MEMORANDUM

DATE: July 19, 2024

TO: David Durden
General Manager

FROM: James C. Murphy, FCAS, MAAA
Chief Actuary, Vice President – Enterprise Analytics

RE: 2024 Rate Adequacy Analysis – Change in Reinsurance Provision

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At its July 15, 2024 meeting, the TWIA Actuarial & Underwriting Committee discussed the 2024 rate adequacy analysis prepared by TWIA actuarial staff. I would like to highlight one change in the analysis this year – a revision to the methodology used to calculate the reinsurance provision included in the projected expenses for the prospective rating period.

As discussed on slides 13 and 14 in the presentation made to the Committee (which is also publicly available on the TWIA website and included in the meeting materials for the August 6 Board meeting), the provision was changed because the prior methodology was heavily reliant on assumptions for future growth and did not fully take into account the potential increases in reinsurance premium both during the contract period and from one year to the next. The revised methodology removes the need for growth assumptions and provides a simpler estimate of the net cost of reinsurance.

As shown on slides 11 and 12, the change in methodology contributed 8.7% to the overall residential rate indication and 5.7% to the overall commercial rate indication. Removing this change would result in a residential indication of 29% and a commercial indication of 39%.

JM