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November 26, 2018

Jennifer Jones, Acting Director
Sunset Advisory Commission
P.O. Box 13066
Austin, TX 78711

Re: AIA's Comments: Sunset Staff's Report on the Texas Windstorm Insurance Association

Dear Ms. Jones:

Pursuant to your e-mail invitation of November 9, the following comments on the Staff's Report on TWIA are offered by AIA:

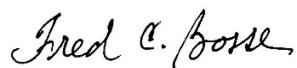
- Sunset staff has done a good job of identifying the inherent tension that exists between the competing statutory mandates relating to TWIA. For TWIA to have any chance of becoming economically viable, that conflict must be addressed.
- The American Insurance Association is naturally most concerned about the staff's recommendations that would have an adverse effect upon our members, their policyholders and the overall competitiveness of the property-casualty insurance market in Texas.
- When staff discusses "policyholders," they seem to be referring only to TWIA policyholders, whereas the financing scheme for TWIA ultimately implicates every insurance customer in the state, both residential and commercial. In other words, if TWIA experiences funding shortfalls, it effectively raises the costs for all other Texas insurance consumers. Thus, the interests of ALL policyholders in Texas should be taken into account when there is an attempt to address TWIA's chronic problems.
- Hurricane Harvey has been the major impetus for bringing TWIA's problems to light. One of AIA's concerns is what we perceive to be neglect in rebuilding the CRTF since Harvey struck last year. With the enactment of SB 900 in 2015, it was our understanding that Class 1 public securities would be paid by premium revenue and premium surcharges on TWIA policyholders. It appears that only net premium revenue has been used to retire the debt service and the securities, to the detriment of rebuilding the

CRTF. If that is, in fact, the situation, it is an issue the Advisory Commission should investigate and make recommendations to correct.

- Staff suggests that in the future, assessments against insurers should be imposed before issuing new bonds. Assessments against a “member insurer” are borne by that insurer’s policyholders. This suggestion is inconsistent with more than a decade of legislative discussions and debates, as evidenced specifically in 2009 with HB 4409, in 2011 with HB 3 and in 2015 with SB 900. The legislature has decided that the cost of coastal storms should be borne initially by those living in the coastal areas until such time as policyholders living in the rest of the state will be required to assume a portion of those costs. This suggestion by staff reverses that construct by implicating all policyholders in the financing scheme at the lowest level of the funding structure, and especially *when the Catastrophe Reserve Trust Fund is low* (p. 19 of the Full Report). See the previous bullet point.
- Legislative history is overlooked again with the staff’s discussion of alternatives to TWIA being the primary provider of windstorm coverage, viz., TWIA serving as a reinsurer to the private market, creating an assigned risk plan or requiring the private market to provide windstorm coverage under the threat of being prohibited from writing property coverage in the rest of the state. None of these alternatives is even remotely related to a solution for TWIA that AIA members would expect to be considered in a state that frequently prides itself in fostering a business friendly environment.
- Instead, AIA would direct the Commission’s attention to some of the practices employed by other state’s residual market providers, for example the rating requirements in Louisiana and the coverage limits in North Carolina (p. 21 of the Full Report), and perhaps even to transforming TWIA into more of a North Carolina-type “Beach Plan” that provides coverage only for those living within a certain distance of the water, as opposed to all residents of 14 entire counties.

I would be pleased to answer any questions you may have relating to these comments.

Very truly yours,



Fred C. Bosse
Vice President – Southwest Region