

Connie Johnson

CONNIE JOHNSON

WRITTEN COMMENTS ON THE TEXAS WINDSTORM INSURANCE ASSOCIATION

SUNSET STAFF REPORT

PRESENTED TO

THE TEXAS SUNSET ADVISORY COMMISSION

ON BEHALF OF

WESTON INSURANCE COMPANY



December 7, 2018

Texas Sunset Advisory Commission
P.O. Box 13066
Austin, Texas 78711

Re: Sunset Advisory Commission Staff Report (“Sunset Report”)
Texas Windstorm Insurance Association (“TWIA”)

Dear Honorable Members of the Texas Sunset Advisory Commission:

I am writing to provide you with Weston Insurance Company’s (“Weston”) comments regarding the above-referenced Sunset Report. Specifically, Weston would like to address Issue 4 and recommendation 4.1 in the report, which pertain to TWIA’s Assumption Reinsurance Depopulation Program (the “AR Program”). We respectfully disagree with recommendation 4.1 in the Sunset Report concluding that the AR Program should be eliminated. Rather, we suggest that improvements be made to the AR Program to better reduce TWIA’s exposures and better serve Texas’ coastal property owners.

Weston has participated in each year of the AR Program and has been the private carrier with the most success in reducing TWIA’s exposure via the AR Program. The AR Program is still relatively new and the agents serving Texas’ Tier 1/coastal areas are still learning the processes of the program. We believe eliminating it now would be extremely premature and not allow it to achieve its full potential. Weston has worked diligently with the Tier 1/coastal area agents for the past three years and they have indicated they are becoming more comfortable with the AR Program. While the Sunset Report indicates agents are reluctant to work with assumption carriers, Weston has contracted with over 200 agents serving Texas’ Tier 1/coastal areas and agents continue to accept appointments with Weston in order to participate in the AR Program.

Admittedly, the data in the Sunset Report shows much lower number for the 2017-2018 AR Program cycle. However, the AR Program was disrupted in that cycle due to the impact of Hurricane Harvey. Hurricane Harvey struck during the “agent period” of the AR Program during which agents must log in to the TWIA system and authorize private carriers to make assumption offers to their clients insured by TWIA. The agents in the Tier 1/coastal areas of Texas were understandably distracted from that task due to the storm’s extreme impact on their clients and, in many cases, the agents themselves. We note that the number of TWIA policyholders the agents authorized Weston to make offers to for the 2018-2019 AR Program cycle has rebounded to nearly 4,000 and we believe it will continue to increase going forward.

To date the AR Program has successfully contributed to a reduction in TWIA's exposures. It has also provided coastal policyholders in Texas with good, private market alternatives for their windstorm insurance needs while reducing their TWIA assessment exposure. With the improvements to the AR Program discussed below, Weston sincerely believes that the AR Program will be a valuable tool for TWIA to continue in those positive directions. To illustrate how successful similar assumption programs can be, we think some statistics for Florida's insurer of last resort, Citizens Property Insurance Corp. ("CPIC"), and its assumption program are helpful. Since Weston and other carriers starting depopulating CPIC via assumption in 2012 and through year end 2017:

- CPIC's policy count decreased by 70.1%
- CPIC's in-force premium decreased by 71.0%
- CPIC's 100-year PML (probable maximum loss) decreased by 73.0%
- CPIC's exposure (total insured value) decreased by 78.0%
- CPIC's southeast Florida (Miami, Ft. Lauderdale, West Palm Beach) market share decreased by 73.7%
- CPIC's Total Adjusted Capital improved by 13.8%, or \$771.1 million, despite paying \$1.81 billion in claims for Hurricane Irma in 2017.
- CPIC's Risk-Based Capital Ratio has improved by 83.2%
- Floridian's exposure to Emergency Assessments in the event of CPIC suffering a 1-in-100 year loss has decreased from \$11.61 billion to \$0.

The AR Program can be a key tool for TWIA to achieve similar success in improving its financial health but it needs to be given time to work (possibly with the improvements discussed below). CPIC's successes above happened over a five-year period and its assumption program was in place long before that. Eliminating TWIA's AR Program now while it is only in its infancy will only hurt TWIA's chances of achieving similar success.

Rather than eliminate the AR Program, Weston proposes the following improvements so that it better serves TWIA's coastal policyholders while assisting TWIA with reducing its exposures:

-We agree that the 6 month opt-out period set forth in the statutes is unnecessarily long and not having it end until the day before the start of the Atlantic hurricane season on June 1 is problematic for policyholders and carriers. In other states with assumption programs, the opt-out period is 30 to 60 days and that has worked well for both the policyholders and the assuming carriers by providing certainty for both in a more reasonable time period. This change will address the issues raised in the Sunset Report regarding assumed policies remaining on TWIA paper for an extended period of time since the policies will be renewed with the assumption carrier at an earlier date. We believe this change would also promote more carrier participation in the AR Program.

