



TEXAS WINDSTORM
INSURANCE ASSOCIATION



Self-Evaluation Report

for the Sunset Advisory Commission

September 1, 2017

John W. Polak, CPCU
General Manager



September 1, 2017

Ken Levine, Director
Sunset Advisory Commission
P.O. Box 13066
Austin, Texas 78711
Via Courier and Email: Ken.Levine@sunset.texas.gov

Dear Mr. Levine,

In accordance with the June 2017 Self-Evaluation Report Instructions, please find attached the Self Evaluation Report for the Texas Windstorm Insurance Association (TWIA/the Association), as required in preparation for your upcoming review.

TWIA was established by the Texas Legislature in 1971 in response to regional market conditions following Hurricane Celia in August 1970. Celia was the first official hurricane in the Association's history, marking the beginning of our purpose as the market of last resort for windstorm and hail insurance in the Texas seacoast. Several decades later, another storm, 2008's Hurricane Ike, served as a milestone and a turning point for the Association, transforming us into the organization we are today.

As we submit this report, we are in the early stages of our response to Hurricane Harvey. The challenge of this newest storm coincides with the submission of this Report, and it presents the opportunity for the Association to demonstrate our commitment to accomplishing our mission: to provide essential property insurance products and services to Texans in their time of need.

Should you have any questions, please contact David Durden (DDurden@twia.org / (512) 505-2255), or Jessica Crass (JCrass@twia.org / (512) 637-2944).

Sincerely,

A handwritten signature in black ink, appearing to read 'John W. Polak', written in a cursive style.

John W. Polak, CPCU
General Manager
Texas Windstorm Insurance Association
(512) 899-4949

CC: Janet Wood (Janet.Wood@sunset.texas.gov)
Robert Romig (Robert.Romig@sunset.texas.gov)
Jennifer Jones (Jennifer.Jones@sunset.texas.gov)

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Texas Windstorm Insurance Association Self-Evaluation Report

I. Contact Information

A. Please fill in the following chart.

**Texas Windstorm Insurance Association
Table 1: Association Contacts**

	Name / Title	Address	Telephone Number	Email Address
Association Head	John Polak General Manager	5700 S. MoPac Expy, Bldg. A, Austin, TX 78749	(512) 899-4949	jpolak@twia.org
Association Sunset Liaison	David Durden Vice President, Legal & Compliance	5700 S. MoPac Expy, Bldg A, Austin, TX 78749	(512) 505-2255	ddurden@twia.org
Association Sunset Liaison	Jessica Crass Manager, Legal & Compliance	5700 S. MoPac Expy, Bldg A, Austin, TX 78749	(512) 637-2944	jcrass@twia.org

[Table 1 Association Contacts](#)

II. Key Functions and Performance

A. Mission, objectives, and key functions.

MISSION

The Texas Windstorm Insurance Association (TWIA or Association) mission is to provide essential property insurance products and services to eligible Texas properties when no one else will. TWIA was created by the Texas Legislature as a residual market insurance carrier. Statute requires the Association to function in a manner as to not be a direct competitor in the private market and to provide windstorm and hail coverage to those who are unable to obtain that coverage in the private market.

TWIA's vision is to be respected and trusted by all its stakeholders, and its core values are the foundation of the Association's operations, decisions and actions:

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

OBJECTIVES

Statutory objectives for the Board of Directors and the Association are codified in Texas Insurance Code Section 2210.107:

1. Operate in accordance with Texas Insurance Code Chapter 2210, the Association's Plan of Operations, and applicable commissioner's rules;
2. Comply with sound insurance principles;
3. Meet all standards imposed on the Association under Chapter 2210;
4. Establish a code of conduct and performance standards for association employees and persons with which the association contracts; and
5. Establish, and adhere to the terms of, an annual evaluation of the association management necessary to achieve the statutory purpose, board objectives, and any performance or enterprise risk management objectives established by the Board.

Additionally, Association objectives are outlined in the 2017-2019 Strategic Plan:

- 1.1 Maximize catastrophe funding by exploring and efficiently utilizing all available options provided under statute

- 1.2 Reduce the gross and net exposures of the Association by efficiently utilizing all available options provided under statute and regulations
- 2.1 Maximize operational efficiency by improving business processes and optimizing utilization of resources
- 2.2 Evaluate, refine, and execute the Enterprise Technology and Data Strategy
- 3.1 Develop a planning and execution culture with clear accountabilities for results
- 3.2 Define and instill enterprise service culture for all stakeholder interactions
- 4.1 Develop a brand identity that conveys our mission and vision to stakeholders
- 4.2 Improve public image of the Association by enhancing communication and outreach to stakeholders
- 5.1 Develop a workforce that continuously evolves to meet future needs
- 5.2 Enhance employee engagement
- 5.3 Create a comprehensive recruitment program to attract talent to meet future organizational needs

KEY FUNCTIONS

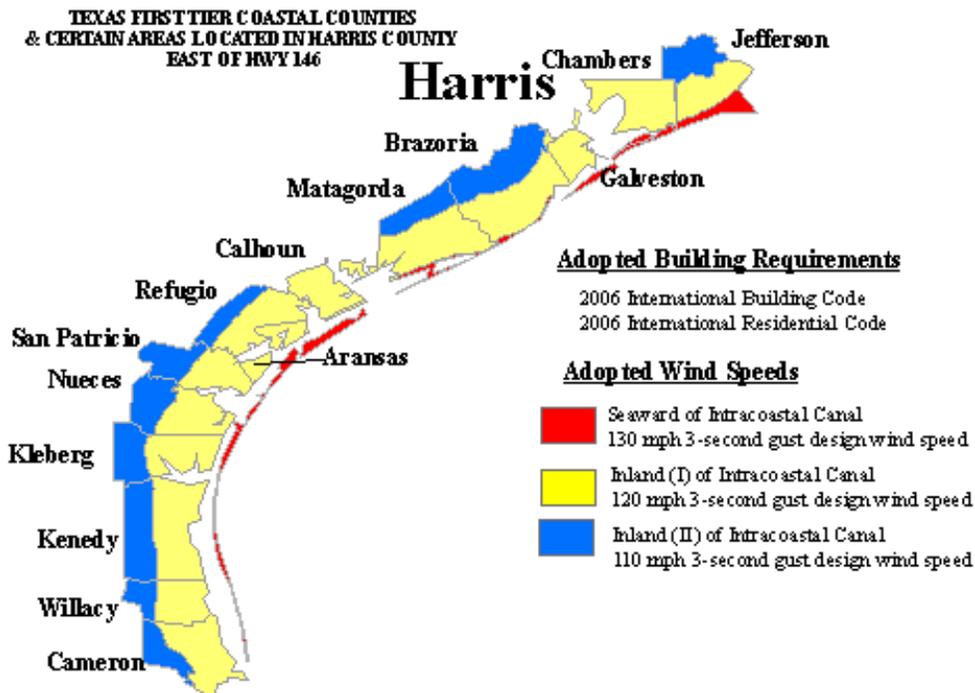
TWIA is an insurance company that collects premiums, issues and services policies, and pays covered losses. Chapter 2210 outlines the funding structure TWIA must use to pay insured losses and operating expenses of the Association. The Association is not a state agency and receives no legislative appropriations. TWIA is required by law to transfer its net gains from operations each year into the Catastrophe Reserve Trust Fund (CRTF), an account maintained by the Texas Comptroller dedicated to the payment of future TWIA catastrophe losses.

Texas law defines the primary purpose of the Association as the provision of an adequate market for windstorm and hail insurance in the seacoast territory (Texas Insurance Code 2210.001). 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.

The designated catastrophe area is currently the 14 first tier counties and a portion of Harris County (second tier) east of Highway 146.

- [Aransas](#)
- [Brazoria](#)
- [Calhoun](#)
- [Cameron](#)
- [Chambers](#)
- [Galveston](#)
- [Jefferson](#)
- [Kenedy](#)
- [Kleberg](#)
- [Matagorda](#)
- [Nueces](#)
- [Refugio](#)
- [San Patricio](#)
- [Willacy](#)
- [Harris *partial](#)

Designated Catastrophe Areas



The key functions of the Association in fulfilling our statutory purpose and stated mission are:

- Underwriting and administering policies;
- Adjusting claims and paying covered losses;
- Depopulation; and
- Support Services.

Underwriting and Policy Administration

The underwriting and policy administration function issues residential and commercial policies and collects premiums based on processes and procedures outlined by state statute, underwriting rules and guidelines filed with the Texas Department of Insurance, and internal operating guidelines. To be eligible for a TWIA policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

1. Applicants must have been denied coverage by at least one insurer authorized to engage in the business of and writing windstorm and hail coverage in the first tier coastal counties;
2. Properties must be located in the designated catastrophe area;
3. The applicant must have an insurable interest in the property;

4. The property must be certified as having been built to applicable building codes, with limited exceptions;
5. Properties located in specified flood zones (V zones or another similar flood risk zone) that were constructed, altered, remodeled, or enlarged after September 1, 2009, and that can obtain flood insurance through the National Flood Insurance Program (NFIP), must provide proof of flood insurance coverage; and
6. Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

A policy is issued for a one-year term and may be renewed annually on application for renewal as long as the property continues to be insurable property. TWIA issues over 240,000 policies each year with annual premiums of nearly \$450 million.

Policyholders must purchase their windstorm policy through an agent that holds a valid General Lines Agent-Property & Casualty license for the state of Texas. Agents represent only the policyholder and do not have a contractual relationship with the Association.

The Underwriting Department consists of approximately 40 full-time employees, supplemented by an external call center to assist with training and service as needed. The workforce is organized into residential and commercial underwriting teams, an agency services internal call center and a shared services team that assists with training and quality assurance. The Underwriting Department utilizes goals and a performance scorecard to measure customer service delivery, quality, budget conformance and innovation (project delivery). Additional information is provided in Section VII regarding the Underwriting functions.

Claims

The TWIA Claims Department evaluates claims and issues payments based on the terms and conditions of the policy. The claims function seeks to provide quality claim services by: providing a positive claim experience to customers in their time of need, continuously evaluating performance and adherence to Association values, and ensuring consistency and responsibility with entrusted financial resources. The workforce is organized into residential and commercial teams to achieve workflow efficiencies. Claims are further segmented based on complexity in order to ensure that the right resource with the appropriate experience and skill set is matched to each claim. The Claims Department consists of approximately 50 full-time employees, supplemented with contractors as necessary after storm events. This flexible staffing allows TWIA to balance operational efficiency and responsiveness after a catastrophe.

Policyholders have multiple options to report claims, including a 24/7 call center with scalable resources capable of processing at least five to ten thousand calls per day. In July 2016, TWIA implemented a new claims administration system, Claims Center. The new system has enabled the Association to make the claims handling process faster and more efficient and provide policyholders, agents, and TWIA with better ways to communicate and share more accurate information about a claim.

Performance metrics and scorecards are used to measure efficiency and to drive continuous improvement in service quality for internal claims examiners and field adjusters. TWIA's commitment to policyholder service is demonstrated by consistently high quality assurance and customer satisfaction survey scores. Customer surveys also assist in better understanding policyholders' needs and concerns and allow staff to address any issues promptly. Additional information is provided in Section VII.2 regarding the Claims Department.

Depopulation

The growth in the number of TWIA policies was relatively stable from 1971 to 2005. In 2005, multiple hurricanes along the Gulf Coast prompted the voluntary market to reevaluate exposures in coastal areas, including Texas. TWIA's policy count doubled between 2005 and 2007. Since 2008, TWIA grew at a more moderate 2% annual rate through 2014, with policy counts decreasing in 2015 and 2016.

As a market of last resort, TWIA and its stakeholders want to ensure that the Association is not insuring risks that the voluntary market is willing to insure. The depopulation program allows insurers to review the policies written by the Association to determine whether they are willing to write any of the policies. In 2014, the Association implemented its first depopulation program, the Voluntary Coastal Windstorm Insurance Portal. The program provided information to insurers seeking to take policies out of TWIA and write them directly. The program was superseded in 2015 with the Texas Legislature's passage of Senate Bill 900 (84th Legislature, Regular Session), which added Subchapter O, Depopulation Programs, to Chapter 2210 of the Texas Insurance Code. The Association now administers two depopulation programs as described below.

Voluntary Market Depopulation Program

The Voluntary Market Depopulation Program functions similarly to the initial depopulation program, the Voluntary Coastal Windstorm Insurance Portal. Participating companies must file rates with and have forms approved by TDI and sign a Nondisclosure and Terms of Use Agreement to obtain electronic access to TWIA policyholder data. Participating companies must approach the agent of record to make offers of coverage at least 60 days prior to policy renewal. Acceptance of any offer is strictly voluntary, and no changes will take place unless the agent and policyholder affirmatively accept the participating company's offer. Participating companies may make offers of coverage at any time throughout the year.

Assumption Reinsurance Depopulation Program

The Assumption Reinsurance Depopulation Program is similar to the successful "take-out" depopulation programs in Florida and Louisiana, where large numbers of policies are taken out, or transferred, from the residual market back to the private market. Under TWIA's assumption program, interested carriers are approved by TDI to assume TWIA policies. As with the Voluntary Market Depopulation Program, participating companies must file rates with and have forms approved by TDI and sign a Nondisclosure Agreement and a Participation Agreement to obtain electronic access to TWIA policyholder data. Agents have the opportunity to review and approve

or reject any offers, and policyholders have the ability to opt out of the depopulation process. Any policyholders that do not opt out will automatically have their TWIA policy assumed by (transferred to) the participating carrier. Four companies participated in the first round of the program in 2016 and 2017. Approximately 18,000 agent-approved offers were made to TWIA policyholders and 11,184 policyholders were transferred as a result of the participating companies' offers.

See Section VII.4 for additional information regarding Depopulation.

Support Services

Operational functions of the Association such as Human Resources and Administration, Communications & Legislative Affairs, Accounting & Finance, Information Technology, Actuarial & Audit, and Legal & Compliance support policy issuance and administration, premium collection and claims handling as well as the strategic objectives of the Association through the performance, management and coordination of tasks, such as payroll, technical systems administration, accounting, financial reporting, legal services, internal and external stakeholder communications.

Overall, TWIA's cost associated with policy issuance, billing, and all other operations of the Association are only 5.3% of the premiums collected. TWIA's costs are approximately half of the average cost for the top 10 insurance companies in Texas and the second lowest among the 36 property residual market plans in the United States.¹

One important support function performed by actuarial staff is the preparation of rate indications and submission of rate filings. Under Texas Insurance Code Section 2210.351, the Association must file with the Texas Department of Insurance policy forms, rules, rates, and other information related to the insurance coverage it provides. TWIA staff includes professionally designated property and casualty insurance actuaries to conduct an annual evaluation of its policy rates and features. The staff relies on traditional actuarial methodologies and hurricane simulation models under the guidance of principles established by the Casualty Actuarial Society for property casualty ratemaking. In accordance with these principles, the TWIA rate evaluation considers expected hurricane loss costs, non-hurricane (including severe thunderstorm) loss costs, net reinsurance costs, policy acquisition expenses, operating costs, premium taxes, debt service costs and a provision to replenish the Catastrophe Reserve Trust Fund and develops an indicated rate level change.

The indicated rate level change represents a reasonable estimate of the rate level necessary to cover the expected costs of providing residential and commercial wind/hail coverage based on information known to actuarial staff at time of review.

¹ Calculations are based on 2016 year-end industry financials, certain information from the Property Insurance Plans Service Office, carrier annual statements and audited statements, and information from the Texas Department of Insurance.

TWIA staff submits rate indications to the TWIA Board of Directors’ Actuarial & Underwriting Committee, and after review and analysis, the Committee makes a recommendation regarding any rate change for Board review and consideration. The TWIA Board then utilizes the Committee’s recommendation, input from a wide variety of stakeholders, and actuarial indications to determine the rate to be filed.²

The History of Rate Changes table below provides history for last 30 years history of rate changes for residential and commercial policies.

**Texas Windstorm Insurance Association
Table 2: History of Rate Changes**

<u>History of Rate Changes</u>		
<u>Year</u>	<u>Residential</u>	<u>Commercial</u>
1988	-5.4%	-15.0%
1989	0.0%	0.0%
1990	3.1%	-2.1%
1991	25.0%	-2.0%
1992	-54.0%	-22.9%
1993	30.0%	0.0%
1994	0.0%	0.0%
1995	25.0%	0.0%
1996	0.0%	0.0%
1997	0.0%	0.0%
1998	0.2%	-3.0%
1999	-9.4%	0.0%
2000	8.7%	9.0%
2001	18.5%	4.0%
2002	0.0%	5.0%
2003	0.0%	10.0%
2004	9.6%	10.0%
2005	0.0%	10.0%
2006	0.0%	5.0%
2006 (Sep)	3.1%	8.0%
2007	4.2%	3.7%
2008 (Feb)	8.2%	5.4%
2009 (Feb)	12.3%	15.6%
2010	0.0%	0.0%
2011	5.0%	5.0%
2012	5.0%	5.0%
2013	5.0%	5.0%
2014	5.0%	5.0%
2015	5.0%	5.0%
2016	5.0%	5.0%
2017	0.0%	0.0%
2018	5.0%	5.0%
Cumulative Change	114.5%	94.8%
Annual Average	2.5%	2.2%

Table 2 History of Rate Changes

² Texas Insurance Code Section 2210.352 provides that by August 15 of each year, the Association file a proposed manual rate for all types of classes of risks written by the Association. Subject to certain limits and exclusions, the Association may use a rate filed under this section without prior Commissioner approval (“file and use”). For an annual filing that does not meet the file and use criteria, the Commissioner shall approve or disapprove the annual filing no later than October 15 of each year in which the filing was made; however if the filing is not approved or disapproved on or before that date, the filing is considered approved. The Association may make additional rate filings throughout the year.

B. Do your key functions continue to serve a clear and ongoing objective? Explain why each of these functions is still needed. What harm would come from no longer performing these functions?

