in January and February. Following the winter storm, the Legislature returned to a more normal schedule and electrical grid reliability became a major focus for lawmakers in addition to the expected issues related to the pandemic.

b) March 12 was the deadline for legislators to file bills in the current legislative session. TWIA staff is tracking the status of 13 bills that are specifically on the topic of TWIA and seven other bills that may impact TWIA and insurance industry operations. TWIA also tracks legislation impacting the open meetings and public information acts that may affect how TWIA conducts Board meetings and responds to information requests.

An exhibit listing TWIA-related bills is enclosed with this summary.

c) Early in the session, TWIA staff focused on meeting with legislative offices to brief them on the recommendations contained in the Board's Biennial Report. Rep. J.M. Lozano (San Patricio County) agreed to carry legislation to enact TWIA's recommendation to allow a premium payment grace period to help mitigate against lapses in coverage, especially during hurricane season. The bill, House Bill (HB) 2920, passed the House and is expected to pass the Senate.

d) Later in the session, TWIA staff focused on meeting with legislative offices to discuss TWIA-related bills that were being considered in committee. Jennifer Armstrong, David Durden, and Anna Stafford met virtually with staff for several key legislators including new Speaker of the House Dade Phelan, Senate Business & Commerce Committee Chairman Kelly Hancock, and House Insurance Committee Chairman Tom Oliverson. TWIA also met with several members of the House Insurance Committee, with a focus the new members.

Exhibits listing all the legislative and regulatory meetings attended in Q1 2021 and descriptions of those meetings are enclosed with this summary.

e) On March 2, the House Insurance Committee held an organizational meeting and invited TWIA to provide testimony. John Polak gave the Committee, which has several new members, an overview of TWIA's history, operational structure, and funding. Jennifer Armstrong provided information on the legislative recommendations in the Biennial Report. Mr. Polak fielded questions from Rep. Mayes Middleton (Galveston County) on TWIA's December 2020 rate filing and related issues.

f) On March 30, the committee held a public hearing on several TWIA-related bills. TWIA staff attended the hearing and were available as resource witnesses but were not called to testify. The Committee has considered additional TWIA legislation at later hearings.

g) From January 1 through March 31, 2021, we received and responded to 20 legislative, four regulatory (all from the Texas Department of Insurance), and one coastal stakeholder inquiry (from a TWIA policyholder).

h) We continue to provide recurring 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) In-person coastal outreach remains suspended due to the COVID-19 pandemic. However, we continued to communicate with stakeholders through our digital channels in Q1 2021 with a focus on providing updates about Winter Storm Uri, its impact on Association events and operations, and reminders about policy coverage.

   i. In January, we posted a video to Facebook about the Association's mission and purpose that reached more than 68,000 people, providing them insight about who we are and what we do. We also shared posts from industry allies, including the Texas Sea Grant and Texas Department of Insurance, with the goal of keeping our stakeholders informed while broadening our online audience.

   ii. In February Winter Storm Uri impacted almost the entire state, including TWIA's coverage area, and caused the Association to lose power and experience system outages for several days. In response, CLA shared frequent updates with stakeholders through our website, Facebook page and Nextdoor pages, and via email to advise of the closure and reopening of the Association's office and the rescheduling of Association events.

   - As most claims received from the storm were for freezing pipes and other losses not covered by the TWIA policy, CLA sent an agent bulletin the week following the storm to remind agents about TWIA's coverages and give them post-storm recovery information and resources to provide to their clients impacted by the storm.

III. **Media Relations**

a) TWIA's media activity in Q1 2021 was mostly focused on the activities of the Board. The Association experienced about 40 percent more media coverage in the quarter than in the same quarter last year, and the coverage was more negative – 42 percent negative in 2021 vs 17 percent negative in 2020.

b) Coverage was primarily driven by the issue of rates, with 51 percent of media coverage in the quarter covering this topic. This was mostly early in the quarter as media outlets focused on TDI's decision to reject TWIA's filing for a five percent rate increase. Rates-related coverage later in the quarter was based on legislation addressing rates, specifically Rep. Todd Hunter's (Nueces County) bill requiring a two-thirds vote of the Board to increase TWIA rates.

c) The second most covered issue was TWIA funding and reinsurance at 17 percent, focused on the Board's reinsurance purchase directive at the March Board meeting. Nine percent of coverage was attributed to an ESPN story on an NFL player who is being sued. The piece, which was reproduced by several media outlets, mentions in passing that the plaintiffs suing the NFL player are represented by an attorney known in Houston for lawsuits against TWIA.