-We support agents having the discretion to not work with any assuming carrier they choose and, thereby, preventing the assumption carrier from making assumption offers to their policyholders. However, TWIA's current process of requiring agents to access the online TWIA depopulation portal and select on a one-by-one basis each of their policies

on which they authorize an assuming carrier to make an assumption offer to the policyholder is unnecessarily cumbersome. In other states, the assuming carrier needs only get the agent to agree to accept an appointment from the assuming carrier. By accepting the appointment, the agent automatically grants the assuming carrier the permission to make assumption offers to any of the agent's policyholders. TWIA's online assumption portal has consistently been the subject of complaints by the agents and doing away with it would greatly streamline the assumption reinsurance program and make it more effective.

-We believe depopulation would be more successful if the statutes directed TWIA not to charge any ceding commission to assuming carriers on the premium assumed. This is done in other states in which the residual wind market insurer does not reduce the assumed premium at all, even for the commission the residual wind market insurer pays to agents. The purpose of having the residual market waive any ceding commission, including agent commissions it pays, is to incentivize private market insurers to participate in the depopulation process and it would benefit TWIA by reducing its overall exposure. This incentive has proven very effective in those states where it has been adopted and would result in more private carriers participating in the AR Program.

In additional to the above, we would like to address each of the Findings raised in Issue 4 of the Sunset Report:

The Assumption Reinsurance Depopulation Program is administratively complex, creating unnecessary confusion.

Policyholder confusion delays claim payments.

The complexity of the program requires logistical and financial gymnastics.

The shorter opt-out period recommended above would help resolve these issues. But even without that improvement, Weston was able to work successfully and fairly seamlessly with TWIA after Hurricane Harvey to make sure claims were handled by the proper insurer. Also, agents now have a better understanding of how the AR Program works since it is in its third annual cycle and they can better assist their clients with getting their claims handled by the right insurer.

The industry's interest in the Assumption Reinsurance Depopulation Program is limited and the benefits to policyholders are questionable.

Weston's suggested improvements to the AR Program discussed above will make it more attractive to private market insurers as discussed in more detail above. And again, the lower statistics for the AR Program for the 2017/2018 cycle are due more to the impact of Hurricane Harvey than it is by a lack of industry interest.

Insurance agent interest in and ability to participate in the Assumption Reinsurance Depopulation Program is limited.

Insurance agents have expressed concerns about the program's viability.

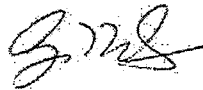
Many insurance agents contractually cannot sell depopulation policies.

As noted above, Weston is currently working with over 200 agents on the AR Program and continues to add to its agent ranks. While it has taken time to help agents understand the process of the AR Program, we have not received feedback questioning the viability of the program. Further, Weston has successfully contracted with some captive agencies and continues to be in discussion with others to work with Weston on the AR Program.

Finally, we would like to point out two serious issues if the AR Program is eliminated and TWIA is left with only its Voluntary Market Depopulation Program ("**VM Program**"). First, TWIA's policyholders will lose the protections in the AR Program that require private market carriers to provide them with coverage equivalent to or better than TWIA's and offer them renewals for at least 3 years. Those protections are not part of the VM Program as noted in the Sunset Report. Second, the statistics cited in the Sunset Report show that the VM Program, which has been in place much longer than the AR Program, has been much less successful in reducing TWIA's exposure than the AR Program has (i.e. 3,000 policies removed through the VM Program vs. over 13,000 policies removed through the AR Program). We suggest that the greater success rate of the AR Program justifies any higher costs of administering it.

We sincerely appreciate the opportunity to provide you with our above feedback. Thank you for your consideration of Weston's comments and suggestions. I am available at your convenience to discuss any questions you may have regarding the above.

Yours very truly,



Bryan T. McCully
Chief Administrative Officer & General Counsel

From: [Sunset Advisory Commission](#)
To: [Janet Wood](#)
Subject: FW: Public Input Form for Agencies Under Review (Public/After Publication)
Date: Tuesday, December 11, 2018 10:33:39 AM

-----Original Message-----

From: sunset@sunset.texas.gov <sunset@sunset.texas.gov> On Behalf Of Texas Sunset Commission
Sent: Tuesday, December 11, 2018 9:48 AM
To: Sunset Advisory Commission <Sunset@sunset.texas.gov>
Subject: Public Input Form for Agencies Under Review (Public/After Publication)

Agency: TEXAS WINDSTORM INSURANCE ASSOCIATION

First Name: Connie

Last Name: Johnson

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Organization you are affiliated with: Representing Weston Insurance Company

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State: Texas

Your Comments About the Staff Report, Including Recommendations Supported or Opposed: Written comments have been sent by email to Carissa Nash reflecting concerns on Issue #4. Weston opposes the recommendations in Issue #4 to abolish the assumption reinsurance depopulation program. Weston requests that this program not be abolished. Weston is actively participating as a take out carrier for TWIA and other residual market mechanisms.

Any Alternative or New Recommendations on This Agency: See written comments sent by Weston.

My Comment Will Be Made Public: I agree