The key functions continue to serve Texans in need of a residual market insurance carrier. Policy and claims administration are essential to the operation of an insurance carrier. Without these key functions, the Association would be unable to serve the purpose intended by the Texas Legislature to provide wind and hail insurance in coastal counties when it is otherwise unavailable.

The depopulation function is also central to our purpose to provide an adequate market for insurance on the coast by creating a program that affords consumers alternatives to the residual market choice. The Association's depopulation efforts also align with its directive to not compete directly with the private insurance market.

Support services allow the above key functions to occur. Without these support services, the legislative purpose of providing wind and hail insurance in coastal counties would not be operationally possible.

C. What evidence can your agency provide to show your overall effectiveness and efficiency in meeting your objectives?

TDI Administrative Oversight: On April 8, 2016, TDI released TWIA from Administrative Oversight (AO). This marked the end of a five year systematic overhaul of the Association that began in 2011 when TDI placed TWIA under AO. During those five years TWIA made improvements in every area – from corporate governance to the Association's daily operations. The Association has continued to demonstrate continuous improvement measured by our Enterprise Scorecard and our external Report Card. Our effectiveness and efficiency is also attested to by independent audit findings.

Enterprise Scorecard: On a quarterly basis, the Association provides the Board of Directors with an enterprise scorecard that captures performance metrics such as operating expenses, contribution to the Catastrophe Reserve Trust Fund, status of strategic enterprise projects, policy and claims administration service levels, disputed and litigated claims, and complaints filed with the Department of Insurance (TDI). See the attached Enterprise Scorecard (Exhibit A).

Report Card: One of the directives from the Texas Legislature to the Association, outlined in Texas Insurance Code Section 2210.107(b), requires the Association to evaluate and report on the extent to which it has met the objectives outlined therein. There are interim report cards published every two months to the Association's Board of Directors, and the Annual Report, a culmination of the bimonthly reports, is distributed to the Governor, Lieutenant Governor, the Windstorm Insurance Legislative Oversight Board, the Speaker of the House of Representatives, and the Commissioner of Insurance. The Annual Report, the most recent of which is attached

(Exhibit B), provides a thorough evaluation of the extent to which the Association is effectively and efficiently meeting its objectives.

Independent Audit Findings: In addition to the key performance indicators TWIA uses to measure success internally, TWIA's operational improvements and financial stability have been independently and consistently reviewed by external auditors.

Since 2008, TWIA has undergone more than a dozen independent audits and examinations with varying areas of concentration. Audits have focused on claims handling, underwriting, internal controls, IT systems and security, financial examinations, and actuarial rate reviews. TWIA has developed and implemented corrective measures and created action plans to track and report the Association's progress in addressing all audit or exam recommendations. TWIA has addressed 100% of the recommendations outlined in the audits performed by the Texas Department of Insurance (2009-2011), Robert E. Nolan, Deloitte & Touche, the State Auditor's Office, and KPMG, as well as the action items in the Operations Improvement Plan (a document assembled to track progress of recommendations and improvements arising from the Administrative Oversight process). See attached Exhibits Z.I to Z.IV.

The financial statements of the Association are audited every year by an independent accounting firm. The Association received a clean opinion for 2016 year end and is available upon request.

In 2014, TDI completed audits of the Association's financial condition and internal controls. Also in 2014, Milliman, an internationally recognized actuarial and insurance consulting firm, completed audits of the claims and underwriting functions. The final reports indicate excellent results and no negative findings. All of the findings and recommendations were addressed or completed as of November 12, 2015. See attached Exhibits Z.V and Z.VI.

Through the initiatives implemented since 2011, TWIA management has replaced the previous culture with one dedicated to continuous improvement and accountability, better positioning TWIA to fulfill its mission. Excerpts from audit reports are included below.

Milliman's September 2014 Underwriting report states that "under recent new management the [TWIA Underwriting] Department appears to be committed to more efficient, customer/agent friendly process design and execution." It further states that auditors "believe that current Underwriting management has made extensive progress in improving underwriting effectiveness and service during the interim period in which significant changes in automation are being planned."

Milliman describes TWIA's Claims Department organization as "well-staffed and well-managed with good controls, procedures, and practices in place to ensure compliance with state law, TWIA's requirements, and sound industry claims handling practices." The report also indicates that the Quality Assurance & Training program, Vendor Management function, and Catastrophe Plan are comprehensive and effectively implemented.

In March 2014, TDI amended the terms of Administrative Oversight, citing "TWIA's operational improvements" as a factor in its decision to reduce the scope of oversight and the frequency of

required reporting, and as mentioned above, in April 2016, TDI released the Association from Administrative Oversight completely.

The State Auditor's Office August 2012 report states that TWIA “has improved its processing of claims. The Association also has controls to help produce accurate financial information, ensure accountability for Association funds, and adequately support and authorize non-claims-related expenditures. In addition, the Association’s accounting practices for reporting selected financial transactions comply with the National Association of Insurance Commissioners’ standards.”

Internal Quality Assurance Audits: Both the Claims and policy administration functions have internal quality assurance programs to ensure the Association is providing quality service and work products. For more information, see Sections VII.1 (Guide to Agency Programs: Underwriting) and VII.2 (Guide to Agency Programs: Claims).

D. Does your agency’s enabling law continue to correctly reflect your mission, objectives, and approach to performing your functions?

Yes, our enabling statute, Chapter 2210 of the Texas Insurance Code, continues to accurately reflect our purpose, mission and objectives.

E. Have you recommended changes to the Legislature in the past to improve your agency’s operations? If so, explain. Were the changes adopted?

Legislation passed in 2009 by the 81st Legislature, Regular Session (House Bill 4409) required the TWIA Board of Directors (Board) to submit a Biennial Report to the Commissioner, appropriate committees of each house of the Legislature and the Sunset Advisory Commission. The Biennial Reports from 2010 to 2016 are attached (Exhibits C through F).

The Board has recommended changes in each biennium since the passage of HB 4409. The Board has consistently recommended changes to the Association’s funding structure and broader application of building code requirements. The Board has also recommended changes regarding the Board composition, eligibility requirements for consumers seeking Association coverage, as well as changes to the WPI-8 waiver program, minimum earned premium requirements, claims filing and dispute processes and premium payment options.

In 2014, the Board asked that the Legislature authorize TWIA to develop a depopulation program and consider several changes to the funding structure to pay losses in the event of a catastrophe. The 84th Texas Legislature enacted Senate Bill 900 in 2015. That legislation authorized the depopulation programs; revised the Association’s funding structure to include direct assessment of insurers to provide revenue for paying claims; and revised the composition of the Board effective October 1, 2015. In 2017 a bill was introduced that would have implemented the Board’s recommendation to calculate insurance to value only at policy inception and not at the time of loss. However, that bill did not pass.

F. Do any of your agency's functions overlap or duplicate those of another state or federal agency? Explain if, and why, each of your key functions is most appropriately placed within your agency. How do you ensure against duplication with other related agencies?

There is no state or federal agency that provides windstorm and hail insurance to the fourteen Texas coastal counties and as such, no overlap of key functions. The provision of underwriting, claims, depopulation and the associated operational functions are appropriately placed at TWIA.

The Association works closely with the Texas Department of Insurance and the TWIA Ombudsman, a TDI employee funded by the Association as required by Texas Insurance Code Section 2210.582, added to the Association's enabling statute in 2011. The ombudsman program was established to provide information and educational programs to assist persons insured under Chapter 2210 with the claim processes related to TWIA. Our Communications and Legislative Affairs Department works closely with this TDI employee to provide up-to-date information about TWIA, co-present to community organizations, and help resolve informal complaints. We have regular communication with the Ombudsman to ensure we are providing consistent information.

One additional function and a source of shared responsibility is the issuance of windstorm certificates. These Certificates of Compliance (WPI-8s or WPI-8-Cs) have historically been an element of eligibility with the Association, and prior to the passage of Senate Bill 900 (84th Legislature, Regular Session) the duty of issuing these certificates rested solely with the Texas Department of Insurance. That responsibility is now split between TDI and TWIA, as there is a two-path process whereby applicants may seek certificates for ongoing improvements from TDI and certificates for completed improvements from TWIA. More information regarding Certificates of Compliance may be found on our website [here](#), in Section VII.5 (Guide to Agency Programs: Certificates of Compliance on Completed Improvements), and in Section IX.4 (Major Issues: Certificates of Compliance on Completed Improvements).

G. In general, how do other states carry out similar functions?

Similar to TWIA, most residual market plans ("plans") in other states perform all the operational functions of insurance companies: underwriting, issuing, and servicing policies; performing administrative functions; and evaluating and paying policyholder claims. Plans perform these functions using either permanent internal staff or by employing a servicing carrier model. In a servicing carrier model, the plan enters into an agreement with one or more third-party administrators (TPAs) to perform some or all of the operational functions. The TPA charges a fee for services, is reimbursed for all paid losses, and receives allowances for loss adjustment expenses. An administrative agent is necessary to verify the reports and dispense funds to the TPA.

From 1968 to 1971, nearly 30 residual market plans were established in the U.S., all using TPAs. The plans succeeded in providing essential insurance coverage where it was otherwise unavailable but were extremely costly and recorded operating losses in most years. Under federal regulation at the time, the plans came under a great deal of criticism when compared to the California plan, which utilized an internal staffing model and incurred significantly lower

expenses. Subsequently, the majority of plans converted from TPAs to internal staffing models. Most recently, Kentucky, Oregon, and New Mexico, some of the last few plans utilizing a TPA, converted to internal staff models with positive results. TPAs are used today on a very limited basis with only two plans that outsource policy administration; one with fewer than 70 policies. Since their beginnings in the early 1970s, none of the residual market plans have engaged a TPA for the management of all operations.

Funding is also largely similar among residual market plans. Insurance premiums, policy surcharges and company assessments (used either directly to pay claims or to repay bonds) and reinsurance are the most common means of funding. Board composition and underwriting guidelines are also similar. One characteristic that distinguishes TWIA from most other plan is that the TWIA policy covers a single peril – wind – and most plans issue policies that cover multiple perils.

H. What key obstacles impair your agency's ability to achieve its objectives?

Certain sections of the Association's enabling statute may no longer be needed due to the success of more recent legislative changes and operational changes within the Association.

Expert Panel: The creation of the Expert Panel was initially passed in House Bill 3 (82nd Legislature, 1st Called Session), to help resolve wind versus water disputes following a hurricane. The Expert Panel was established to recommend to the Commissioner methods or models for determining the extent to which a loss to insurable property may be or was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges for geographic areas or regions designated by the Commissioner. The Commissioner adopted the Expert Panel's recommendation on March 7, 2017, with an effective date of June 1, 2018, for implementation of the claim settlement guidelines. Implementation of the Expert Panel's recommendations is expected to be costly. The expenditures to implement the recommendations will divert funds that would otherwise be used to improve the Association's operation or contribute to the Catastrophe Reserve Trust Fund as the first source of funding available to pay policyholders' claims. Additionally, under the federal Consumer Option for an Alternative System to Allocate Losses (COASTAL) Act of 2012 (33 USC 3611), the Administrator of the Federal Emergency Management Agency (FEMA) is directed to establish a model with similar criteria to the Expert Panel's; the interaction and potential conflict of these models and their findings on TWIA's claims-handling process is as yet unknown.

The Expert Panel was only one of multiple mechanisms introduced by House Bill 3 to improve the Association's handling of claims and resulting disputes. Other changes include prohibiting private causes of action against the Association under Chapter 541 (Unfair Methods of Competition and Unfair or Deceptive Acts or Practices) and 542 (Processing and Settlement of Claims) of the insurance Code and requiring that class actions against the Association must be brought by the attorney general. These factors and the Association's continuing efforts to minimize operating costs raise doubts about whether the costly implementation of the claims settlement guidelines is the most appropriate course of action. Other components of House Bill 3 have necessitated changes to the way claims and litigation are handled and with those changes alone our litigation rate dropped from 10% following Hurricane Ike to approximately 0.02% (as of June 30, 2017).

Prohibited Employment: Texas Insurance Code Section 2210.013, added by House Bill 3, prohibits the Association from hiring individuals related to other Association employees with a degree of relationship described in Texas Government Code Section 573.002. This provision is more stringent than common provisions addressing this issue because it prohibits employing related individuals even if they are not in the same chain of command. The prohibition has required the Association to terminate the employment of employees who were performing well and limits our available talent pool by denying employment to potential candidates who were otherwise qualified for the position.

HB 2439 – Certificates of Compliance on Completed Improvements: As mentioned in Subsection II(F) above, House Bill 2439 (85th Legislature, Regular Session), amended the windstorm certification process to provide two paths to obtain Certificates of Compliance. These certificates evidence a structure’s compliance with windstorm building code and are an element of eligibility for coverage with TWIA under Texas Insurance Code Section 2210.258. Previously, TDI administered the Windstorm Inspection Program overseeing the inspection of properties and issuance of all certificates; the law change created a separate path for certifying compliance on completed improvements through TWIA. The new TWIA process of receiving applications for, and issuing, Certificates of Compliance is arguably independent of its purpose to provide an adequate wind and hail market in coastal territories—applicants for certificates are not limited to current or future policyholders. The Association does not have the authority to rescind certificates issued with incorrect information, nor does it have the expertise or authority to oversee engineers. There is also a potential conflict of interest for the same entity to both issue Certificates of Compliance and rely on these certificates to determine eligibility.

I. Discuss any changes that could impact your agency’s key functions in the near future (e.g., changes in federal law or outstanding court cases).

One federal law with potential impact on the Association’s implementation of the claim settlement guidelines proposed by the Expert Panel and adopted by the Commissioner of Insurance is the Consumer Option for an Alternative System to Allocate Losses (COASTAL) Act of 2012. 33 USC 3611. Under the COASTAL Act the Administrator of the Federal Emergency Management Agency (FEMA) is directed to “establish by rule, a standard formula to determine and allocate wind losses and flood losses for claims involving indeterminate losses.” The criteria governing the types of losses covered are similar to those contained in the claim settlement guidelines adopted by the Commissioner of Insurance. The Association is not aware of any other pending law changes or court cases that would affect the Association’s key functions.

J. What are your agency’s biggest opportunities for improvement in the future?

The increasing application of technology in the insurance industry should provide opportunities for claims and underwriting processing efficiencies. Advances in technology will positively affect the ability to review damage and adjust claims remotely, significantly shortening turn-around time, while also helping to control and reduce some loss costs. Leveraging technology will also improve the policyholder experience by allowing them to access our services through multiple communication channels. This will also increase the Association’s ability to collect more accurate information from the policyholder at policy inception and before a claim is created, such as

condition of the premises, email address, cell phone numbers (allows for pre and post loss text options), and accurate property characteristics. Data needed for pricing a policy and determining eligibility will be easier to obtain from third party sources, allowing for accuracy and ease of processing.

Another key improvement in the future is simplifying the renewal process for both agents and policyholders and introducing direct bill and self-service options for policyholders.

K. In the following chart, provide information regarding your agency’s key performance measures included in your appropriations bill pattern, including outcome, input, efficiency, and explanatory measures. Please provide information regarding the methodology used to collect and report the data.

See the attached Enterprise Scorecard (Exhibit A). TWIA is not included in the General Appropriations Act.

L. Please discuss any “high-value data” your agency possesses, as defined by Section 2054.1265 of the Government Code. In addition, please note whether your agency has posted those data sets on publicly available websites as required by statute.

This statute applies to state agencies. The Association is not a state agency. The [Association’s website](#) contains information about the Association and its operations. The website also contains archived board meetings required by statute and materials; copies of reports; and information for agents, policyholders and interested stakeholders about how to interact with and obtain information from the Association.

III. History and Major Events

1971

Senate Bill 31 (62nd Texas Legislature, Regular Session), which became effective April 29, 1971, created the Texas Catastrophe Property Insurance Association (TCPIA). The Association was created in response to market conditions along the Texas coast after Corpus Christi was hit by Hurricane Celia in 1970, causing \$500 million in losses, or \$3.2 billion today³. The public policy reasons for creating the Association included ensuring the availability and affordability of insurance along the Texas Gulf Coast, thereby supporting general economic development of our coastal area and the State of Texas.

1972

Senate Bill 31 (62nd Texas Legislature, Fourth Called Session) mandated limits on rates established by TCPIA.

1973

The 63rd Texas Legislature passed Senate Bill 659 which added the definition of an insurer to Article 21.49 of the Texas Insurance Code (the Catastrophe Property Insurance Pool Act) and deleted the provision requiring Association members to cede 100% of fire and windstorm premium insurance written to the Association.

1979

Senate Bill 1012, passed by the 66th Texas Legislature, granted a tax credit to any company participating in the Association for payment of its share of claims totaling over \$100 million in losses in a single calendar year.

1983

Senate Bill 1020, passed by the 68th Texas Legislature, provided that membership in the Association shall be determined as provided in the plan of operation.

1987

House Bill 2012 of the 70th Texas Legislature amended Article 21.49 of the Texas Insurance Code to include a section related to inspections for windstorm and hail insurance which provided that a property must be inspected, or approved by the State Board of Insurance, for compliance with building specifications.

³ \$500 million in losses is adjusted to \$3.21 billion based on the average inflation rate since 1970.

1989

The 71st Texas Legislature enacted Senate Bill 668, making the Association subject to the Open Meetings Act.

Also in 1989, TCPIA became required to notify the Board of Directors, who must then notify the Legislature, if an occurrence resulted in insured losses exceeding \$100 million. The State Board of Insurance was also directed to examine the financial condition of the Association on an ongoing basis.

1991

House Bill 2, enacted by the 72nd Texas Legislature, brought major reform to the insurance industry, impacting the Association's operations by adding replacement cost coverage and liability limits. Additionally, the Association was deemed to be represented by the Attorney General of Texas, and the membership of the Board of Directors was changed from 7 members to 9 members.

1993

House Bill 1461 (73rd Texas Legislature, Regular Session) brought about several important changes to the Association, including adding coverage for indirect losses that resulted from a direct loss and adding coverage for wind-driven rain. The bill also changed the Association's funding structure and required TCPIA to establish a plan for Association legal representation.

