

**Meeting of the Board of Directors  
Texas Windstorm Insurance Association  
Teleconference/Web Conference**

Tremont House  
2300 Ships Mechanic Row  
Galveston, TX 77550  
August 6, 2024  
9:00 a.m.



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

Interested parties can attend the meeting in person or  
listen to the meeting live by going to [www.twia.org](http://www.twia.org).  
Go to “About Us/Board Meetings” and click on the webinar link.

Interested parties may offer public comment in person at the  
Tremont House or virtually via Zoom Webinar.

**\*Indicates item on which General Manager believes the TWIA Board of Directors is likely to take action.  
However, the board may take action on any item that appears on this agenda.**

- |   |            |
|---|------------|
| 1. Call to Order  | 5 minutes  |
| A. Welcoming Remarks – <i>Chandra Franklin Womack</i>   |            |
| B. Anti-Trust Statement and Conflict of Interest Disclosure – <i>Counsel</i>  |            |
| C. Meeting Format Information – <i>Kristina Donley</i>  |            |
|   |            |
| 2. Approve the Minutes from Prior Board of Directors Meeting(s)<br>– <i>Chandra Franklin Womack</i> – <b>Action/Vote Likely*</b>              | 5 minutes  |
|   |            |
| 3. Public Comment   | 60 minutes |
|   |            |
| 4. Annual TWIA Rate Filing  | 40 minutes |
| A. Review of TWIA Staff Rate Adequacy Analysis and<br>Actuarial & Underwriting Committee Recommendations<br>– <i>David Durden/Debbie King</i> |            |
| B. Required 2024 Annual Rate Filing – <b>Action/Vote Likely*</b>  |            |
|   |            |
| 5. TWIA Operational Dashboard – <i>David Durden</i>   | 10 minutes |
|   |            |
| 6. Financial  | 20 minutes |
| A. Report of the Secretary/Treasurer – <i>Karen Guard</i> – <b>Action/Vote Likely*</b>  |            |
| 1. Income Statement   |            |
| 2. Management Discussion and Analysis   |            |
| B. Financial Statement Review – <i>Stuart Harbour</i>   |            |
| C. Investment of Trust Fund Balances (Sec. 2210.4521) – <i>Stuart Harbour</i> – <b>Action/Vote Likely*</b>                                    |            |
| D. Selection of Auditors/Accountants for 2024 and Authorization<br>of Non-Audit Services – <i>Stuart Harbour</i> – <b>Action/Vote Likely*</b> |            |
|   |            |
| 7. Actuarial – <i>Jim Murphy</i>  | 20 minutes |
| A. Policy Counts/Exposures  |            |
| B. Reserve Adequacy   |            |
| C. Aon Contract – <b>Action/Vote Likely*</b>  |            |
| D. Statutory Maximum Limits of Liability – <b>Action/Vote Likely*</b>   |            |

8. Internal Audit Status & Update – *Dan Graves – Weaver* *5 minutes*
9. Underwriting Operational Review Update – *Michael Ledwik* *10 minutes*
10. Claims and Litigation *20 minutes*
  - A. Claims Operations – *Dave Williams*
  - B. Claims Litigation – *Jessica Crass*
11. TWIA Operations *20 minutes*
  - A. IT Systems Update – *Camron Malik*
  - B. ITS Recommendations Update – *Camron Malik*
  - C. Receive and Act on Recommendations from Legislative and External Affairs Committee Regarding Recommendations to Legislature and Biennial Report to Legislature – *Mike Gerik– Action/Vote Likely\**
  - D. Communications and Legislative Affairs Update – *David Durden*
12. Closed Session (**Board Only**) *10 minutes*
  - A. Personnel Issues
  - B. Legal Advice
13. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors *5 minutes*  
– **Action/Vote Likely\***
14. Committees – *Chandra Franklin Womack* *5 minutes*
15. Future Meetings – *David Durden* *5 minutes*
  - December 10, 2024 – Omni Hotel – Corpus Christi, TX
  - February 25, 2025 – Moody Gardens Hotel – Galveston, TX
16. Adjourn

# 1. Anti-Trust Statement



## **ANTI-TRUST COMPLIANCE STATEMENT**

The Board of Directors of TWIA is committed to strict compliance with federal and state anti-trust laws. The anti-trust laws are designed to promote free and open competition and to penalize any activities that unreasonably lessen business rivalry. Members of the Board of Directors of TWIA may freely discuss and agree upon agenda items relating to their responsibilities as Directors including such topics as coordinating efforts regarding state or federal legislation, discussion of TWIA policy on legislative issues and methods of legislative lobbying including grass-roots lobbying, public relations, testimony before legislative committees and meetings with state and federal legislators and regulators.

Because TWIA meetings bring together competitors, any unauthorized discussion of topics prohibited by the anti-trust laws such as agreements between competitors on prices and rates, agreements to boycott third parties or agreements to divide markets or even individual insureds could lead to an inference that such an illegal agreement among participants to the discussion was in fact reached. Accordingly, the following guidelines apply to any meeting or other activity conducted under the auspices of TWIA:

- Someone on the TWIA staff shall be present at all times during meetings of the TWIA Board of Directors or other official activities such as meetings of various TWIA committees unless such meetings are for the purpose of discussing personnel matters;
- At any such meetings or official activities, there shall be no discussion of voluntary market rates, prices, discounts or other terms and conditions of sale without the General Manager or the General Counsel being present;
- There shall be no discussion of the areas in which TWIA Board members and their respective member companies will compete for the products and services that they will offer; and
- There shall be no discussion of any agreement or understanding to boycott a third party or to deal with a third party only on certain terms.