IV. **Agent Advisory Group**

a) The Agent Advisory Group (AAG) met on April 8 for their second quarterly meeting of 2021. The meeting topics included updates on the Association's response to Winter Storm Uri, TWIA bills and activities during the 87th Legislative Session, the December rate filing and 2021 hurricane season funding, and routine underwriting and project-related updates.

   i. Staff reviewed the Association's response to Winter Storm Uri and outlined adjustments to its plans to ensure preparedness in case of another severe, extended weather event.

   ii. As requested by the AAG, we reviewed the status of all Association and industry-related bills from the 87th Legislative Session with a focus on legislation that may impact the agent community.

TWIA Legislation
87th Texas Legislature

HB 429 Rep. Ken King (Hemphill County) Filed: 11/10/2020

Relating to the coverage of damage from tornadoes and wildfires by the Texas Windstorm Insurance Association.

TWIA Impact:

- Requires TWIA to offer tornado and wildfire insurance statewide to those unable to obtain it in the private market.

HB 477 Rep. Joe Deshotel (Jefferson County) Filed 11/10/2020

Relating to the operation of casino gaming in certain state coastal areas to provide additional money for residual windstorm insurance coverage and catastrophic flooding assistance in the coastal areas; requiring occupational licenses and certifications; authorizing fees; imposing a tax; creating criminal offenses and providing other penalties.

TWIA Impact:

- Proposes legalizing casinos in certain coastal counties and using taxable income from those casinos to fund TWIA.

HB 769 Rep. Mayes Middleton (Galveston County) and three others Filed 12/9/2020

Relating to the administration of the Texas Windstorm Insurance Association.

TWIA Impact – AS AMENDED:

- Coastal move of TWIA Headquarters
- Prohibit TWIA Board from voting on a rate filing if there is a vacancy
- Prohibit TWIA from using net gains from operations to buy reinsurance
- Prohibit TWIA from including LAE in calculation of PML
- Requires TWIA to use disinterested third parties to run catastrophe models that were run in the preceding year or models that are substantially similar to those models
- Prohibits TWIA from using a blend of models to determine the PML
- Requires TWIA to use the model that results in the lowest PML
- Requires TWIA to post online information produced in compliance with the modeling requirements
- Prohibits TWIA from using a broker to place reinsurance that was involved in the modeling process on which we relied on to determine the PML
- Prohibits TWIA from depositing excess surcharges in the CRTF
- Extends the dates of the funding and merger studies

[HB 1450] Rep. Abel Herrero (Nueces County) Filed 1/28/2021

Relating to policyholder approval for certain windstorm and hail insurance rate changes.

TWIA Impact:

- Requires a majority of policyholders to approve a rate increase greater than 5%. The Commissioner of Insurance would be responsible for notifying policyholders of and establishing the voting process.

[HB 1451] Rep. Abel Herrero (Nueces County) Filed 1/28/2021

Relating to the board of directors of the Texas Windstorm Insurance Association.

TWIA Impact:

- Changes the composition of the board from 3 to 5 coastal members, one of whom is an agent with the remaining coastal members required to be policyholders.
- Changes appointment authority from the Insurance Commissioner to the Governor.
- Policyholder members are nominated by OPIC and cannot be agents.
- Board member terms are changed from three-year staggered to two-year terms not to exceed six consecutive years.

[HB 1864] Rep. Eddie Lucio, III (Cameron County) Filed 2/11/2021

Relating to the authority of the Texas Department of Insurance and the Texas Windstorm Insurance Association to issue certificates of compliance for association coverage.