1995

The Association's annual rate filing and associated requirements were established by House Bill 2593 in 1995. The bill also required the Commissioner of Insurance to provide a report regarding the measures necessary in the event of a significant natural catastrophe in order to allow the Association to adequately respond to a high volume of claims while protecting it from fraudulent claims.

1997

Several pieces of legislation passed in 1997 that changed the Association's operations, which included adjusting the maximum limits and allowing losses to be paid by the Catastrophe Reserve Trust Fund (CRTF) and reinsurance. Additionally, the Association's name was changed from Texas Catastrophe Property Insurance Association to Texas Windstorm Insurance Association (TWIA).

1999

The 76th Texas Legislature passed several laws affecting TWIA that served to establish the Advisory Committee on Building Code Specifications and Maintenance, amend the statute governing the CRTF, and permit the State to use \$1 million to a maximum of 10% of the Fund for mitigation and preparedness plans developed by the Commissioner of Insurance.

2001

House Bill 1162 (77th Texas Legislature, Regular Session) limited rate changes made by TWIA and required the Association to file with the Texas Department of Insurance rates for all classes of risks by August 15th of each year.

The Legislature also passed Senate Bill 365, which affected TWIA by requiring a person to submit an application to be approved by the Texas Department of Insurance to conduct windstorm inspections, as well as authorizing the Commissioner of Insurance to supplement building specifications with the structural provisions of the International Residential Code.

2003

The 78th Texas Legislature passed Senate Bill 14 which removed the expiration date for rate change limitations imposed by House Bill 1162 (77th Texas Legislature) and provided how certain repairs would affect eligibility requirements for TWIA coverage.

2005

Multiple hurricanes along the Gulf Coast prompted the voluntary market to reevaluate exposures in coastal areas, including Texas. As a result, the number of TWIA policies nearly doubled between 2005 and 2007, from approximately 110,000 to 216,000.

2005 also marked the recodification of Texas Insurance Code Article 21.49 by converting it into Chapter 2210 of the Texas Insurance Code.

2007

The 80th Legislature passed House Bills 2636 and 3167 which re-codified several more laws by converting them into provisions of Texas Insurance Code Chapter 2210.

2008

Hurricanes Dolly and Ike together resulted in more than 100,000 claims and approximately \$2.6 billion in losses and loss adjustment expenses.

Partly because of this increased activity, TDI conducted multiple examinations of TWIA operations beginning in 2008 through 2011 and noted several areas of concern related to TWIA's past corporate governance and operations, including accounting procedures and financial statements, internal controls, record-keeping, communications with the Board of Directors, and claims procedures.

2009

The 81st Legislature enacted House Bill 4409, which included changes to the board composition, funding structure, eligibility requirements, and transparency in operations. Additionally, it clarified TWIA's purpose by explicitly stating that TWIA is intended to serve as a residual insurer

of last resort and not function in a manner as to be a competitor in the private market. It also made TWIA subject to review by the Sunset Advisory Commission.

2010

An independent audit commissioned in 2010 evaluated procedures related to claims, premiums, expenditures, financial reporting, information systems, business continuity and internal controls. The independent auditors reported weaknesses in the claims assignment and quality assurance processes, as well as in the Association's conditions for selecting, contracting with, and evaluating the performance of claims adjusting firms.

2011

The 82nd Texas Legislature enacted Senate Bill 652 during the Regular Session which moved TWIA's Sunset Advisory Commission review date from the period in which state agencies abolished in 2015 are reviewed to the period in which state agencies abolished in 2013 are reviewed. It also enacted House Bill 3 during the First Called Session which included changes to the claims process and transparency in operations, as well as moving TWIA's Sunset review date back to the period in which state agencies abolished in 2015 are reviewed.

Also in 2011, the Association was placed under Administrative Oversight by the Texas Department of Insurance. (See attached Exhibit G.) The Board of Directors replaced the General Manager to implement the changes necessary to comply with applicable statute and insurance best practices. The Association also proceeded with the replacement of a majority of TWIA's executive leadership team.

2012

The State Auditor's Office released its report from an examination beginning in 2011, which noted improvements made in the areas of financial controls and accountability.

2013

The Association completed its first formal strategic planning process in 2013. This resulted in a focused purpose in achieving the Association's legislative mandate with a clearly-articulated mission, vision, and values. With its strategic plan clearly defined, the Association undertook major improvements and reorganizations beginning around this time, including the creation of a Communications Department, development of an Internal Audit function, restructuring the Claims Department to better handle both catastrophe and non-catastrophe claim volumes, and shifting the Underwriting function from a compliance-oriented underwriting model to a risk-based model to ensure consistent decisions across the department and greater operational efficiency.

Also in 2013, the 83rd Texas Legislature passed House Bill 1675 which postponed TWIA's Sunset Advisory Commission review date from the period in which state agencies abolished in 2015 are reviewed to the period in which state agencies abolished in 2019 are reviewed.

2015

The 84th Texas Legislature enacted Senate Bill 900, which includes changes to TWIA's funding structure and board composition, required TWIA to establish a depopulation program, and requires TDI to conduct a study of market incentives; and Senate Bill 498, which indefinitely extends the time period in which TWIA may provide coverage for certain noncompliant residential structures.

2016

TDI released TWIA from Administrative Oversight. (See attached Exhibit H.)

IV. Policymaking Structure

A. Complete the following chart providing information on your policymaking body members.

**Texas Windstorm Insurance Association
Table 3: Board of Directors**

Member Name	Term Expiration	Qualification	City
Chandra Womack	March 2017	First Tier coastal Representative	Dickinson
Joshua Fields	March 2019	First Tier coastal Representative	Harlingen
Georgia Neblett	March 2018	First Tier coastal Representative	Port Aransas
Blair Crossan	March 2018	Industry Representative	NA
Michael Gerik	March 2017	Industry Representative	NA
Debbie King	March 2019	Industry Representative	NA
Tony Schrader	March 2017	Non Seacoast Territory Representative	Round Rock
Bryan Shofner	March 2018	Non Seacoast Territory Representative	Lubbock
R. Scott Kesner	March 2019	Non Seacoast Territory Representative	El Paso

Table 3 Policymaking Body

Senate Bill 900 (84th Legislature, Regular Session), signed into law on June 16, 2015, changed the composition of the Board of Directors, as described in Texas Insurance Code Section 2210.102. The Board consists of nine volunteer members appointed by the Commissioner of Insurance: three industry representatives from companies actively writing and renewing windstorm and hail insurance in 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 coastal area public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

Members were appointed to the new board by the Commissioner of Insurance effective October 1, 2015.

B. Describe the primary role and responsibilities of your policymaking body.

Broad statutory objectives are outlined for the Board of Directors and the Association in Texas Insurance Code 2210.107:

1. Operate in accordance with Chapter 2210 Texas Insurance Code, the Association's Plan of Operations, and applicable commissioner's rules;
2. Comply with sound insurance principles;
3. Meet all standards imposed on the Association under Chapter 2210;

4. Establish a code of conduct and performance standards for Association employees and persons with which the Association contracts; and
5. Establish, and adhere to the terms of, an annual evaluation of the association management necessary to achieve the statutory purpose, board objectives, and any performance or enterprise risk management objectives established by the Board.

C. How is the chair selected?

The Board chair is elected to a two-year term by a Board majority, which occurred most recently in May of 2017.

D. List any special circumstances or unique features about your policymaking body or its responsibilities.

The Association believes the information provided accurately and sufficiently describes the Board and its responsibilities.

E. In general, how often does your policymaking body meet? How many times did it meet in FY 2016? In FY 2017?

The Board of Directors meets at a minimum quarterly and ad hoc as necessary. The full board met six times in 2016, and four times in 2017 as of August 31, 2017.

**Texas Windstorm Insurance Association
Table 4: 2017 Board of Directors Meetings**

Date	Meeting	Location
February 7, 2017	Quarterly Board of Directors Meeting	Austin, TX
March 21, 2017	Interim Board of Directors Meeting	Austin, TX
May 10, 2017	Quarterly Board of Directors Meeting	Austin, TX
August 1, 2017	Quarterly Board of Directors Meeting	Galveston, TX

Table 4 2017 Board of Directors Meetings

The practice of rotating quarterly Board meetings between Austin (twice per year) and coastal cities in areas of high policyholder concentration has been in place for decades.

F. What type of training do members of your agency’s policymaking body receive?

Comprehensive training was completed in November of 2015 when Senate Bill 900 changed the composition of the Board and a new Board was appointed. TDI conducted a one-day session as did TWIA staff. No new members have been appointed since that time. Prior to 2015, a digital orientation package with TWIA policies and background was provided to each member.

G. Does your agency have policies that describe the respective roles of the policymaking body and agency staff in running the agency? If so, describe these policies.

In addition to Texas Insurance Code Section 2210.107, which sets out the primary objectives of the Board of Directors, and Section 2210.012, which sets out certain standards of conduct for the Board of Directors and employees, the Association has a comprehensive Ethics Policy. The Policy contains principles and specific guidelines regarding Board and employee conduct to address adherence to both the letter and spirit of the law, as well as to avoid even the appearance of improprieties. The Association also utilizes an Employee Handbook to outline expectations of employee conduct. Additionally, staff and the Board work together to ensure each fulfills their respective roles.

H. What information is regularly presented to your policymaking body to keep them informed of your agency's performance?

Currently, the Board receives informational updates from each department on operations, special projects and financial matters in a monthly report with more detailed information provided quarterly prior to meetings. Additionally, state law requires a bimonthly report regarding how the Association is meeting the Board's objectives.

I. How does your policymaking body obtain input from the public regarding issues under the jurisdiction of the agency? How is this input incorporated into the operations of your agency?

There is an opportunity to provide public comment at each quarterly meeting, two of which are held in coastal cities. Additionally, feedback is collected from agents via quarterly meetings of an Agent Advisory Group. The Association also receives feedback from regular surveys and written correspondence to the Association. The input is considered by the Board and Executive Staff and changes are implemented as appropriate.

J. If your policymaking body uses subcommittees or advisory committees to carry out its duties, fill in the following chart. In addition, please attach a copy of any reports filed by your agency under Government Code Chapter 2110 regarding an assessment of your advisory committees.

**Texas Windstorm Insurance Association
Table 5: Subcommittees and Advisory Committees**

Name of Subcommittee or Advisory Committee	Size / Composition / How are members appointed?	Purpose / Duties	Legal Basis for Committee
Underwriting & Actuarial	7-8 appointed by Board	Review rate indications, reinsurance options, and underwriting issues as directed by the Board	Plan of Operation 5.4001(b)(2)(L)(vii)
Executive Committee	3 elected by Board	Serve as directed by the Board at large	2210.104 Insurance Code and Plan of Operation 5.4001(b)(2)(M)
Legislative & External Affairs	6-7 appointed by Board	Determine biennial legislative recommendations	Plan of Operation 5.4001(b)(2)(L)(vii)
Audit	All Board members	Receives and acts upon recommendations of	Plan of Operation 5.4001(b)(2)(L)(vii)

Self-Evaluation Report

Name of Subcommittee or Advisory Committee	Size / Composition / How are members appointed?	Purpose / Duties	Legal Basis for Committee
		external auditors as well as the internal auditor who reports directly to the Board	

Table 5 Subcommittees and Advisory Committees

Government Code Chapter 2110 is not applicable to the Association.

V. Funding

A. Provide a brief description of your agency's funding.

Authority & Legislation

Texas Insurance Code Chapter 2210 provides the funding structure to be used to pay TWIA's insured losses and operating expenses. Prior to 2009, the Association funded losses through premiums and potentially unlimited assessments on insurance companies. HB 4409, enacted in 2009, significantly changed Association funding, providing for the issuance of up to \$2.5 billion in Class 1, 2, and 3 public securities. Senate Bill 900 (84th Legislature, Regular Session), effective September 1, 2015, further modified the sources of funding and requires overall funding to cover at least a 100-year season, a storm or series of storms with a 1% or less chance of occurring.

Under SB 900, all Classes of public securities are backed solely by TWIA and are not obligations of the State of Texas. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on policyholders of insurance policies covering automobiles and property located in the catastrophe area.

See the attached historical exhibit (Exhibit I) and current funding exhibit (Exhibit J).

B. List all riders that significantly impact your agency's budget.

Riders are not applicable to TWIA based on its sources of funding.

C. Show your agency's expenditures by strategy.

See attached Exhibit K.

D. Show your agency's sources of revenue. Include all local, state, and federal appropriations, all professional and operating fees, and all other sources of revenue collected by the agency, including taxes and fines.

See attached Exhibit L.

E. If you receive funds from multiple federal programs, show the types of federal funding sources.

This item is not applicable to the Association, as TWIA does not receive Federal Funds.

F. If applicable, provide detailed information on fees collected by your agency.

See attached Exhibit M.

VI. Organization

- A. Provide an organizational chart that includes major programs and divisions, and shows the number of FTEs in each program or division. Detail should include, if possible, Department Heads with subordinates, and actual FTEs with budgeted FTEs in parenthesis.**

See attached Exhibit N.

- B. If applicable, fill in the chart below listing field or regional offices.**

**Texas Windstorm Insurance Association
Table 6: FTEs by Location — Fiscal Year 2016**

Headquarters, Region, or Field Office	Location	Co-Location? Yes / No	Number of Budgeted FTEs FY 2016	Number of Actual FTEs as of December 31, 2016
Headquarters	Austin	No	167	158
			TOTAL: 167	TOTAL: 158

Table 6 FTEs by Location

- C. What are your agency's FTE caps for fiscal years 2016–2019?**

Due to its status as a quasi-governmental entity and not a state agency, the Association does not have a cap on the number of full time employees.

- D. How many temporary or contract employees did your agency have as of August 31, 2016? Please provide a short summary of the purpose of each position, the amount of expenditures per contract employee, and the procurement method of each position.**

As of August 31, 2016, the Association had 35 total contract employees: 5 in Accounting, 15 in Claims, 9 in IT, 5 in Operations and 1 in Underwriting. Contract employees are brought in through a variety of temporary agencies, depending on the need of the individual departments.

**Texas Windstorm Insurance Association
Table 7: Temporary/Contract Employees — August 31, 2016**

Department	Position Title	Total Cost
Accounting	Accountant I-Contract to hire accounting services	\$ 4,800.00
Accounting	Accounting Assistant-Accounting services	\$ 23,352.00
Accounting	Accounting Customer Service-Accounting Services	\$ 23,520.00
Accounting	Accounting Bilingual Customer Service Rep-Accounting Services	\$ 1,728.00
Accounting	Accounting Clerk-Accounting Services	\$ 6,384.00
IT	Consultant / PC Developer-IT project support	\$ 70,720.00
IT	Guidewire lead Developer-IT project support	\$ 57,040.00
IT	Senior Guidewire Project Manager-IT project support	\$ 7,424.00

Department	Position Title	Total Cost
IT	Guidewire Developer-IT project support	\$ 81,840.00
IT	Phone Support / Help Desk Technician-IT project support	\$ 7,180.80
IT	Guidewire Quality Analyst - Assist in completion of Guidewire ClaimCenter as well as support Customer's new PolicyCenter Guidewire products implementation	\$ 37,200.00
IT	PC Developer - Plan, design, develop, modify, debug & evaluate complex software	\$ 19,760.00
IT	GuideWire Business Analyst-IT project support	\$ 32,224.00
IT	IT Consultant -Develop and implement GuideWire	\$ 10,304.00
Operations	Data Entry-Temp to hire Policy administration support	\$ 29,068.00
Operations	Data Entry-Temp to hire Policy administration support	\$ 29,068.00
Operations	Mailroom clerk-Mailroom operations support	\$ 5,010.72
Operations	Mailroom clerk-Mailroom operations support	\$ 7,091.28
Operations	Mailroom clerk-Temp to hire mailroom operations support	\$ 5,376.00
Underwriting	Business Analyst-Business unit support for IT projects	\$ 30,006.00
Claims	Claims Coordinator-Claims Clerical Support	\$ 24,966.92
Claims	Claims Examiner- Desk Examiner Support	\$ 100,100.00
Claims	Claims Examiner- Desk Examiner Support	\$ 38,400.00
Claims	Claims Examiner- Desk Examiner Support	\$ 115,200.00
Claims	Claims Examiner- Desk Examiner Support	\$ 64,200.00
Claims	Claims Examiner- Desk Examiner Support	\$ 110,100.00
Claims	Claims Examiner- Desk Examiner Support	\$ 107,100.00
Claims	Claims Examiner- Desk Examiner Support	\$ 100,800.00
Claims	Claims Examiner- Desk Examiner Support	\$ 49,200.00
Claims	Claims Examiner- Desk Examiner Support	\$ 54,900.00
Claims	Claims Examiner- Desk Examiner Support	\$ 86,400.00
Claims	Claims Examiner- Desk Examiner Support	\$ 141,900.00
Claims	Claims Examiner- Desk Examiner Support	\$ 74,400.00
Claims	Claims Examiner- Desk Examiner Support	\$ 105,000.00
Claims	Claims Examiner- Desk Examiner Support	\$ 150,675.00
		\$ 1,812,438.72
NOTE: Accounting and Operations contractors are generally brought onboard in a "temp to hire" role for temporary or project work associated with the function. IT contractors are brought in as staff augmentation to provide specific skills that are not needed long term. The Claims examiners are brought in as needed based upon claims volume. All contract and temporary employees are provided through contracts with staffing and independent adjusting firms.		

Table 7 Temporary/Contract Employees

E. List each of your agency's key programs or functions, along with expenditures and FTEs by program.

See attached Exhibit O.

VII. Guide to Agency Programs

VII.1 UNDERWRITING

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Underwriting

Location/Division: Austin, TX

Contact Name: Denise Larzalere, VP Underwriting

Actual Expenditures, FY 2016: \$5.8M

Number of Actual FTEs as of December 31, 2016: 38 FTEs allocated to the TWIA Underwriting Department (See Exhibit O).

