

November 26, 2018

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

Dear Sunset Commission,

The undersigned are insurance agent members of the TWIA Agent Advisory Group (AAG). The AAG consists of insurance agents appointed by the TWIA General Manager to work with TWIA staff in a forum of open and honest communication. The members of the AAG are unpaid volunteers who meet quarterly.

We appreciate the opportunity to offer this response to the Sunset Advisory Commission Staff Report. There are a number of areas that we believe are not accurate, are incorrectly represented, or do not fully explain insurance agents' involvement in the purchase and renewal of TWIA policies and the importance of agents in the claims process. When compared to all other insurance companies that agents work with, TWIA's processes and workflows are more cumbersome, time consuming and less automated, causing coastal insurance agents to spend more on payroll when compared to non-coastal agents.

The current commissions paid to insurance agents by TWIA are fair for the work we perform placing and renewing business with TWIA. Agent commission rates are currently required to be fair and reasonable, taking into consideration the work required of agents and the prevailing market rates for renewal. Currently, the Insurance Commissioner has the authority to make commission changes and should continue to have that authority. The Report highlights many areas that the authors believe need to be addressed such as Underwriting, Depopulation, Windstorm Certification and Claims; however, you do not recognize the fact that insurance agents are having to deal with all of those issues on the front line with the consumer.

Our comments below are given in roughly the same order as they appear in The Sunset Advisory Commission's Report:

-Page 3, Issue 2, Key Recommendations and Management Action 2.4 on pages 27 and 28-
"Establish separate insurance agent commission rates for new applications and automatic renewals."

We DISAGREE. The current commission rates paid to agents for handling new and renewal applications are fair for the work involved and as your report points out we do not have automatic renewals so we believe that your "Findings" on page 25, "The insurance policy renewal process is unnecessarily burdensome, increasing costs for policyholders and workloads for insurance agents" makes the point that our renewal commission rates are fair for the work involved. Pointing out the additional renewal workload agents must deal with and then

recommending a cut in commissions for handling this additional work is baseless, unfair and punitive.

-Page 18, "Decrease costs by reducing insurance agent commissions".

We DISAGREE with this strategy by using agents' commissions to reduce TWIA costs. TWIA does not have an expense problem. As noted on their website their operating costs associated with policy issuance, billing and other operations are only 5.3 % of the premiums they collect. This is less than half the average cost (12%) of other insurance companies in Texas. One reason that TWIA is able to keep their costs down is because much of the work load that is typically handled by insurance companies is passed onto the insurance agents. When you combine the additional workload handled by agents with the other issues agents deal with such as depopulation, windstorm certification, lack of automation and claims handling we could argue that the current commission rates paid by TWIA is too low when compared to what is standard in the insurance industry.

You compare the commission rates of TWIA to those paid by FAIR. This is an unfair comparison as FAIR utilizes automation to create a much easier system for agents to work with and FAIR does not experience catastrophic claims like TWIA does after a hurricane. Suggesting a 37% reduction in agents' commissions to be aligned with FAIR yet not aligning the workload and process is unfair and punitive to agents.

-Page 22 "Direct the Texas Department of Insurance to reduce TWIA's commission rates paid to insurance agents to align TWIA's commission rates with the commission rates paid by the Texas FAIR plan".

We DISAGREE. As previously noted, the current commissions paid to agents is fair based on the work they perform to place new and renewal policies with TWIA. Agent commission rates are currently required to be fair and reasonable, taking into consideration the work required of agents and the prevailing market rates for renewal. The Independent Agents of Texas furnished you a study of the TWIA workload which clearly indicated that it is much higher than the work load of the standard market and FAIR.

The Commissioner has the authority to make commission changes currently and should continue to have this authority.

-Page 26-"Higher than average insurance agent commissions for renewals."

We DISAGREE and point out that the 2017 Texas Insurance Agent Commission Rates that you use to draw this conclusion are not accurate and are too low. Not only is it unfair to use false commission rates to draw a comparison to TWIA but you fail to compare the workflows, processes or the use of automation to the same companies you used in your commission rate comparison. This is an unfair comparison and seems biased.

You mention how commissions make up a portion of TWIA's expenses yet you fail to note that TWIA's expenses are less than half of the average expense (12%) of Texas insurance companies.

Our conclusion is that TWIA does not have an expense problem, it has a funding problem and the committee should focus their efforts there.

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This issue deals with improvements in claims handling, claims response, difficulties for consumers and communication. You point out many areas for improvement but you failed to note that while all of these areas were issues for consumers and/or TWIA, they were also issues for insurance agents. When TWIA handles 76,056 Hurricane Harvey claims, that means insurance agents were involved in the vast majority of those claims. When you point out that TWIA used 1,859 adjusters during Hurricane Harvey you did not note that agents were also dealing with many of those adjusters because of our role in the claims process.

Coastal insurance agents are on the front line and in the middle of every area that you note needs improvement with TWIA. In order to serve the TWIA policyholder effectively we bear extra expense to implement our catastrophe plans after a major weather event so that we are available to assist our clients with their TWIA claims. Coastal agents purchase errors and omissions insurance that is more expensive than that of non-coastal agents because we sell TWIA policies. We bear additional payroll expense to be able to place policies with TWIA and to assist our clients with claims after a storm. We do all of this and more for a commission rate on new and renewal business that we believe is fair. The current system for dealing with commissions and the rates paid should not be changed.

Sincerely,

Garry Kaufman, Galveston Insurance Associates

Wally Goodman, Borden Insurance

Chris Graham, Shepard Walton King

Travis McDavid, GSM Insurors

Shameka Robinson, USAA

Scot Babineaux, Farmers Insurance

Clyde Neal, Neal Insurance Agency

Greg Gardner, State Farm