TWIA Impact:

- Transfers the responsibility of issuing Certificates of Compliance for completed improvements back to TWIA.
- A person may apply to TWIA for a Certificate of Compliance for a completed improvement if their application for an ongoing improvement has been denied by TDI due to an incomplete form or failure to pay the required TDI fees.
- TDI and TWIA may rescind a Certificate of Compliance for a completed improvement if it does not comply with the applicable building code.

[HB 2920] Rep. JM Lozano (San Patricio County) Filed 3/4/2021

Relating to a grace period for payment of premiums on insurance policies renewed by the Texas Windstorm Insurance Association.

TWIA Impact:

- Requires TDI to draft rules, with advice from TWIA, that establishes 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.
- Based on the legislative recommendation in TWIA's 2020 Biennial Report.

HB 3564 Rep. Dennis Paul (Harris County) Filed 3/1/2021

Relating to the authority of the Texas Department of Insurance to rescind a certificate of compliance issued for an improvement for purposes of coverage through the Texas Windstorm Insurance Association.

TWIA Impact:

- Repeals the authority of the Insurance Commissioner to rescind a windstorm certificate of compliance if the TDI finds that the improvement does not comply with the applicable building code under TWIA's plan of operation.

HB 3684 Rep. Greg Bonnen (Galveston County) Filed 3/10/2021
SB 1448 Sen. Larry Taylor (Galveston County) and two others Filed 3/10/2021

Relating to the continuation of the windstorm insurance legislative funding and funding structure oversight board and to studies relating to the Texas Windstorm Insurance Association and the Fair Access to Insurance Requirements Plan.

TWIA Impact:

- Extends the deadlines for submission of reports of interim studies by the Windstorm Insurance Legislative Funding and Funding Structure Oversight Board (to November 2022) and the Windstorm Insurance Legislative Oversight Board (to January 2023).

HB 3809 Rep. Todd Hunter (Nueces County) Filed 3/11/2021

Relating to the setting of premium rates for Texas Windstorm Insurance Association policies by the commissioner of insurance.

TWIA Impact:

- Changes authority to set TWIA rates from the TWIA Board to the Insurance Commissioner.
- Requires the insurance commissioner to set rates for reinsurance purchased by TWIA or reinsurance purchased by member companies to cover TWIA losses.
- Requires TWIA rates to be “reasonable as to the public” and “nonconfiscatory as to the association and member insurers.”
- Requires TWIA to submit data to TDI to assist in the determination of rates.
- Requires TDI to hold public hearings when setting TWIA rates and periodically after rates are established.
- Allows TWIA to petition a court to enforce procedural requirements on TDI.

HB 3810 Rep. Todd Hunter (Nueces County) and 19 others Filed 3/11/2021

Relating to the authority of the Texas Windstorm Insurance Association to raise premium rates on association policies.

TWIA Impact:

- Requires a two-thirds vote of the Board of Directors to raise rates.

HB 4419 Rep. Mayes Middleton (Galveston County) Filed 3/12/2021

Relating to settlement and resolution of claims against the Texas Windstorm Insurance Association.

TWIA Impact:

- Retains the 1-year deadline for filing claims but allows additional claim elements to be added for an indefinite time thereafter.
- Creates an 18% interest penalty for "late" claim payments by the Association.
- Creates a 180-day deadline for completing appraisals (unless a different time is agreed to by the parties or the appraisers).
- Makes an appraisal award "binding" when signed by two of the three panel members; requires notice within 30-days of intent to challenge the award; reduces time TWIA has to wait to file suit to vacate award from 180 to 60 days.
- Requires payment of replacement cost coverage payments even if policyholder does no repairs.
- Allows litigation on accepted claims to award interest for "late" claim payments or attorney's fees when final payment or appraisal payment is "substantially less" than TWIA's initial claim payment.