Statutory Citation for Program: Chapter 2210 of the Insurance Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

As the residual insurer of last resort for windstorm and hail insurance for the Texas seacoast, the Association provides coverage to residential and commercial properties in certain designated portions of the Texas seacoast territory. 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.

The objective of the Underwriting Department is to support the mission of the Association by applying eligibility requirements to applicants for windstorm coverage, issuing windstorm and hail insurance policies, making policy form changes and filings, and assisting agents and policyholders with questions that are specific to windstorm coverage. Our department consists of a policy services team, an agency services team, an inspection team and a shared services (support) team. The department performs the following major activities:

- reviews individual applications submitted by licensed insurance agents for new and renewal business and policy changes to determine if the applicant (property) is eligible and insurable per the guidelines that are outlined in the Texas Administrative Code (28 TAC Chapter 5, Subchapter E) and Chapter 2210 of the Texas Insurance Code;
- processes inquiries regarding policies and procedures from agents, policyholders and others via internal and external call centers, as well as electronically;
- provides training and support for agents using the policy administration system (Policy Center) via internal and external call centers, webinars, and outreach programs;

- reviews inspections of properties ensuring that the property on the application is insurable;
- reviews aerial images to check application data for accuracy;
- provides leadership and process guidance for depopulation programs; and
- provides support for the Windstorm Certification process in receiving applications for and issuing WPI-8-Cs (following the implementation of House Bill 2439, 85th Regular Session).

The above-described major activities performed by the Underwriting Department are determined by statute, administrative rules, and guidelines as follows:

- [Texas Insurance Code \(Chapter 2210\)](#)
- [Texas Administrative Code \(Chapter 5, Subchapter E\)](#)
- [TWIA Instructions and Guidelines Manual](#)
- TWIA UW Procedure Manual (see attached Exhibits P.I and P.II)

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program. Also please provide a short description of the methodology behind each statistic or performance measure.

The efficiency of the Underwriting Department is measured by FTE reduction, productivity improvement and improved turnaround time for service. In 2014, the TWIA Underwriting Department (including underwriters, managers, Agent Services and Shared Services) operated with 49 FTEs. Today (2Q17) the FTEs have been reduced by 22% to 38. Our service time is faster and more consistent.

To improve operational efficiency, the Board authorized the expenditure of funds to replace core systems and develop a risk visualization unit.

Beginning with the residential policy administration system and billing system (2014), claims system (2016) and commercial policy administration system (planned for 2018), our service and product delivery has greatly improved. Prior to replacing our core systems, we only accepted policy applications via US mail, required paper checks from the agent and needed to manually process every single application and check. The Association's normal performance during this time was issuing approximately 50% of the policies within 14 days of receipt of the application. Meeting this performance standard required substantial reliance on employees working overtime. Now with our improved system we are receiving 100% of our applications (new business, renewals, and changes) electronically from the agent. We are able to receive payments electronically from Agents, Premium Finance companies and Policyholders. Our service

turnaround time has improved to have 95% of policies issued within 10 days on a consistent basis throughout the year.

**Texas Windstorm Insurance Association
Table 8: Operational Efficiencies**

Year	Avg Days to Process Transactions	Overtime \$	Staffing of Underwriting Department	Transaction Volume
2012	11.8	\$202,000	39	173,551
2016	1.6	\$26,000	24	268,257
2017	1.4	\$1,600	22	133,300

Table 8 Operational Efficiencies

The Association has also introduced a risk visualization program on all residential applications beginning mid-May 2014. TWIA uses EagleView Technologies to provide aerial imagery for the Association’s coverage territory using fixed wing aircraft and specialized photographic image processing technology. The imagery is integrated with patented oblique measurement technology and third-party data.

Balanced Scorecard - We measure our success with a Scorecard approach and have specific performance metrics for which each associate is held accountable.

The 2016 Scorecard for the TWIA Underwriting Department focused on four goals:

1. **Customer Service** - Measured by the amount of time it took the Underwriting team to process new business submissions, renewal applications, endorsements and inspections from the time the work was submitted to TWIA until the time it was delivered back to the agent or policyholder. Our goal has been to be able to process 90% of the work within 14 days (in 2017 we reset the goal to 90% in ten days).
2. **Financial** - Measured by budget conformance.
3. **Process Improvement** - Measured by the underwriters quality assurance score
4. **Employee** - Measured by average number of hours each associate invested in ongoing training.

**Texas Windstorm Insurance Association
Table 9: TWIA Underwriting Balanced Scorecard (Year End 2016)**

Goal	Weight	Result	Monthly Goal Snapshot	
Customer	New Business	25%	99.0%	
	Renewals	6.25%	99.9%	
	Endorsements	6.25%	99.3%	
	New Business	25%	98.4%	
	Renewals	6.25%	100%	
	Endorsements	6.25%	97.1%	
	Inspection Processing	25%	100%	
Financial (10%)	Budget Conformance	100%	-3.4%	
Process Improvement	File Quality Score Underwriter	10%	98.1%	
	Average Training Hours per Employee	5%	36.8	

Table 9 TWIA Underwriting Balanced Scorecard (Year End 2016)

Texas Windstorm Insurance Association
Table 10: TWIA Underwriting Performance Metrics (Year End 2016)

Processing Times	2016												Year to Date
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
<i>Res New Business (<=10 days)</i>	86.30%	85.66%	94.58%	96.73%	98.64%	95.61%	95.87%	99.84%	99.69%	99.56%	99.37%	99.02%	95.97%
	89.44%			96.90%			98.42%			99.34%			
<i>Res Renewals (<=14 days)</i>	99.81%	93.07%	92.86%	99.42%	99.94%	96.71%	93.13%	99.95%	99.90%	99.97%	99.97%	99.86%	97.70%
	94.81%			98.56%			97.49%			99.94%			
<i>Res Endorsements (<=10 days)</i>	94.49%	91.06%	90.81%	94.26%	97.85%	94.15%	93.36%	99.32%	100.00%	100.00%	99.76%	99.32%	96.64%
	91.94%			95.39%			97.85%			99.71%			
<i>Res Cancellations (<=5 days)</i>	58.67%	50.97%	50.44%	35.90%	37.73%	57.72%	95.31%	99.32%	93.51%	99.54%	99.68%	99.65%	77.84%
	52.98%			45.79%			96.04%			99.63%			
<i>Com New Business (<=10 days)</i>	74.31%	97.78%	98.82%	98.73%	97.18%	98.62%	99.37%	98.21%	86.80%	99.57%	99.44%	98.41%	95.58%
	90.49%			98.23%			94.77%			99.17%			
<i>Com Renewals (<=21 days)</i>	99.87%	99.75%	100.00%	99.89%	99.90%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	99.95%
	99.87%			99.94%			100.00%			100.00%			
<i>Com Endorsements (<=10 days)</i>	63.64%	97.85%	99.51%	99.61%	99.17%	95.27%	99.44%	99.49%	94.71%	100.00%	99.00%	97.06%	92.23%
	84.31%			98.03%			97.75%			98.85%			
<i>Com Cancellations (<=5 days)</i>	42.21%	87.25%	90.01%	90.73%	61.90%	44.86%	61.95%	75.74%	48.19%	97.24%	88.18%	95.33%	68.04%
	65.92%			67.52%			60.78%			93.89%			
<i>Inspections (<=14 days)</i>	85.00%	69.00%	87.00%	93.00%	96.00%	97.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	93.92%
	80.33%			95.33%			100.00%			100.00%			

Table 10 TWIA Underwriting Performance Metrics (Year End 2016)

“Res” – Residential

“Com” – Commercial

This scorecard format is also utilized on a more focused scale within each unit of the Underwriting Department, which, along with the following-listed feedback mechanisms help us measure performance, inform our service standards and goals, and target any areas for improvement.

Underwriting Quality Assurance Audits - Performed monthly to verify that underwriters are adhering to the TWIA Underwriting Procedures and the Instructions and Guidelines Manual. See an example attached as Exhibit Q.

Customer Surveys - Sent to agents to help evaluate the Underwriting Department’s effectiveness and service culture. See Attachment 11.

Monthly Operating Report (MOR) - produced monthly for the Leadership Team and department as a “report card” highlighting the performance metrics that are measured to ensure success. See an example attached as Exhibit R.

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

The key functions of processing applications and issuing insurance policies for windstorm coverage have remained unchanged since the Association’s inception. However, the

Underwriting Department was restructured beginning in 2013 to group and organize functions more efficiently. The changes were designed to ensure that the appropriate resources were optimally allocated based upon risk complexity and to add new functionality, such as the use of risk visualization to verify property characteristics. The workforce is now segmented into residential and commercial underwriting teams, an agency services internal call center and a shared services team that assists with training and quality assurance.

E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

This program affects applicants insured by or seeking to obtain coverage from TWIA and the insurance agents acting on their behalf.

To be eligible for a TWIA policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

1. Applicants must have been denied coverage by at least one insurer authorized to engage in the business of and writing windstorm and hail coverage in the first tier coastal counties;
2. Properties must be located in the designated catastrophe area;
3. The applicant must have an insurable interest in the property;
4. The property must be certified as having been built to applicable building codes, with limited exceptions;
5. Properties located in specified flood zones (V zones or another similar flood risk zone) that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the National Flood Insurance Program (NFIP) must provide proof of flood insurance coverage; and
6. Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

The Association does not collect demographic information from our policyholders. For a statistical breakdown of the distribution of the Association's business, please see the attached *Distribution by County* and *Distribution of Limits* (Exhibits S and T).

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

The Vice President of Underwriting administers the department and reports to the General Manager, who reports to the Texas Windstorm Insurance Association's Board of Directors. The

Underwriting Department has one Assistant Vice-President and three Senior Managers who report to the Vice-President. This team is responsible for delivering on strategic initiatives and setting direction for the department. Day to day operations are directed by managers and one supervisor. For more information regarding the management and personnel structure, see the attached Organizational Chart (Exhibit N). For more information regarding the procedures, deadlines, and other functional aspects of administering underwriting, see the attached TWIA UW Procedural Manual (Exhibits P.I and P.II).

The management team supports and promotes staff development and cross training, which improves management of staff workloads and supports career path development. Subject matter experts within the entire department serve as mentors and assist with workloads, projects, responding to inquiries and answering complaints. Additionally, in house training is offered to all staff for job training as well as industry and competencies training. Weekly management staff meetings and bi-weekly unit meetings are held, along with quarterly department meetings. We value continued education and reward associates that take insurance classes and earn special designations. We also offer many opportunities to have underwriting-specific case study sessions as well as cross-departmental case studies.

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

The Underwriting Department is funded through the Association's standard operating budget. All departments and functions of TWIA are funded by the TWIA premiums paid by TWIA policyholders and investment income.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

By design, the Association exists to serve as an alternative to the private insurance market; its services parallel that of all private market property insurance carriers in Texas, and it is explicitly prohibited from directly competing in the private market. In accordance with the Association's mission, we provide these services when no one else will.

The Texas FAIR Plan Association (TFPA) serves as a residual market insurer for residential property insurance in Texas. By statute, the FAIR Plan cannot provide wind and hail coverage in the designated catastrophe area (the Association's eligibility area). Therefore, both TWIA and TFPA serve as residual insurers but do not compete for the same policyholders. TFPA is governed by Chapter 2211, Texas Insurance Code.

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

As the residual market for wind and hail insurance, the Association is in the unique position of not only being prohibited from competing with the private market, but has been given the statutory mandate to actively decrease its book of business by engaging in depopulation programs designed to encourage the private market to make offers of coverage to the Association's policyholders. (See Texas Insurance Code Chapter 2210 Subchapter O.) Depopulation is discussed at length under Section VII.4 (Guide to Agency Programs: Depopulation).

J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.

The TWIA Underwriting Department coordinates with the Texas Department of Insurance (TDI) to ensure it is properly implementing rules and regulations promulgated by TDI. As the regulatory agency over insurance carriers, TDI oversees the Association's Plan of Operations within the Texas Administrative Code, manual rules, forms and endorsements.

K. If contracted expenditures are made through this program please provide:

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in fiscal year 2016;
- the number of contracts accounting for those expenditures;
- the method used to procure contracts
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The general purpose of contracts under the Underwriting program is to purchase data and services from vendors to assist with determining coverage, eligibility and insurability of a property.

In 2016, the Underwriting Department spent a total of \$2.4 million on contracted services. The number of contracts accounting for that dollar amount is ten (10).

Several methods are used to procure contracts including but not limited to Requests for Proposals (RFPs), Requests for Qualifications (RFQs), and Requests for Information (RFIs).

The top five contracts by dollar amount, including contractor and purpose are as follows:

**Texas Windstorm Insurance Association
Table 11: TWIA Underwriting Contract Expenditures (2016)**

Amount	Contractor	Purpose
\$1,623,000	Eagleview Technologies	Aerial images and reports
\$261,000	Eberls Claims Service	Commercial Inspections
\$229,000	Clear Point Claims	Service Call Center
\$189,000	CoreLogic	MSB, Cost Estimator Guides
\$128,000	Insurance Providers, Inc.	Residential Inspections

Table 11 TWIA Underwriting Performance Metrics (Year End 2016)

L. Provide information on any grants awarded by the program.

There are no grants awarded by the program.

M. Are there any barriers or challenges that impede the program’s performance, including any outdated or ineffective state laws? Explain.

The Association does not believe there are any barriers or challenges that impede the program’s performance apart from the issue of replacement cost being determined at the point of loss, further discussed in Section IX.5 Major Issues, Policy Terms and Conditions.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

The Association believes the above information is sufficient.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:

- why the regulation is needed;
- the scope of, and procedures for, inspections or audits of regulated entities;
- follow-up activities conducted when non-compliance is identified;
- sanctions available to the agency to ensure compliance; and
- procedures for handling consumer/public complaints against regulated entities.

There are no regulatory programs relating to the licensing, registration, certification, or permitting of a person, business, or other entity administered by the Association through the Underwriting function. While property insurance agents register to use the Association’s online policy administration system, Policy Center, by statute the Association accepts applications from any licensed property insurance agent in the state and does not regulate the agents. Regulating agents is under the purview of the Texas Department of Insurance. Agents represent only the policyholder and do not have any contractual relationship with TWIA.

P. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency’s practices. Please include a brief description of the methodology supporting each measure.

This item is not applicable.

VII.2 CLAIMS

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Claims

Location/Division: Austin, TX

Contact Name: David Williams, VP Claims

Actual Expenditures, FY 2016: \$60M

	Paid	Reserves (1) Beg of Year	Reserves (1) End of Year	Incurred (2)
Direct Losses	36,787	61,066	43,284	19,004
Direct Allocated Loss Adjustment Expenses	13,523	13,986	10,218	9,754
Direct Unallocated Loss Adjustment Expenses	9,911	0	0	9,911
Total Losses & LAE	60,220	75,053	53,502	38,669
(1) Expense reserves not split between Allocated and Unallocated, included these in Allocated for this exhibit.				
(2) Incurred is computed by taking paid amounts, less amounts reserved for at the beginning of the year, plus amounts reserved for at the end of the year.				

Numbers above in 000s

Number of Actual FTEs as of December 31, 2016: 32

Statutory Citation for Program: Chapter 2210, Subchapter L-1, Texas Insurance Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

The Claims Department investigates, evaluates, and resolves claims. This includes five (5) stages:

1. First Notice of Loss (FNOL) – The loss is reported to TWIA.
2. Triage and Assignment – The claim is reviewed and assigned to an examiner and an independent adjuster is assigned.
3. Investigate the claim – The claim is reviewed following the *Claim Handling Guidelines*, *Property Damage Evaluation Guidelines* (Exhibit X), and where major storm events occur, the *Catastrophic Incident Response (CAT) Plan* (Exhibit Y).
4. Evaluate the claim – Reports submitted by the field adjuster and other experts are reviewed. A decision is made to fully accept, partially accept/partially deny, or fully deny the claim.
5. Resolve the claim – Outcome of the claim is shared with the Policyholder. Payments are issued.

- C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.

**Texas Windstorm Insurance Association
Table 12: TWIA Claims Performance Metrics (2016)**

TWIA Claims Performance Metrics		Quarterly Summary				Monthly Summary			YTD			
		Q1 2016	Q2 2016	Q3 2016	Q4 2016	Oct-16	Nov-16	Dec-16	2016	2016 Plan	Δ	Δ %
Production	Projected New vs. Median Projected Claims	1,446	5,316	1,528	1,549	520	505	524	9,839	6,108	-	-
	Actual New Claims	2,536	3,519	1,349	989	289	235	465	8,393	6,108	2,285	37%
	Beginning Inventory	558	945	675	443	443	389	335	335	< 558	-223	-25%
	Ending Inventory	945	675	443	470	389	335	470	470	< 558	-88	-10%
	Speed To Payment	3%	4%	4%	4%	4%	4%	4%	4%	< 12%	-8%	-67%
KPI's	Avg. Days - FNOL to Inspect Property	2.7	2.9	2.6	2.3	2.4	2.3	2.1	2.7	< 3.0	-0.3	-10%
	Avg. Days - Inspect to TWIA Receipt	2.4	2.8	2.6	2.3	2.4	2.2	2.1	2.6	< 8.0	-5.4	-68%
	Avg. Days - TWIA Receipt to Payment	5.6	6.2	5.0	6.2	5.2	5.0	8.2	5.8	< 5.0	0.8	16%
	TDI Complaints	4	2	4	2	0	1	1	12	< 20	-8	-40%
	TDI Complaints as % of Claims Received	0.16%	0.06%	0.30%	0.20%	0.00%	0.43%	0.22%	0.14%	< 0.25%	-0.11%	-43%
HB3	Cumulative Number of Disputed Claims	344	398	431	450	437	445	450	450	422	28	2%
	Disputed Claims as % of Claims Received	1.0%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	< 1%	0.1%	10%
PDEP	Field Adjuster Overall Performance Rating	93%	88%	95%	96%	95%	98%	94%	93%	> 90%	3%	4%
	Field Adjuster Reinspection Score	90%	91%	93%	94%	93%	97%	91%	92%	> 90%	2%	2%
Call Center	FNOLs Direct Report to Call Center	1,401	1,985	817	566	170	145	251	4,769	4,197	573	14%
	% FNOLs Direct Report to Call Center	55%	56%	61%	57%	59%	62%	54%	57%	50%	7%	14%
	Call Center ASA (in seconds)	8	8	9	9	12	8	8	9	30	-21	-71%
	Call Center Abandonment Rate	1%	1%	1%	1%	1%	1%	2%	1%	5%	-4%	-74%
QA	QA Score	91%	91%	92%	91%	91%	91%	92%	92%	90%	2%	2%
	Manager QA Score	90%	92%	91%	91%	90%	92%	90%	91%	90%	1%	1%
	Customer Survey Score	4.52	4.45	4.40	4.45	4.44	4.45	4.47	4.47	3.99	0.5	12%
SIU	No. SIU Referrals	295	353	171	96	31	28	37	915	839	76	9%
	SIU Referral Rate	12%	10%	13%	10%	11%	12%	8%	11%	> 10%	1%	9%

Table 12 TWIA Claims Performance Metrics (2016)

The 2016 performance metrics for the TWIA Claims Department included seven categories of measurements. The categories as further described below are: (1) Production; (2) Key Performance Indicators (KPIs); (3) House Bill 3 (HB 3); (4) Property Damage Evaluation Program (PDEP); (5) Call Center; (6) Quality Assurance (QA); and (7) Special Investigations Unit (SIU).

1. **Production** measures assess department workload and processing time.
 - 1.1. *Projected New vs. Median Projected Claims* – Compares actuarially forecasted claim volume to median projected claims for determination of staffing needs
 - 1.2. *Actual New Claims* – Number of new claims received
 - 1.3. *Beginning Inventory* – Number of claims carried forward from the previous period (quarter or year) as of the first day of the period
 - 1.4. *Ending Inventory* – Number of claims open on the last day of the period

- 1.5. *Speed to payment* – Percentage of claims remaining open more than 30 days without a payment
2. **Key Performance Indicators (KPI's)** are measures of claim processing efficiency.
 - 2.1. *Avg. Days - FNOL to inspection of property* – Average number of days from the receipt of the claim until the field adjustor inspects the property
 - 2.2. *Avg. Days – Inspect to TWIA Receipt* – Average number of days from the property inspection to receipt of the field adjustor's report
 - 2.3. *Avg. Days – TWIA Receipt to Payment* – Average number of days from receipt of the field adjustor's report to issuance of payment to the policyholder
 - 2.4. *TDI Complaints* – Complaints filed with the Texas Department of Insurance (TDI) regarding TWIA claims handling
 - 2.5. *TDI Complaints as % of Claims Received* – Complaints filed with the Texas Department of Insurance reported as a percentage of claims received
3. **House Bill 3 (HB3) (82nd Texas Legislature, 1st Called Special Session)**
 - 3.1. *Cumulative Number of Disputed Claims* – Cumulative number of disputed claims (appraisal or litigation has been requested)
 - 3.2. *Disputed Claims as a % of Claims Received* – *Disputed claims as a percentage of all claims received*
4. **Property Damage Evaluation Program (PDEP)** Assesses field adjustor performance
 - 4.1. *Field Adjuster Overall Performance Rating* – Score based on adherence to *Property Damage Evaluation Program Guidelines*
 - 4.2. *Field Adjuster Reinspection Score* – Score based on reinspection of the property, per the *Reinspection Process* guidelines
5. **Call Center**
 - 5.1. **First Notice of Loss (FNOL's) Direct Report to Call Center** – Number of claims reported directly to the Call Center
 - 5.2. **% FNOL's Direct Report to Call Center** – Percentage of First Notices of Loss that were reported directly to the Call Center
 - 5.3. **Call Center Average Speed to Service (ASA)** – Time in seconds it took the Call Center to answer a call

5.4. **Call Center Abandonment Rate** – Percentage of calls to the Call Center when the caller ended the call prior to the call being answered

6. **Quality Assurance Scores**

6.1. **QA Score – Quality Assurance Score**

Claim quality based on review of open and closed claims. Score is average for all claim examiners' performance

6.2. **Manager QA Score – Quality Assurance Score**

Supervisor/Manager quality based on review of open and closed claims. Score is average for all supervisors/managers performance

6.3. **Customer Survey Score**

Average results for all TWIA Customer Surveys received regarding claims handling

7. **Special Investigation Unit (SIU) – Fraud Mitigation**

7.1. **Number of SIU referrals** – Count of the number of claims referred to SIU for additional investigation

7.2. **SIU Referral Rate** - Percentage of all claims referred to the SIU

The final four columns compared the forecasted target for each item with the actual results for each item. Items highlighted in red and yellow indicate areas for additional attention or improvement. Items highlighted in green meet or exceed expected targets.

Note: Performance metrics were revised for 2017. Metrics for *Internal Speed to Answer* (the time in seconds that it took TWIA to answer a call) and *TWIA Internal Abandonment Rate* (the number of calls to TWIA when the caller ended the call prior to the call being answered) were added to the third section (Call Center). These metrics are now possible due to a new phone system that was added in 2017. Metrics for House Bill 3 measures are still tracked but were removed from the Monthly Operating Report since these measures are consistently within expected targets.

Texas Windstorm Insurance Association
Table 13: TWIA Claims Performance Metrics (2017)

TWIA Claims Performance Metrics		Quarterly Summary				Monthly Summary			YTD			
		Q3 2016	Q4 2016	Q1 2017	Q2 2017	Apr-17	May-17	Jun-17	2017	2017 Plan	Δ	Δ %
Production	Projected New vs. Median Projected Claims	1,528	1,549	1,681	4,961	1,679	2,167	1,115	6,642	3,324	3,318	100%
	Actual New Claims	1,349	989	1,872	2,162	679	687	796	4,034	3,324	710	21%
	Beginning Inventory	675	443	470	646	646	539	520	520	470	50	6%
	Ending Inventory	443	470	646	520	539	520	464	464	470	-6	-1%
	Speed To Payment	4%	4%	2%	2%	2%	2%	2%	2%	< 8%	-6%	-50%
KPI's	Avg. Days - FNOL to Inspect Property	2.6	2.3	2.0	2.6	2.5	2.6	2.6	2.4	< 3.0	-0.6	-20%
	Avg. Days - Inspect to TWIA Receipt	2.6	2.3	2.1	2.3	2.3	2.2	2.4	2.3	< 8.0	-5.7	-71%
	Avg. Days - TWIA Receipt to Payment	5.0	6.2	4.8	4.9	5.1	4.7	4.7	4.7	< 5.0	-0.3	-6%
	Field Adjuster Reinspection Score	93%	94%	94%	91%	92%	91%	91%	93%	> 90%	3%	3%
	TDI Complaints	4	2	6	3	1	1	1	9	< 11	-2	-10%
	TDI Complaints as % of Claims Received	0.30%	0.20%	0.32%	0.14%	0.15%	0.15%	0.13%	0.22%	< 0.25%	-0.03%	-11%
	Disputed Claims	-	-	22	27	10	8	9	49	73	-24	2%
Call Ctr	Internal Average Speed to Answer	-	-	42	18	15	20	19	29	< 30	-1	-3%
	TWIA Internal Abandonment Rate	-	-	6%	4%	3%	4%	4%	5%	5%	0%	0%
QA	Examiner QA Score	92%	91%	89%	91%	91%	91%	92%	90%	90%	0%	0%
	Manager QA Score	91%	91%	90%	92%	92%	91%	92%	91%	90%	1%	1%
	Customer Survey Score	4.40	4.45	4.34	4.40	4.03	4.37	4.81	4.37	4.20	0.17	4%
SIU	No. SIU Referrals	171	96	260	141	76	65	96	401	403	-2	-1%
	SIU Referral Rate	13%	10%	14%	7%	11%	9%	12%	10%	> 10%	0%	-1%

Table 13 TWIA Claims Performance Metrics (2017)

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

TWIA has always functioned just as any other property insurance company: policies are issued and serviced, claims are investigated and paid. However, because of TWIA's quasi-governmental character, one important aspect of claim resolution has changed over the years: disputes.

As with any other insurance claims operation, disputes arise over what damages TWIA is obligated contractually to cover and what amount it will pay for those damages. Originally, all policyholder disputes were handled through a complaint process to the Commissioner of Insurance. Claims disputes were heard by the State Office of Administrative Hearings (SOAH), and the hearing officer's recommendation would be adopted or modified by the Commissioner. Concerned that policyholders would not be able to bring disputes without a means of recovering attorney's fees, the Legislature in the mid 1990's amended the TWIA statute to allow private actions disputing claim decisions, including under Chapters 541 (bad faith) and 542 (prompt payment of claims) of the Insurance Code. After Hurricane Ike, the Legislature grew concerned that litigation costs were too much of a threat to TWIA's financial stability. Among other reforms, the passage of House Bill 3 in 2011 provided a bifurcated dispute resolution process for TWIA claims. Where TWIA accepted coverage, the policyholder's sole remedy is to pursue appraisal of the loss. Appraisal is an independent re-evaluation of the economic value of the covered loss. It has certain costs,

which are shared equally between the policyholder and TWIA. Where TWIA denies coverage, the policyholder can pursue a lawsuit, but the issues brought to suit and the remedies available are now limited to those provided in the TWIA statute (Chapter 2210, Subchapter L-1). In addition, TWIA is afforded the right to require pre-suit mediation of the dispute to attempt resolution.

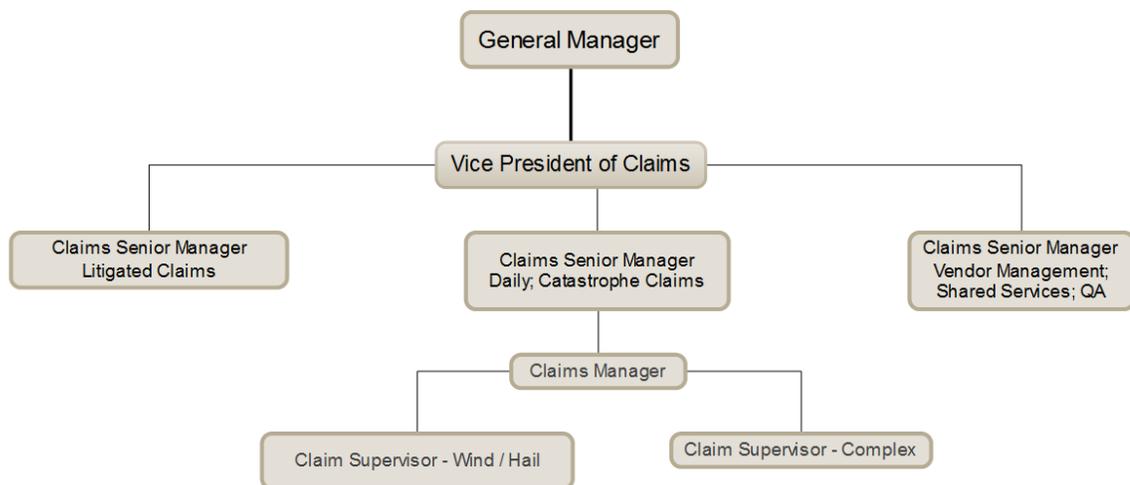
E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

This function affects TWIA policyholders directly. Policyholders’ “eligibility” for submitting claims is governed by the terms of the policy contract. Other persons indirectly affected are users of the structures insured by TWIA and persons involved in the claims process and the claim dispute process.

For the available statistical breakdowns of our policyholders, please see the attached *Distribution by County* and *Distribution of Limits* (Exhibits S and T).

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

The Claims Department is organized to support claim processing. There are three senior managers that oversee the functions of the Claims Department under the guidance of the Vice President of Claims.



Procedures and workflows are outlined in the *Claim Handling Guidelines*, the *Property Damage Evaluations Guidelines* and the *Catastrophic Incident Response (CAT) Plan*.

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions.

For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

The Claims Department is funded through the Association's standard operating budget. All departments and functions of TWIA are funded by the TWIA premiums paid by TWIA policyholders and investment income.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

By design, the Association exists to serve as an alternative to the private insurance market; its services parallel that of all private market property insurance carriers in Texas, and it is explicitly prohibited from directly competing in the private market. In accordance with the Association's mission, we provide these services when no one else will.

The Texas FAIR Plan Association (TFPA) serves as a residual market insurer for residential property insurance in Texas. By statute, the FAIR Plan cannot provide wind and hail coverage in the designated catastrophe area (the Association's eligibility area). Therefore, both TWIA and TFPA serve as residual insurers but do not compete for the same policyholders. TFPA is governed by Chapter 2211, Texas Insurance Code.

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

This item is not applicable.

J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.

Catastrophe response efforts are coordinated with the Texas Department of Insurance (TDI), Texas Division of Emergency Management (TDEM), County, and other local emergency management agencies. This process is outlined in the Catastrophic Incident Response (CAT) Plan.

K. If contracted expenditures are made through this program please provide:

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in fiscal year 2016;
- the number of contracts accounting for those expenditures;
- the method used to procure contracts;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The general purpose of these contracts would be to respond to and resolve policyholder claims against Association policies. For Fiscal Year 2016, expenditures totaled \$17M.

The number of contracts accounting for those expenditures is 105.

Several methods are used to procure contracts including but not limited to Requests for Proposals (RFPs), Requests for Qualifications (RFQs), and Requests for Information (RFIs).

The top five contracts by dollar amount, including contractor and purpose are as follows:

**Texas Windstorm Insurance Association
Table 14: TWIA Claims Contract Expenditures (2016)**

Amount	Contractor	Purpose
\$1,101,000	Jay Old & Associates, PLLC	Defense Counsel
\$992,000	One Call Claims LLC	Independent Adjusting Firm
\$947,000	Reid Jones McRorie & Williams	Independent Adjusting Firm
\$907,000	BSC Forensic Services, LLC	Engineering Firm
\$747,000	Eberls Claim Service Inc	Independent Adjusting Firm

Table 14 TWIA Claims Contract Expenditures (2017)

All invoices are reviewed for compliance with the contracts with which they are associated. The contracts with performance standards also have Quality Assurance processes to ensure vendor performance of those standards.

There are currently no contracting problems.

L. Provide information on any grants awarded by the program.

There are no grants awarded by the program.

M. Are there any barriers or challenges that impede the program’s performance, including any outdated or ineffective state laws? Explain.

Yes, there is a discrepancy between the two calculations of Insurance to Value that presents problems for policyholders and inefficiencies for adjusters. This problem is explained below.

Insured residences are required to be insured to 80% of the structure’s value at the time of loss to be eligible for replacement cost coverage. The ratio of the amount of insurance to the value of the structure is commonly referred to as Insurance to Value or ITV. Currently, the ITV valuation is calculated twice. The first time is at the inception of the policy period. That ITV result is used to help the agent and policy holder determine the amount of coverage that they want to purchase. The second time the ITV calculation is made is when a loss occurs and the ITV calculation is used to calculate the replacement cost of the property after the loss. This can result in a problem for an insured when the ITV calculated at the time of loss is less than the ITV calculated at policy inception. Moving the valuation

used to calculate the replacement cost related to the loss from the time of loss to the time of policy inception would serve to eliminate surprises to the policyholder at point of claim when it is determined that the insured is not eligible for full replacement cost or that co-insurance penalties apply when the structure is insured to less than 80% of its value. Moving the ITV process to policy inception would make the claim handling process more efficient and reduces uncertainty for the policyholder and their agent. It would also reduce the amount of time field adjusters need to spend on each claim because the adjuster would not need to calculate the ITV. Such a change would also potentially address policyholder concerns about the inability to provide replacement cost coverage. Increasing our capacity to handle claims more quickly is especially important during large claim generating storm events.

In addition, as commercial coverage in the standard market is more readily available, the statutory coverage limits of \$4,424,000 for Commercial and Governmental buildings could be changed to apply per policy and not per structure, as currently applied. This can add significant exposure to TWIA and potentially affect the financial stability of the Association.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

The Association believes the above information is sufficient.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:

- why the regulation is needed;
- the scope of, and procedures for, inspections or audits of regulated entities;
- follow-up activities conducted when non-compliance is identified;
- sanctions available to the agency to ensure compliance; and
- procedures for handling consumer/public complaints against regulated entities.

There are no regulatory programs relating to the licensing, registration, certification, or permitting of a person, business, or other entity administered by the Association through the Claims function.

P. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency's practices. Please include a brief description of the methodology supporting each measure.

This item is not applicable.

VII.3 UNDERWRITING PRODUCT MANAGEMENT

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Underwriting Product Management

Location/Division: Austin, TX

Contact Name: Denise Larzalere, VP Underwriting

Actual Expenditures, FY 2016: See Exhibit O for the Underwriting Department. Expenditures for this program is not separately allocated from the Underwriting Department.

Number of Actual FTEs as of December 31, 2016: See Exhibit O for the Underwriting Department. FTEs are not separately allocated for this program.

Statutory Citation for Program: Section 2210.351, Texas Insurance Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

Underwriting Department staff serves the product management functions of reviewing the policy contract and accompanying forms and endorsements to ensure the terms are compliant with Texas Insurance Code Section 2210.351 and 28 Texas Administrative Code Section 5.4911 et al., are comprehensible, and fair to the risk to which they apply.

Staff files new and amended policies and forms in accordance with the Insurance Code and Administrative Code as needed.

Underwriting's product management activities include:

- performing reviews of the policy contract and forms with other TWIA divisions regarding policy language and coverage
- supporting the Association's strategic plan by contributing to projects requiring the underwriting policy perspective, such as those resulting from changes in legislation and/or regulation
- drafting and amending the policy contract and forms in accordance with legislative and regulatory decisions
- ensuring policy and forms are current and effective, and that any changes are filed with the Department of Insurance
- providing underwriting expertise to other TWIA Divisions, as requested

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program. Also please provide a short description of the methodology behind each statistic or performance measure.