Q1 2021 Legislative & Regulatory Meetings

Legislative / Regulatory Office	Staff Member	TWIA Staff	Purpose
January 2021			
Rep. Alex Dominguez	**Houston Tower**	**Jennifer Armstrong, David Durden & Anna Stafford**	Met with staff to discuss the 2020 Biennial Report recommendations.
Sen. Juan "Chuy" Hinojosa	**Luis Moreno & Ryan Alter**	**Jennifer Armstrong, David Durden & Anna Stafford**	Met with staff to discuss the 2020 Biennial Report recommendations.
Rep. Greg Bonnen	**Brigitt Hartin**	**Jennifer Armstrong, David Durden & Anna Stafford**	Met with staff to discuss the 2020 Biennial Report recommendations.
February 2021			
Speaker Dade Phelan	**Danny Mittnacht**	**Jennifer Armstrong, David Durden & Anna Stafford**	Met with staff to discuss the 2020 Biennial Report recommendations and provide an introduction to TWIA issues.
Rep. Mayes Middleton	**Andrew Herrell**	**Jennifer Armstrong, David Durden & Anna Stafford**	Met with staff to discuss HB 769, Rep. Middleton's bill on TWIA funding and other issues.
Rep. Ken King	**Megan Quijano & Cheryl Lively**	**Jennifer Armstrong & Anna Stafford**	Met with staff to provide an introduction to TWIA issues and discuss HB 429, Rep. King's bill on TWIA covering tornados and wildfires throughout the state.
Chairman Tom Oliverson	**Rep. Oliverson and Eiman Siddiqui**	**Jennifer Armstrong, David Durden & Anna Stafford**	Met on TWIA priority issues and legislation to be considered by the House Insurance Committee.
March 2021			
Rep. Lacey Hull	**Rep. Hull and Emily Fankell**	**Jennifer Armstrong, David Durden & Anna Stafford**	Provided an introduction to TWIA with an emphasis on funding/rates issues.
Rep. Dennis Paul	**Rep. Paul and Greg Bentch**	**Jennifer Armstrong & Anna Stafford**	Met to discuss TWIA's priority issues, including funding and rates.

Legislative / Regulatory Office	Staff Member	TWIA Staff	Purpose
Attending Legislators & Staff: • Rep. Greg Bonnen • Rep. James White • Lauren Lumsden (Speaker Dade Phelan) • Brigitt Hartin, (Rep. Greg Bonnen) • Samantha Durand (Rep. Greg Bonnen) • Cari Christman (Sen. Larry Taylor) • Joshua Goldman (Rep. Ed Thompson) • Shane Saum (Rep. Geanie Morrison) • Miguel Liscano (Rep. Abel Herrero) • Leonardo Garcia (Rep. Bobby Guerra) • Terrilyn Tarlton-Shannon, Agent		David Durden, David Williams, Jerry Fadden, Denise Larzalere, Jim Murphy & Anna Stafford	Invited legislators and legislative staff to the Q1 2021 TWIA Board Meeting Materials Briefing, focusing on those agenda items of expected interest to staff and legislators: December 2020 rate filing, 2021 funding/reinsurance decision, 2014 Bond disclosure, and noteworthy operational activities.
Rep. Eddie Lucio, III	Sergio Cavazos	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss TWIA-related bills, including HB 1864, Rep. Lucio’s bill on windstorm certifications; and the upcoming TWIA board meeting.
Chairman Tom Oliverson	Eiman Siddiqui	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to provide an introduction to TWIA with an emphasis on funding/rates issues.
Rep. Jessica Gonzalez	Elliot Ross	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to provide an introduction to TWIA and discuss Biennial Report recommendations.
Rep. Celia Israel	Rep. Israel and Taryn Feigen	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to provide an introduction to TWIA with an emphasis on funding/rates issues.
Rep. Ramon Romero	Michael Ramsey	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to provide an introduction to TWIA with an emphasis on funding/rates issues.
Rep. Geanie Morrison	Shane Saum	Jennifer Armstrong, David Durden & Anna Stafford	Met with staff to discuss TWIA bills of interest in House and Rep. Morrison's concerns about the December rate filing and subsequent transparency concerns.
Sen. Kelly Hancock	Mattie Heith	Jennifer Armstrong, & Anna Stafford	Met with staff to discuss TWIA bills of interest in the House and Senate.

14. Future Meetings

August 3, 2021 – Webinar

December 7, 2021 – Webinar