A history of TWIA's filings can be found in the Department of Insurance's records database under [TWIA Submissions](#). As the need for filings arises in response to legislation and ad hoc circumstances, the Association believes its history of filings sufficiently demonstrates efficacy in this area.

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

For additional information, please see Section III regarding the History of the Association.

E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

When TWIA files a form change, it is an amendment to the policy contract with the policyholders and therefore impacts our policyholders and agents. The eligibility requirements for policyholders are summarized [here](#).

The Association does not collect demographic information from our policyholders. For information regarding the distribution of the Association's business, please see the attached *Distribution by County* and *Distribution of Limits*.

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

The Underwriting product management team is headed by the Assistant Vice President of Underwriting. The Assistant Vice President reports directly to the Underwriting Vice President. The Assistant Vice President works closely with Underwriting Senior Management, Claims Senior Management, Actuarial and Legal and Compliance regarding policy and forms.

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

The Underwriting product management team is funded through the Association's standard operating budget. All departments and functions of TWIA are funded by the TWIA premiums paid by TWIA policyholders and investment income.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

By design, the Association exists to serve as an alternative to the private insurance market; its services parallel that of all private market property insurance carriers in Texas and is explicitly prohibited from directly competing in the private market. In accordance with the Association's mission, we provide these services when no one else will. The use of policy forms and endorsements of all insurance carriers in Texas is regulated by the Texas Department of Insurance.

The Texas FAIR Plan Association (TFPA) serves as a residual market insurer for residential property insurance in Texas. By statute, the FAIR Plan cannot provide wind and hail coverage in the designated catastrophe area (the Association's eligibility area). Therefore, both TWIA and TFPA serve as residual insurers but do not compete for the same policyholders. TFPA is governed by Chapter 2211, Texas Insurance Code.

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

This item is not applicable.

J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.

The TWIA Underwriting Department works with the Texas Department of Insurance (TDI) to gain a better understanding of rules and regulations that TDI has proposed or adopted to ensure compliance with the *Texas Insurance Code* and the *Texas Administrative Code*.

K. If contracted expenditures are made through this program please provide:

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in fiscal year 2016;
- the number of contracts accounting for those expenditures;
- the method used to procure contracts
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

This item is not applicable.

L. Provide information on any grants awarded by the program.

There are no grants awarded by the program.

M. Are there any barriers or challenges that impede the program’s performance, including any outdated or ineffective state laws? Explain.

TWIA has moved to an internet based application which is a component of TWIA’s modern policy administration system. A barrier that has arisen is when TWIA seeks to improve the application process and create efficiencies.

In accordance with *Texas Insurance Code*, Sec. 2210.351 and the *Texas Administrative Code*, Sec. 5.4911, TWIA’s application must be filed and approved by the Department of Insurance.

Simple and minor modifications to the application which could otherwise be implemented quickly resulting in greater efficiency for TWIA and the insurance agents must go through the time consuming filing and approval process. Insurers in the voluntary market are not required to file application forms for approval by TDI.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

The Association believes the above information is sufficient.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:

- why the regulation is needed;
- the scope of, and procedures for, inspections or audits of regulated entities;
- follow-up activities conducted when non-compliance is identified;
- sanctions available to the agency to ensure compliance; and
- procedures for handling consumer/public complaints against regulated entities.

There are no regulatory programs relating to the licensing, registration, certification, or permitting of a person, business, or other entity administered by the Association through the Underwriting product management function.

P. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency’s practices. Please include a brief description of the methodology supporting each measure.

This item is not applicable.

VII.4 DEPOPULATION

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Voluntary Market Depopulation Program and Assumption Reinsurance Depopulation Program

Location/Division: Underwriting

Contact Name: Denise Larzalere, VP Underwriting

Actual Expenditures, FY 2016: The expenditures for this program are not separately allocated. The program involves staff of multiple departments.

Number of Actual FTEs as of December 31, 2016: FTEs for this program are not separately allocated. The program involves staff of multiple departments.

Statutory Citation for Program: Subchapter O, Chapter 2210, Texas Insurance Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

Depopulation is a series of programs authorized by the passage of Senate Bill 900 (84th Legislature, Regular Session). SB 900 added Subchapter O, Depopulation Program to Chapter 2210, Texas Insurance Code. The law was enacted to provide TWIA policyholders with alternative options for wind and hail insurance in the private market. The programs function in the following manner: TWIA provides policy data to participating companies who then make offers to assume, or transfer, TWIA policies. The participation of insurers, agents, and policyholders in the program is completely voluntary.

Voluntary Market Depopulation Program

The Voluntary Market Depopulation Program allows participating companies to make offers on TWIA policies one at a time at policy renewal. A Texas-authorized insurer must execute a Nondisclosure and Terms of Use Agreement (NDA) to access TWIA policy data and identify policies. Offers can be made throughout the year, as opposed to offers under the Assumption Program where there is a specific offer period each year, and are made at the time of the individual policy's renewal.

The insurer works through the policyholder's current agent, either through appointment or a limited servicing agreement, in order to present the offer to the policyholder selected by the insurer. The policyholder and agent may accept or reject any offer.

Assumption Reinsurance Depopulation Program

The Assumption Reinsurance Depopulation Program allows participating companies to make annual offers on large numbers of TWIA policies. A Texas-authorized insurer must execute a NDA

and Participation Agreement to access TWIA policy data and identify policies. In addition, participating companies must submit additional financial information and information regarding forms and rates to TWIA and TDI for further review. Participating companies must re-enroll in the Assumption Program on an annual basis.

Participating companies must appoint the policyholder's current agent, or enter into a limited servicing agreement with the agent, in order to present offers to policyholders. The agent reviews the policies selected by participating companies and accepts or rejects the offer. Policyholders are notified by the participating company starting on December 1 of the program year if their agent has approved an offer. If policyholders take no action, their policy transfers to the participating company. If the policyholder does not want to participate in the Assumption Program, they can opt out by calling TWIA, sending in a pre-paid mailing, or calling their agent. (See timeline referenced under Section F.)

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program. Also please provide a short description of the methodology behind each statistic or performance measure.

As of June 30, 2017, 11,184 policies were removed from the TWIA book of business and transferred to four participating companies through the Assumption Reinsurance program. These companies are Maison Insurance Company, United Property and Casualty Insurance Company, Weston Insurance Company, and The Woodlands Insurance Company.

As of August 4, 2017, 1,385 policies were removed from the TWIA book of business through the Voluntary Market program. This is a count of policies as reported by the participating companies, Weston Insurance Company, State National Insurance Company, and United Property and Casualty Insurance Company.

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

All new TWIA policies and policy renewals receive a copy of TWIA's privacy policy and have the opportunity to keep their information from being disclosed to the carriers participating in the depopulation programs.

If the policyholder completes and returns the Disclosure Limitation Reply form, they will be excluded from further inclusion in both depopulation programs.

E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

This program affects policyholders, insurance agents, and participating companies.

Policyholders

Some policyholders have the opportunity to be presented with a more cost effective insurance policy than what TWIA provides.

When policyholders transfer out, they are able to return to TWIA at any time. TWIA's general eligibility requirements, including Certificates of Compliance* (WPI-8 or WPI-8-C), still apply.

Agents

Agents work with policyholders to educate them about their options. For the assumption program, an agent must select a policy for inclusion before it is eligible.

Participating Companies

Insurers who are authorized to write insurance in Texas with forms approved by and rates filed with TDI are eligible to participate in the programs. Fifteen companies have executed NDAs for the depopulation programs. Six of those companies have removed policies from TWIA through the depopulation programs.

*Certificates of Compliance (WPI-8 or WPI-8-C) are not a statutory requirement for insurers participating in the depopulation program, so unlike TWIA, these insurance companies may not require certification. However, TWIA recommends to policyholders and their agents that policyholders continue to have qualifying repairs certified to avoid potential eligibility issues if the policyholder needs to return to TWIA in the future.

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

The depopulation programs are administered in accordance with Subchapter O, Chapter 2210, Texas Insurance Code, and the related administrative rules under Texas Administrative Code 5.4301 et al.

There is information on TWIA's website regarding the depopulation programs, including process summaries, timelines, and FAQs. Some key resources available through the main depopulation page, <https://www.twia.org/depopulation/>, include:

- Descriptions of both the [Voluntary Market](#) and [Assumption Reinsurance](#) programs
- The [process](#) for companies participating in the Assumption Reinsurance Program
- A [timeline](#) for policies being depopulated through the Assumption Reinsurance Depopulation Program

- An [agent](#) resources page
- A [policyholder](#) resources page
- A [participating companies](#) page
- FAQs ([General](#), [Agent](#), and [Policyholder](#))

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

The depopulation programs are funded through the Association's standard operating budget. All departments and functions of TWIA are funded by the TWIA premiums paid by TWIA policyholders and investment income.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

The depopulation programs are unique to TWIA in Texas. They exist in order to offer the insurance coverage services of the private market to TWIA's policyholders.

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

By administering the depopulation programs, the Association is working to ensure it is not offering coverage to policyholders who may be offered comparable or better coverage by the private market.

J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.

TWIA works in accordance with rules promulgated by the Texas Department of Insurance for this process. See Texas Administrative Code 5.4301 et al.

K. If contracted expenditures are made through this program please provide:

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in fiscal year 2016;
- the number of contracts accounting for those expenditures;
- the method used to procure contracts
- top five contracts by dollar amount, including contractor and purpose;

- **the methods used to ensure accountability for funding and performance; and**
- **a short description of any current contracting problems.**

The only contracted expenditure through the depopulation programs was for the web development services of Austin Web Design (AWD). The Association had previously utilized AWD's services for other development work with positive results and contracted with AWD in 2016 to develop the web portal for use in the Assumption Reinsurance program. The Association set requirements for the portal's design, determined deadlines for the development timeline, and tested the site for functionality and conformance to specifications. The Association expended \$16,395 for AWD's services in 2016. The Association has contracted with AWD again in 2017 for updates to the portal based on feedback from the Assumption Reinsurance program's first year, and there are currently no contracting problems.

L. Provide information on any grants awarded by the program.

There are no grants awarded by the program.

M. Are there any barriers or challenges that impede the program's performance, including any outdated or ineffective state laws? Explain.

Due to the depopulation programs' complexity it is challenging to administer, educate stakeholders, and coordinate with the various participants; however, we believe the programs are operating as intended.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

Between the years of 2005 and 2012, TWIA's loss exposures increased by approximately 319% and the policy in force count grew by approximately 243%. TWIA's ability to cover claim-related costs at its current exposure and funding levels, along with its long-term financial viability, has historically been a topic of concern. This is in part due to the litigation expenses from Hurricane Ike. As a result of these concerns, several stakeholders broached the topic of different depopulation methods, including but not limited to a policy clearinghouse. Such stakeholders included bill sponsors in both the Texas House of Representatives and the Senate, and the Texas Department of Insurance.

TWIA conducted a feasibility study for developing a policy clearinghouse after it was discussed at the TWIA Board Meeting in August 2013. The study evaluated several different alternatives for implementing a clearinghouse or portal that would assist in depopulation of TWIA's book of business, including the Voluntary Program and programs similar to the Assumption Reinsurance program.

The full text of the study, published in December 2013, is accessible on the TWIA website via [this link](#).

- O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:**
- **why the regulation is needed;**
 - **the scope of, and procedures for, inspections or audits of regulated entities;**
 - **follow-up activities conducted when non-compliance is identified;**
 - **sanctions available to the agency to ensure compliance; and**
 - **procedures for handling consumer/public complaints against regulated entities.**

There are no regulatory programs relating to the licensing, registration, certification, or permitting of a person, business, or other entity administered by the Association through the depopulation function.

- P. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency's practices. Please include a brief description of the methodology supporting each measure.**

This item is not applicable.

VII.5 CERTIFICATES OF COMPLIANCE ON COMPLETED IMPROVEMENTS

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Certificates of Compliance on Completed Improvements

Location/Division: TWIA Underwriting and Operations

Contact Name: Denise Larzalere, VP Underwriting

Actual Expenditures, FY 2016: See Exhibit O for the Underwriting Department. Expenditures for this program is not separately allocated from the Underwriting Department.

Number of Actual FTEs as of December 31, 2016: See Exhibit O for the Underwriting Department. FTEs are not separately allocated for this program.

Statutory Citation for Program: Texas Insurance Code 2210.2515

B. What is the objective of this program or function? Describe the major activities performed under this program.

The objective is to provide Certificates of Compliance for completed construction, which certify that the structure meets the applicable windstorm building code requirements.

Major activities include:

- Accepting applications (WPI-3) for Certificates of Compliance (WPI-8-C) on Completed Improvements
- Verifying information on the application including signature from a professional engineer licensed by the Texas Board of Professional Engineers
- Issuing Certificates of Compliance
- Rejecting Certificates of Compliance if all required information is not provided
- Sending Certificates of Compliance to requestors via email
- Quarterly "Confirmation of Authenticity of Application," where engineers can inform us of unauthorized applications
- Providing additional copies of certificates upon request

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.

Also please provide a short description of the methodology behind each statistic or performance measure.

TWIA is meeting the goal of the program, which is to provide Certificates of Compliance.

- As of 6/15/17⁴:
 - Received 1,007 applications
 - Issued 861 Certificates of Compliance
 - Rejected 146 due to incomplete applications
- Average turnaround time between receipt and issuance/rejection: 2.7 days
- It takes approximately 10 minutes per application to issue, which equates to approximately one-third of a FTE to support the issuing process

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

This program was implemented on January 1, 2017. The current solution is manual. TWIA is currently evaluating a more automated solution to increase efficiencies and provide a public searchable database for Certificates of Compliance issued by TWIA.

This program is a companion program to the one administered by the Texas Department of Insurance (TDI). TDI administers the Windstorm Inspection Program and issues Certificates of Compliance (WPI-8) for ongoing improvements.

E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

- Applicants. Property owners may apply for Certificates of Compliance at any time. The statute and rules implemented effective January 1, 2017 do not limit the applicant to current or future TWIA policyholders.
- Texas Licensed Professional Engineers. Applications must be affirmed by a licensed professional engineer licensed by the Texas Board of Professional Engineers. Engineers must accurately comprehend and utilize the two different paths for obtaining certifications for structures (via TDI for ongoing improvements and TWIA for completed improvements).

⁴ Statistics were taken from the Association's records of applications, including total received, issued, and rejected; the average turnaround time was calculated based on the records' date of receipt of application to date of issuance or rejection; and time to issue applications was determined by those administering the program.

- Insurance Agents. Agents assist policyholders and other Coastal property owners in determining whether certification for structures is necessary, and whether to obtain the certificates from TDI or TWIA.

A statistical breakdown of the above stakeholders relating to this program is not available.

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

The program is managed by the Underwriting Department and administered by the Operations Department.

**Texas Windstorm Insurance Association
Table 15: Certificates of Compliance High-Level Workflow**

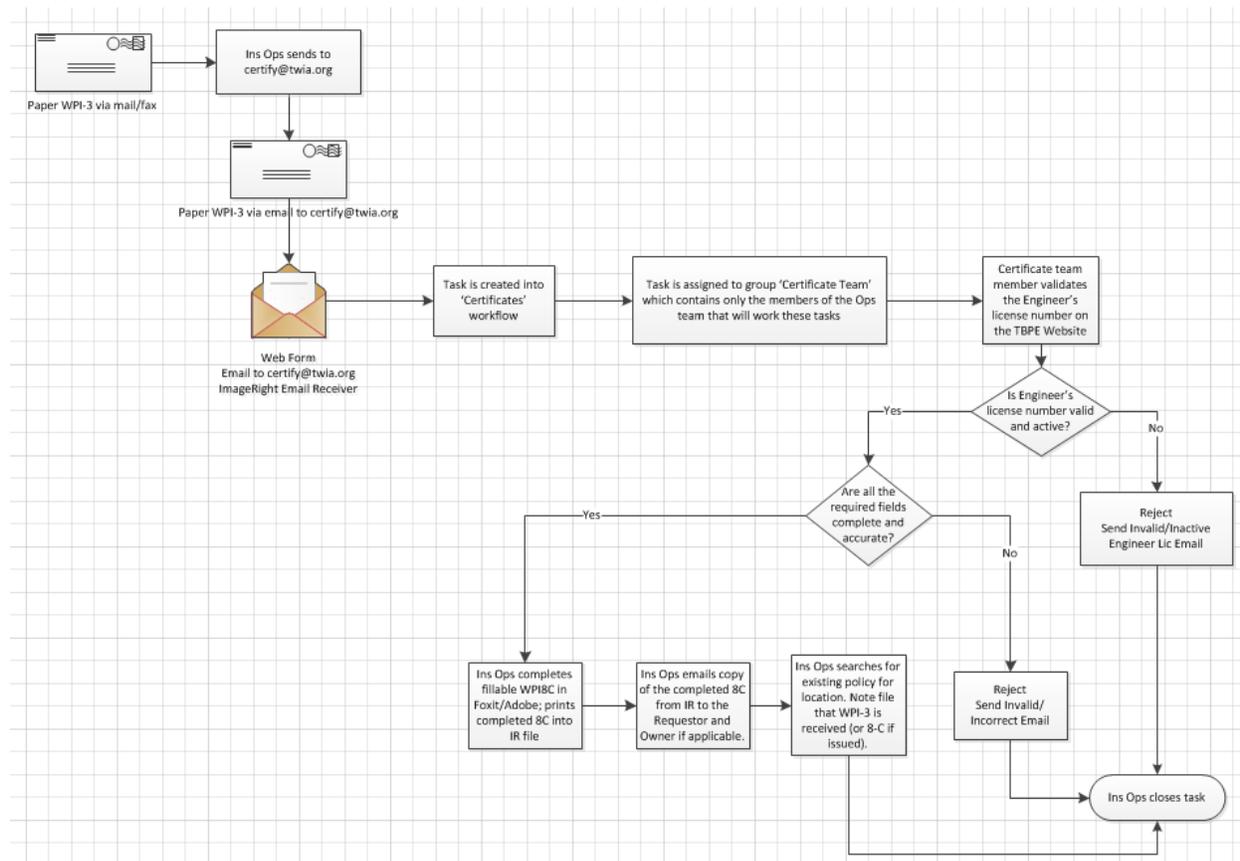


Table 15 Certificates of Compliance High-Level Workflow

**Texas Windstorm Insurance Association
Table 16: Certificates of Compliance Application Checklist**

Checklist for Reviewing WPI3 Applications

Required Fields on WPI3	✓
Title Transfer (Must answer Yes or N/A)	
Substantially Completed (Only Required if Title Transfer is N/A. Must answer Yes)	
Date of Application (cannot be a future date and Ops can use the date received)	
Owner's Name or Entity (Either individual's first and last OR entity name*)	
Owner's Contact Information (Address (mailing or email) or phone number)	
Plan or Drawing Number AND Date(s) of Inspection is either a date or N/A OR Title(s), Date(s), Number(s) of Report and Date(s) of Inspection (cannot be a future date)	
Engineer's Name	
Engineer's Contact Information (Address (mailing or email) or phone number)	
Engineer's Signature (Paper applications only)	
Engineer's License #	
Builder's Name or Entity (Either individual's first and last OR entity name*)	
Builder's Contact Information (Address (mailing or email) or phone number)	
Location of Improvement to Be Certified (Street, Street #, City, County, and Zip)	
Type of Building (Structure's name/ #/ # units if applicable)	
Wind Zone Location	
Importance Factor	
COBRA Zone	
Date Construction Started (cannot be a future date)	
Improvement to Be Certified (If Entire Building selected, it should be the only selection and no additional comments required. Either Entire Re-Roof OR Partial Re-Roof can be selected. Re-decking is optional for both roof options and no additional comments required. Retrofit does not require additional information. Otherwise, can select any options available.)	
Requestor Name (Paper applications only)	
Building Code Standard and Appl. Wind Load Standard	
Wind Speed Conditions	
Exposure Category	
Protection of Exterior Openings	

*Owner's Name and Builder's Name cannot match unless they answered N/A to Title Transfer Question and Yes to the second question under N/A.

Ensure all required fields (*) have information that appears to be valid. Invalid examples: all zeros for phone number, fake names, fake addresses, etc.

Table 16 Certificates of Compliance Application Checklist

- G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

The Certificates of Compliance program is funded through the Association's standard operating budget. All departments and functions of TWIA are funded by the TWIA premiums paid by TWIA policyholders and investment income.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

While TWIA provides services for completed construction, TDI provides similar services for ongoing construction. Definitions of the two are outlined below. Details of the TDI program are outlined on their [website](#).

Ongoing Improvements

The Texas Department of Insurance (TDI) administers the [Windstorm Inspection Program](#) and issues Certificates of Compliance (WPI-8) for **ongoing improvements**.

Ongoing improvements include:

- New structures, and
- The following changes to Existing Structures:
 - Alterations
 - Remodeling
 - Enlargement
 - Repairs (including Reroofing)
 - Additions

To obtain a WPI-8, an ongoing improvement must be inspected to certify that it is fully compliant with the windstorm building code. Property owners should follow the steps below to obtain a WPI-8:

- [Notify TDI](#) to begin the WPI-8 process before beginning ongoing improvements.
- Inspections of ongoing improvements may be performed by a TDI appointed qualified inspector; visit the TDI website for a list of [TDI appointed qualified inspectors](#).

Some types of repairs may be minor or involve only a small portion of the structure and do not require a WPI-8. TDI provides a [list of items](#) that do not require an inspection on their website.

Completed Improvements

A **completed improvement** is defined as:

- An improvement in which the original transfer of title from the builder to the initial owner of the improvement has occurred; or
- If a transfer under Paragraph (A) is not contemplated, an improvement that is substantially completed.

Substantially completed is defined as:

- An improvement for which the final framing stage, including attachment of component and cladding items and installation of windborne debris protection, has been completed. If the improvement's windborne debris protection consists of wood structural panels, all the panels must be present at the improvement's location but need not be installed.

Obtaining a WPI-8-C for Completed Improvements

A person lacking a WPI-8 for a completed improvement may apply to TWIA for a WPI-8-C. This can be done if:

A professional engineer licensed by the Texas Board of Professional Engineers:

- has designed the improvement, has affixed the engineer's seal on the design, and submits to the Association on a form prescribed by the Texas Department of Insurance an affirmation of compliance with the applicable building code under the plan of operation; or
- completes a sealed post-construction evaluation report that confirms compliance with the applicable building code under the plan of operation.

The required information may be provided to TWIA using our [online application form](#) or by submitting a completed [paper application form](#) to Certify@TWIA.org. Only a Texas-licensed engineer may submit the online application form.

Engineers

Any Texas Licensed Engineer can work with TWIA's program. Details about locating a professional engineer are posted on TWIA.org. TWIA does not maintain a list of Texas-licensed engineers who may certify completed improvements. One possible resource is TDI's Windstorm System [website](#), which contains a list of TDI Appointed Qualified Inspectors. Another resource is the Texas Board of Professional Engineers, which provides a [website](#) to search for a Texas-licensed engineer that may certify completed improvements.

TWIA does not employ or contract with Texas-licensed engineers for the purpose of certifying compliance with the windstorm building code related to completed improvements. If individuals have an issue with or concern about an engineer related to a Certificate of Compliance (WPI-8-

C) on a completed improvement, they may contact the Texas Board of Professional Engineers for assistance or to [file a complaint](#).

- I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

TWIA works closely with the Inspections Division at TDI regarding the administration of the programs. We also have joined with TDI Inspections Staff to provide information about the programs at community outreach events.

- J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

The Association works closely with the TDI to ensure the program is administered in accordance with the rules adopted by TDI.

- K. If contracted expenditures are made through this program please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in fiscal year 2016;
- the number of contracts accounting for those expenditures;
- the method used to procure contracts
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

There are no contracted expenditures made through this program.

- L. Provide information on any grants awarded by the program.**

There are no grants awarded by the program.

- M. Are there any barriers or challenges that impede the program's performance, including any outdated or ineffective state laws? Explain.**

Barriers and challenges include:

- The statute authorizing TWIA to issue Certificates of Compliance does not require the same engineer qualifications and accountabilities as the TDI has for their Inspection Program.
- The Association does not have the authority to rescind an improperly issued certificate or to prohibit an engineer from applying for a Certificate of Compliance even if the engineer's appointment to act as a qualified inspector for TDI has been revoked or denied.

- TWIA does not have the expertise or authority to provide oversight of engineers. TWIA does not have the expertise to assess or clarify building construction codes and requirements.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

In order to be eligible for coverage through TWIA, Texas Insurance Code Chapter 2210 requires that any building constructed, altered, remodeled, enlarged, repaired, or added to on or after January 1, 1988 must have a Certificate of Compliance (WPI-8 or WPI-8-C) to certify that the structure meets the windstorm building code requirements. Without a Certificate of Compliance, TWIA lacks evidence that the structure conforms to the applicable building code, and the structure may be considered uninsurable and ineligible for coverage with TWIA.

Limited exceptions that apply to this requirement are as follows:

- Properties with construction from 1988 to June 19, 2009 that are not certified may still be eligible. Policies insuring such structures are subject to a 15% surcharge

Senate Bill 1702, enacted by the 83rd Texas Legislature provided that from September 1, 2013 through December 31, 2015, applicants who were non-renewed or cancelled by their private market insurer on or after June 19, 2009, and whose structure was missing a required WPI-8 for construction, alteration, remodeling, enlargement, repair or an addition after that date, may be eligible for Association coverage with a premium based on 110% of the voluntary market rate. This exception expired December 31, 2017.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:

- why the regulation is needed;
- the scope of, and procedures for, inspections or audits of regulated entities;
- follow-up activities conducted when non-compliance is identified;
- sanctions available to the agency to ensure compliance; and
- procedures for handling consumer/public complaints against regulated entities.

Apart from the issuance of the Certificates of Compliance themselves as described above, there are no additional regulatory programs relating to the licensing, registration, certification, or permitting of a person, business, or other entity administered by the Association through the Certificates of Compliance function.

P. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency's practices. Please include a brief description of the methodology supporting each measure.

This item is not applicable to the Association.

VIII. Statutory Authority and Recent Legislation

- A. Fill in the following charts, listing citations for all state and federal statutes that grant authority to or otherwise significantly impact your agency. Provide information on Attorney General opinions from FY 2011–2015, or earlier significant Attorney General opinions, that affect your agency's operations.

**Texas Windstorm Insurance Association
Table 17: Statutes / Attorney General Opinions**

Statutes

Citation / Title	Authority / Impact on Agency
Texas Insurance Code Chapter (TIC) 2210	TWIA's enabling statute
Texas Insurance Code Chapters 541 & 542; Business & Commerce Code Chapter 17	TWIA operates as an insurance company in the private market; therefore, general insurance and business regulations apply with exceptions as outlined in TIC 2210 and identified in particular statutes. For example, TIC Chapter 2210 supplants certain statutes applicable to private insurers regarding claims dispute resolution. This includes these chapters for claims litigated after the enactment of House Bill 3, 82nd Legislative Session. However, there are a relatively small number of claims which pre-date this change and are being litigated under the statutes cited herein.
Texas Government Code Chapters 551 (Open Meetings Act) & 552 (Public Information Act)	As an insurance company, TWIA is uniquely and explicitly made subject to the Open Meetings and Public Information Acts pursuant to TIC 2210.108.

[Table 17 Statutes](#)

Attorney General Opinions

Attorney General Opinion No.	Impact on Agency
JH-0824 (issued 5/21/76)	Enabled TWIA to provide mobile home coverage. (Authorized State Board of Insurance (now TDI) to require TCPIA (now TWIA) members to provide mobile home coverage.)
JM-67 (issued 8/18/83)	Concluded that the TCPIA (now TWIA) Plan of Operation is a rule of the State Board of Insurance (now TDI) and that TCPIA (TWIA) has no rule making authority.
GA-1012 (issued 7/1/13)	Affirms that the State of Texas has no obligation to pay TWIA's unfunded losses
GA-1033 (issued 12/30/13)	Confirms that no provision of the Texas Insurance Code prohibits TWIA from using future premiums to pay prior losses.

[Table 17 Attorney General Opinions](#)

- B. Provide a summary of recent legislation regarding your agency by filling in the charts below or attaching information already available in an agency-developed format. Briefly summarize the key provisions. For bills that did not pass, briefly explain the key provisions and issues that resulted in failure of the bill to pass (e.g., opposition to a new fee, or high cost of implementation). Place an asterisk next to bills that could have a major impact on the agency.**

See attached *85th Legislature Update* and *85th Legislature Passed Bills* (Exhibits U and V).

IX. Major Issues

IX.1 CLAIM SETTLEMENT GUIDELINES

A. Brief Description of Issue

The Association is currently implementing claims settlement guidelines adopted by the Commissioner of Insurance on March 7, 2017. The rules require the Association to use the prescribed claims settlement guidelines to settle certain residential slab claims occurring on and after June 1, 2018.⁵

Development and implementation of the guidelines is pursuant to Section 2210.578, Insurance Code enacted by the 82nd Texas Legislature in 2011. The law required the Commissioner of Insurance to appoint a panel of experts (the Expert Panel) to recommend to the Commissioner methods or models for determining the extent to which a loss to insurable property may be or was incurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges.

TWIA must use the claims settlement guidelines adopted by the Commissioner to settle residential slab claims resulting from an organized weather system that:

1. has a defined surface circulation and maximum sustained winds of not less than 39 miles per hour;
2. the National Hurricane Center of the United States National Weather Service names as a tropical storm or a hurricane; and
3. that the association expects will result in more than 500 residential slab claims.

The Association will receive a benefit from using the claims settlement guidelines adopt by the Commissioner in the form of a “clear and convincing” evidence standard that will be applied to any challenge to the Association’s guideline-based settlement decisions. Subsection 2210.578(h) states:

- (h) In any review of a claim under this subchapter, and in any action brought against the association under Section [2210.575](#), the guidelines published by the commissioner under Subsection (f) govern the claim and are presumed to be accurate and correct, unless clear and convincing evidence supports a deviation from the guidelines.

The projected one-time cost to implement the claim settlement guidelines is approximately \$3.8 million. The projected cost to maintain the system and equipment is approximately \$1.6 to 1.9 million annually, with an additional estimated cost of \$645,000 per event.

B. Discussion

The requirement to have a panel of experts develop methods or models for determining the extent to which a loss was caused by wind or water stemmed from TWIA experience with slab claims and litigation resulting from Hurricane Ike in 2008.

⁵ A residential slab claim is defined as “[a] first-party claim on a residential structure of which nothing more remains than foundation elements such as pilings, floor framing members, or concrete slab, and there is insufficient evidence to enable the association to determine the extent to which the loss occurred as a result of wind, waves, tidal surges, or rising waters not caused by waves or surges.” (See 28 Texas Administrative Code 5.4030(6).)

A number of individual suits and one class action case were filed against TWIA challenging the methodology the Association used to adjust Hurricane Ike slab claims. TWIA settled the suits and class action for approximately \$180 million.

An issue facing the Association relates to the fact that implementation and maintenance of the claims settlement guidelines developed by the Expert Panel will be costly. The Expert Panel's methodology requires the Association to deploy and maintain fixed weather/surge monitoring devices and to rapidly deploy portable/temporary wind and surge devices before a storm.

The incremental benefits of using the guidelines are difficult to assess because of other changes enacted by the Texas Legislature in 2011 that affect the ability to bring an action against the Association and the damages recoverable by litigants. Those changes include prohibiting private causes of action against the Association under Chapter 541 (Unfair Methods of Competition and Unfair or Deceptive Acts or Practices) and 542 (Processing and Settlement of Claims) of the insurance Code and requiring that class actions against the Association must be brought by the attorney general. These factors and the Association's continuing efforts to minimize operating costs raise questions regarding whether the implementation of the claims settlement guidelines is the most cost effective course of action.

Another issue regarding the implementation and use of the claim settlement guidelines involves the implementation of the federal Consumer Option for an Alternative System to Allocate Losses (COASTAL) Act of 2012. 33 USC 3611 Under the COASTAL Act the Administrator of the Federal Emergency Management Agency (FEMA) is directed to "establish by rule, a standard formula to determine and allocate wind losses and flood losses for claims involving indeterminate loss."

Indeterminate loss is defined as a loss resulting from physical damage to or loss of property located in any coastal state arising from the combined perils of flood and wind associated with a named storm. The criteria governing the types of losses covered are similar to those contained in the claim settlement guidelines adopted by the Commissioner of Insurance.

The benefits of using the guidelines adopted by the Commissioner are that they are presumed to be accurate and correct, *unless clear and convincing evidence supports a deviation from the guidelines* (emphasis added). If the guidelines developed pursuant to the COASTAL Act yield a different result from the claims settlement guidelines adopted by the Commissioner and used by the Association, it is possible this would be considered clear and convincing evidence supporting a deviation from the guidelines. Additionally, if the total of the loss allocations of the two models yield an amount less than the total insured loss, this in itself could create new litigation either on behalf of the policyholder or between TWIA and the Federal agency.

C. Possible Solutions and Impact

One possible solution to reduce costs is to develop claim settlement guidelines that are less costly to implement and maintain. The guidelines might rely on data gathered from existing instrumentation currently used by other federal and state agencies.

Another possible solution to reduce the risk of conflict with FEMA's findings under the COASTAL Act is to coordinate implementation of the claim settlement guidelines adopted by the Commissioner with implementation of the methodology currently being developed administrator of FEMA pursuant to the COASTAL Act. This would ensure that the benefits from using the guidelines adopted by the Commissioner are fully realized.

IX.2 FUNDING

A. Brief Description of Issue

The Association's sources of revenue to pay catastrophic losses and the order in which those sources are to be used are prescribed in Chapter 2210, Insurance Code. The sources and order of use are as follows:

1. TWIA Premiums and other revenue
2. Amounts in the Catastrophe Reserve Trust Fund
(Projected at \$800 M combined for 2017)
3. Class 1 Public Securities (\$500 M maximum)
4. Class 1 Member Assessments (\$500 M maximum)
5. Class 2 Public Securities (\$250 M maximum)
6. Class 2 Member Assessments (\$250 M maximum)
7. Class 3 Public Securities (\$250 M maximum)
8. Class 3 Member Assessments (\$250 M maximum)

The principal and interest payments to repay the Public Securities are paid by TWIA premium and other revenue and if that is not sufficient, a surcharge assessed on all TWIA policyholders.

If specific conditions are met, the Commissioner shall order the repayment of Class 2 or 3 public securities by a premium surcharge that is assessed by each insurer on all policyholders of auto and property policies that cover insured property located in the catastrophe area.

Chapter 2210 also requires the Association to maintain total available loss funding in an amount not less than the probable maximum loss for the Association resulting from a catastrophe year with a one in 100 probability of occurring. The Association may purchase reinsurance or use alternative risk financing mechanisms or both to achieve the required level of funding. The attachment point for any reinsurance must be at or above the aggregate level of all funding listed in items 1-8 above.

For the 2017 - 2018 storm season the Association purchased \$2.1 billion in reinsurance coverage, for an estimated total funding of \$4.9 billion, which is sufficient to cover a 125-year storm season. For more information, see the attached *Historical Funding Comparison* and *Funding for 2017* Key Issue Summaries (Exhibits I and J).

B. Discussion

The funding methodology used to pay losses in the event of a catastrophe enables the Association to pay one big storm or multiple small storms that occur in one year and that in the aggregate do not exceed the 125-year event loss estimate amount. Two concerns with the funding methodology are:

1. The funding methodology does not adequately provide for a storm season that exceeds the available funding and
2. The funding methodology also does not adequately provide for the occurrence of catastrophic events in successive storm seasons.

An example of the first concern for the 2017 storm season is that if an event or series of events in 2017 results in losses in excess of \$4.9 billion, there is no statutory provision prescribing a source of revenue to pay the excess losses.

The second concern is that the existing funding methodology also does not adequately provide for the occurrence of catastrophic events in successive storm seasons. The funding methodology requires the Association to exhaust the CRTF at the lower level of the funding structure. This coupled with the requirement that the Association must provide for funding to a 1 in 100 year event each year, requires TWIA to purchase additional reinsurance coverage to meet the 1 in 100 year requirement. The Association has opted in 2017 to purchase a 2nd season cover to replace a portion of the CRTF exhausted in the first year.

Using the current 2017 storm season coverage as an example, a \$1.3 billion loss (Hurricane Ike was a \$2.6 billion loss) would exhaust the CRTF and the Class 1 public securities. Next year, in 2018, the Association would have \$800 million less to pay losses and existing premium revenue would be obligated to pay principal and interest on the previously issued Class 1 bonds. The requirement to have available funding to cover the one in 100 year storm season would require the Association to purchase more reinsurance. Because the Association would be purchasing a larger amount of reinsurance that attaches at a lower level because the CRTF has been exhausted, and with the market reeling from the expensive storms of the prior year, the price for reinsurance is likely to be significantly higher than normal and costly to the Association, further straining the available premium revenue and likely indicating need for a substantial rate increase.

C. Possible Solutions and Impact

The funding methodology to pay catastrophic losses could be strengthened to provide for foreseeable scenarios of:

1. A catastrophe year in which losses exceed the funding acquired by the Association and
2. The occurrence of a series of significant storms in successive storm seasons

Possible solutions include:

1. Providing the Association greater flexibility in the use and placement of reinsurance within the overall funding structure.
2. Providing the Association the ability to determine whether to purchase reinsurance as well as the amount of reinsurance to be purchased. The latter would require elimination of the requirement to maintain funding to cover the one in 100 year storm season.
3. Providing additional sources of revenue to cover losses in excess of the funding acquired by the Association in a particular storm season. Such additional sources might include State funds, additional member assessments or additional levels of public securities backed by a broader group of Texas policyholders or backed by the full faith and credit of the State.

IX.3 PROHIBITED RELATIONSHIPS

A. Brief Description of Issue

Texas Insurance Code Chapter 2210.013 prohibits the Association from hiring or contracting with relatives of employees and Board members. The Association raises this issue to consider reasonable alternative standards. This provision is more stringent than common provisions addressing this issue because it prohibits employing related individuals even if they are not in the same chain of command.

B. Discussion

This restriction was put into place following the events of Hurricane Ike and questions raised regarding hiring and work assignment practices. The Texas Legislature was concerned with ensuring that the Association had controls in place and were staffed to make independent, impartial, and fair decisions both in evaluating claims and in distributing work internally and to third party vendors. To this end, the Legislature also added 2210.012 to the Association's enabling statute, requiring the Association to adopt a code of conduct and outlining certain standards and unacceptable behaviors for employees and Board members.

C. Possible Solutions and Impact

A possible solution is to apply to the Association the same standards for relationships in the workplace as those generally accepted in both the private market and state agencies. By prohibiting certain relationships altogether, the Association is subject to unique disadvantages and limitations in recruiting the right resources.

IX.4 CERTIFICATES OF COMPLIANCE ON COMPLETED IMPROVEMENTS

A. Brief Description of Issue

Prior to January 1, 2017, the Texas Department of Insurance oversaw the inspection of properties and issuance of all certificates of compliance through the Windstorm Inspection Program; a 2015 law change created a separate path for certifying compliance on completed improvements through TWIA. The oversight authority of TDI's Windstorm Inspection Program was narrowed to ongoing improvements. For more information, see TWIA's website (TWIA.org/windstorm-certification-requirements) and Section VII.5 (Guide to Agency Programs: Certificates of Compliance on Completed Improvements) of this Report.

B. Discussion

The Texas Insurance Code Chapter 2210 states that TWIA may not insure a structure unless the structure complies with the applicable building code standards in effect on the date the construction, alteration, remodeling, enlargement or repair of or addition to the structure begins. A structure must have a Certificate of Compliance (WPI-8 or WPI-8-C) which certifies that the structure meets the windstorm building code requirements. Without a Certificate of Compliance, TWIA lacks evidence the structure conforms to the applicable building code, and the structure may be considered uninsurable and ineligible for coverage with TWIA, with limited exceptions.

TDI administers the Windstorm Inspection Program and issues Certificates of Compliance (WPI-8) for ongoing improvements. House Bill 2439, 85th Legislature, Regular Session, amended the windstorm certification process to provide two paths to obtain certificates of compliance. The law now authorizes and requires TWIA to issue Certificates of Compliance (WPI-8-C) for completed improvements on and after January 1, 2017.

There are several concerns associated with this new process, including:

- The statute authorizing TWIA to issue certificates of compliance does not specify that the Texas licensed professional engineer is accountable for the information provided to TWIA
- The Association does not have the authority to rescind an improperly issued certificate or to prohibit an engineer from applying for a certificate of compliance even if the engineer's appointment to act as a qualified inspector for TDI has been revoked or denied.
- TWIA does not have the expertise or authority to provide oversight of engineers. TWIA does not have the expertise to assess or clarify building construction codes and requirements
- The new TWIA process of processing applications for, and issuing, certificates of compliance is arguably independent of its purpose to provide an adequate wind and hail market in coastal territories—applicants for certificates are not limited to current or future policyholders.
- The process potentially undermines the enforcement of building codes due to an absence of authority to require independent evaluation.

C. Possible Solutions and Impact

Possible solutions include the following:

1. In order to clarify the scope of the new certification process, and in keeping with TWIA's legislative purpose as the residual market for wind and hail coverage in the designated catastrophe area, limiting eligibility for a certificate of compliance via the new process to those who are currently, or are seeking to become, TWIA policyholders. In other words, eligible applicants would be those who currently hold a TWIA policy or will apply for coverage within 90 days of applying for the certificate of compliance.
2. Amending the law regarding the process for completed improvements to require the Professional Engineer number of the engineer certifying the improvement and a summary of the applicant's education and experience related to windstorm design, similar to requirements for engineers engaging in the TDI process to obtain a certificate on an ongoing improvement. It would also be beneficial to specify that the professional licensed engineer applicant is accountable for the information submitted to the Association.
3. The Association does not currently have the authority to rescind a certificate of compliance that it issues; it is obligated to issue a certificate if all of the required information is submitted. Possible solutions include granting the Association the authority to rescind a certificate of compliance issued erroneously, or with incorrect or inaccurate information. The Legislature should also consider prohibiting an engineer from submitting an application for a WPI-8-C if the engineer's appointment to act as a Qualified Inspector has been suspended or revoked by the Commissioner of Insurance.

IX.5 POLICY TERMS & CONDITIONS

A. Brief Description of Issue

Texas Insurance Code Chapter 2210, TWIA's enabling statute, contains specific constraints on the terms and conditions of the wind and hail insurance policies issued by the Association.

B. Discussion

The Association was formed as the residual market for wind and hail coverage. TWIA's enabling statute therefore specifies that coverage offered by the Association is limited to wind and hail. Beyond that, the statute spells out additional, more detailed aspects of the policy's terms and conditions.

The Texas Department of Insurance headed by the Commissioner of Insurance is given regulatory oversight over TWIA. TWIA is required to file its rates, and file its policy forms for approval, with TDI. It is therefore arguably redundant and unnecessarily inflexible for specific terms and conditions of the policy contract to be spelled out in statute. While the standards and conditions in the insurance market change, and this naturally leads insurance companies to file revised policy forms with updated terms with TDI, the existence of policy terms in the Association's statute necessitate legislative action in order for the Association to respond to policyholders' evolving coverage needs and market conditions.

As an example, Section 2210.207 dictates that certain calculations regarding the value of the covered structure and the amount of insurance are determined at the time of a claim.

Insured residences are required to be insured to 80% of the structure's value at the time of loss to be eligible for replacement cost coverage. The ratio of the amount of insurance to the value of the structure is commonly referred to as Insurance to Value or ITV. Currently, the ITV valuation is calculated twice. The first time is at the inception of the policy period. That ITV result is used to help the agent and policy holder determine the amount of coverage that they want to purchase. The second time the ITV calculation is made is when a loss occurs and the ITV calculation is used to calculate the replacement cost of the property after the loss. This can result in a problem for an insured when the ITV calculated at the time of loss is less than the ITV calculated at policy inception. Moving the valuation used to calculate the replacement cost related to the loss from the time of loss to the time of policy inception would serve to eliminate surprises to the policyholder at point of claim when it is determined that the insured is not eligible for full replacement cost or that co-insurance penalties apply when the structure is insured to less than 80% of its value.

Moving the ITV process to only take place at policy inception would make the claim handling process more efficient and reduces uncertainty for the policyholder and their agent. It would also reduce the amount of time field adjusters need to spend on each claim because the adjuster would not need to calculate the ITV. Such a change would also potentially address policyholder concerns about the inability to provide replacement cost coverage. Increasing our capacity to handle claims more quickly is especially important during large claim generating storm events.

Further, if the requirements regarding replacement cost coverage were removed from Chapter 2210, the Association could file and TDI could approve others mechanisms for providing replacement cost coverage to policyholders.

C. Possible Solutions and Impact

By removing specific policy terms and conditions from statute, the Association may update its policy contract to address a shifting insurance marketplace and evolving consumer needs while still being subject to the regulatory oversight and approval of TDI.

X. Other Contacts

- A. Fill in the following charts with updated information on people with an interest in your agency, and be sure to include the most recent email address.

**Texas Windstorm Insurance Association
Table 18: Contacts**

Interest Groups

(groups affected by agency actions or that represent others served by or affected by agency actions)

Group or Association Name / Contact Person	Address	Telephone	Email Address
Texans for Lawsuit Reform (TLR)	919 Congress Ave #455 Austin, Texas 78701	(512) 478-0200	
Texas Watch / Ware Wendell	2121 E. 6 th St., Suite 201 Austin, Texas 78702	(512) 381-1111	

Table 18 Interest Groups

Interagency, State, or National Associations

(that serve as an information clearinghouse or regularly interact with your agency)

Group or Association Name / Contact Person	Address	Telephone	Email Address
American Insurance Association / Fred Bosse	555 12th St, NW, Suite 550 Washington DC 20004	(512) 233-7454	fbosse@aiadc.org
Association of Fire & Casualty Companies of Texas / Jay Thompson	701 Brazos, Suite 1500 Austin, Texas 78701	(512) 703-5060	jthompson@thompsonco.com
Independent Insurance Agents of Texas (IIAT) / H. Lee Loftis	1115 San Jacinto Suite 100 Austin, Texas 78701	(800) 880-7428 Direct: (512) 493-2418	lloft@iiat.org
Insurance Council of Texas (ICT) / Albert Betts, Executive Director	2801 S IH 35 Frontage Rd, Austin, Texas 78741	(512) 444-9611 Direct: (512) 326-7600	abetts@insurancecouncil.org
Office of Public Insurance Counsel (OPIC) David Nardecchia	333 Guadalupe, Suite 3-120 Austin, Texas 78701	(877) 611-6742 Direct: (512) 322-4138	dnardecchia@opic.texas.gov

Group or Association Name / Contact Person	Address	Telephone	Email Address
Property Insurance Plans Service Office (PIPSO) Ron Cassesso	27 School Street, Suite 302 · Boston, MA 02108	(617) 371-4175 ext. 24	rcassesso@pipso.com
Property & Casualty Insurers of America / Joe Woods	1504 San Antonio Street Austin, Texas 78701	(512) 358-1345	Joe.woods@pciaa.net
Texas Coalition for Affordable Insurance Solutions / Beaman Floyd	500 West 13th Street Austin, Texas 78701	(512) 731-9939	beamanfloyd@earthlink.net
Texas Public Finance Authority / Lee Deviney	Texas Public Finance Authority 300 W. 15th, Suite 411 Austin, TX 78701	(512) 463-5544	lee.deviney@tpfa.texas.gov

Table 18 Interagency, State, and National Association

Liaisons at Other State Agencies

(with which your agency maintains an ongoing relationship, e.g., the agency’s assigned analyst at the Legislative Budget Board, or attorney at the Attorney General’s office)

Agency Name / Relationship / Contact Person	Address	Telephone	Email Address
Texas Department of Insurance / Regulator / E. Stuart Phillips, Attorney, Office of Financial Counsel	333 Guadalupe Austin, Texas 78701	(512) 676-6563	Stuart.Phillips@TDI.Texas.gov

Table 18 Liaisons at Other State Agencies

XI. Additional Information

- A. Texas Government Code, Sec. 325.0075 requires agencies under review to submit a report about their reporting requirements to Sunset with the same due date as the SER. Include a list of each agency-specific report that the agency is required by statute to prepare and an evaluation of the need for each report based on whether factors or conditions have changed since the statutory requirement was put in place. Please do not include general reporting requirements applicable to all agencies, reports that have an expiration date, routine notifications or notices, posting requirements, federally mandated reports, or reports required by G.A.A. rider. If the list is longer than one page, please include it as an attachment.**

The Association is not subject to Government Code, Sec. 325.0075. See attached Exhibit W.

- B. Has the agency implemented statutory requirements to ensure the use of "first person respectful language"? Please explain and include any statutory provisions that prohibits these changes.**

This item is not applicable to the Association.

- C. Fill in the following chart detailing information on complaints regarding your agency. Do not include complaints received against people or entities you regulate. The chart headings may be changed if needed to better reflect your agency's practices.**

**Texas Windstorm Insurance Association
Table 19: Complaints Against the Association — 2015, 2016, and 2017 YTD**

	2015	2016	2017 YTD (8/31/17)
Number of complaints received	64	47	25
Number of complaints resolved/closed	64	47	25
Number of complaints confirmed per TDI	5	4	4
Average time to close complaint (days)	10	14	12

Table 29 Complaints Against the Agency

- D. Fill in the following charts detailing your agency's Historically Underutilized Business (HUB) purchases.**

This item is not applicable to the Association.

- E. Does your agency have a HUB policy? How does your agency address performance shortfalls related to the policy? (Texas Government Code, Sec. 2161.003; TAC Title 34, Part 1, rule 20.286c)**

This item is not applicable to the Association.

- F. For agencies with contracts valued at \$100,000 or more: Does your agency follow a HUB subcontracting plan to solicit bids, proposals, offers, or other applicable expressions of interest for subcontracting opportunities available for contracts of \$100,000 or more? (Texas Government Code, Sec. 2161.252; TAC Title 34, Part 1, rule 20.285)**

This item is not applicable to the Association.

- G. For agencies with biennial appropriations exceeding \$10 million, answer the following HUB questions.**

- 1. Do you have a HUB coordinator? If yes, provide name and contact information. (Texas Government Code, Sec. 2161.062; TAC Title 34, Part 1, rule 20.296)**

This item is not applicable to the Association.

- 2. Has your agency designed a program of HUB forums in which businesses are invited to deliver presentations that demonstrate their capability to do business with your agency? (Texas Government Code, Sec. 2161.066; TAC Title 34, Part 1, rule 20.297)**

This item is not applicable to the Association.

- 3. Has your agency developed a mentor-protégé program to foster long-term relationships between prime contractors and HUBs and to increase the ability of HUBs to contract with the state or to receive subcontracts under a state contract? (Texas Government Code, Sec. 2161.065; TAC Title 34, Part 1, rule 20.298)**

This item is not applicable to the Association.

- H. Fill in the charts below detailing your agency’s Equal Employment Opportunity (EEO) statistics.**

Please note that the following statistics are provided based on total FTEs employed for both the Texas Windstorm Insurance Association and Texas FAIR Plan Association combined and are not available on an allocated basis for TWIA alone.

**Texas Windstorm Insurance Association
Table 20: Equal Employment Opportunity Statistics**

1. Officials / Administration

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2015	36	8.33%	7.4%	8.33%	22.1%	25.00%	37.4%
2016	40	7.50%	7.4%	7.50%	22.1%	32.50%	37.4%
2017	40	10.00%	7.4%	5.00%	22.1%	42.50%	37.4%

2. Professional

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2015	127	4.72%	10.4%	22.05%	19.3%	43.31%	55.3%
2016	132	5.30%	10.4%	19.70%	19.3%	56.06%	55.3%
2017	130	4.62%	10.4%	16.15%	19.3%	54.62%	55.3%

3. Technical

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2015	0	0%	14.4%	0%	27.2%	0%	55.3%
2016	0	0%	14.4%	0%	27.2%	0%	55.3%
2017	0	0%	14.4%	0%	27.2%	0%	55.3%

4. Administrative Support

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2015	39	5.13%	14.8%	41.03%	34.8%	46.15%	72.1%
2016	40	12.50%	14.8%	47.50%	34.8%	85.00%	72.1%
2017	43	11.63	14.8%	51.16%	34.8%	88.37%	72.1%

5. Service / Maintenance

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2015	0	0%	13.0%	0%	54.1%	0%	51.0%
2016	0	0%	13.0%	0%	54.1%	0%	51.0%
2017	0	0%	13.0%	0%	54.1%	0%	51.0%

6. Skilled Craft

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2015	0	0%	10.6%	0%	50.7%	0%	11.6%
2016	0	0%	10.6%	0%	50.7%	0%	11.6%
2017	0	0%	10.6%	0%	50.7%	0%	11.6%

I. Does your agency have an equal employment opportunity policy? How does your agency address performance shortfalls related to the policy?

Yes. The TWIA and TFPA Equal Employment Opportunity policy does not address hiring goals for EEO categories. All employment decisions, including, without limitation, decisions regarding recruitment, selection, hiring, compensation, benefits, training, advancement, discipline, discharge, layoff and other terms, conditions and privileges of employment, are based on individual qualifications, without regard to race, color, religion, national origin, gender (including pregnancy), age, disability or any other status protected by law. TWIA and TFPA want to promote a culture that allows employees to enjoy a work environment free from unlawful discrimination and harassment.

XII. Agency Comments

The Association believes the Self Evaluation Report and accompanying attachments are sufficient to gain a preliminary understanding of the organization and is happy to provide any additional information.