### **Texas Windstorm Insurance Association**

## **TWIA Anti-Trust Compliance Statement**

Without the prior authorization of TWIA's General Manager or its General Counsel, there shall be no discussion of agreements to deal exclusively with certain parties, requirements that purchasers of particular products or services must purchase other products or services, standard-setting, certification, statistical reporting, or codes of ethics and other self-regulatory activities.

- Only TWIA staff shall keep minutes of TWIA meetings and will immediately terminate any discussion that may violate these guidelines.
- At TWIA meetings, TWIA company representatives should adhere to the written agenda and outside of TWIA meetings should scrupulously avoid discussion of any topic that might violate these guidelines.

Severe civil and criminal penalties, including fines and imprisonment, can result from violations of the anti-trust laws. Whenever in doubt about how to apply these guidelines, the directors, members, officers and guests of TWIA should consult its General Manager and General Counsel and proceed in a conservative manner in order to avoid any actual, or apparent, violation of antitrust guidelines.

### **Texas Windstorm Insurance Association**

4801 Southwest Parkway, Building 1, Suite 200 Austin, Texas 78735 • P.O. Box 99090, Austin, Texas 78709-9090  
512-899-4900 / Fax 512-899-4950

## 2. Approve the Minutes

**Minutes of the Texas Windstorm Insurance Association  
Board of Directors Meeting  
Teleconference/Web Conference**

Hyatt Regency Hotel  
208 Barton Springs Road  
Austin, TX

**May 7, 2024**

The Following Board Members were Present:

- |                                      |                                       |
|--------------------------------------|---------------------------------------|
| 1. Chandra Franklin Womack (Chair)   | First Tier Coastal Representative     |
| 2. Georgia Neblett (Vice Chair)      | First Tier Coastal Representative     |
| 3. Peggy Gonzalez                    | First Tier Coastal Representative     |
| 4. Mike Gerik                        | Industry Representative               |
| 5. Karen Guard (Secretary/Treasurer) | Industry Representative               |
| 6. Esther Grossman                   | Industry Representative               |
| 7. Tony Schrader                     | Non-Seacoast Territory Representative |
| 8. Mary Keller                       | Non-Seacoast Territory Representative |

Absent: Tim Garrett

The Following TWIA Staff, Counsel, and Agents were Present:

- |   |                        |
|---|------------------------|
| 1. David Durden, General Manager                              | TWIA                   |
| 2. Stuart Harbour, CFO  | TWIA                   |
| 3. Jessica Crass, VP Legal and Compliance                     | TWIA                   |
| 4. Michelle Friesenhahn, VP People and<br>Business Operations | TWIA                   |
| 5. Michael Ledwik, VP Underwriting                            | TWIA                   |
| 6. Jim Murphy, Chief Actuary                                  | TWIA                   |
| 7. Camron Malik, Chief Information Officer                    | TWIA                   |
| 8. Amy Koehl, Senior Project Administrator                    | TWIA                   |
| 9. Kristina Donley, Manager,<br>Training, QA and Agency Audit | TWIA                   |
| 10. David Harkin, Director of Claims                          | TWIA                   |
| 11. Mike Perkins, Association Counsel                         | Perkins Law Group PLLC |

The Following In Person Attendees Were Present:

- |                    |                             |
|--------------------|-----------------------------|
| 1. Anne O’Ryan     | AAA Texas                   |
| 2. Scot Kibbe      | APCIA                       |
| 3. James Womack    | Aran & Franklin Engineering |
| 4. Clark Thomson   | Calhoun, Thomson + Matza    |
| 5. Scott Weiss     | Calhoun, Thomson + Matza    |
| 6. George Taylor   | FB Taylor Insurance         |
| 7. Allen Cashin    | Gallagher Re                |
| 8. Alicia Gerte    | Gallagher Re                |
| 9. Hunter Hamilton | Gallagher Re                |

10. Joey Walker	Gallagher Re
11. Bill Dubinsky	Gallagher Securities
12. Alex Donkervoet	Guy Carpenter
13. Paul Hosne	Guy Carpenter
14. Regan Ellmer	IIAT
15. Lyle Blanco	Legislative Budget Board
16. David Bolduc	OPIC
17. Marianne Baker	TDI
18. Drew Beglau	TDI
19. Andrew Hunt	TDI
20. David Muckerheide	TDI
21. Beaman Floyd	TCAIS
22. Jessica Davidson	TWIA
23. Dan Graves	Weaver
24. Brett Nabors	Weaver
25. Bruce Zaret	Weaver

The Association's Webinar Tool Attendance Report Indicates the Following Attendees Were Online:

1. Sally Bakko	11. Travis McDavid
2. Shirley Bowler	12. Jade Nguyen
3. Theresa Elliott	13. Dan Paschal
4. Steve Evans	14. Katie Sabo
5. Victerbo Gonzalez	15. Jocelyn Strong
6. Sara Hays	16. Aaron Taylor
7. Elizabeth Howland	17. Rep. Ed Thompson
8. Rep. Todd Hunter	18. Annika Vandayar
9. Debbie King	19. Ron Walenta
10. Neil LeBlanc	

1. Call to Order: Ms. Franklin Womack called the meeting to order at 9:01 a.m. Board members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel. Mr. Perkins presented the required conflict-of-interest disclosures on behalf of each board member. Kristina Donley reviewed the housekeeping items.
2. New Board Member Welcome: Ms. Franklin Womack welcomed new board member Mary Keller.
3. Approval of Minutes: Ms. Neblett moved to approve the minutes of the February 20, 2024 meeting in Galveston. Ms. Guard seconded the motion. The motion passed unanimously.



4. Public Comment: Ms. Donley reviewed the written public comment, which consisted of two requests for no rate increase. Sally Bakko and Rep. Todd Hunter offered verbal public comment.
5. TWIA Operational Dashboard: Mr. Durden welcomed the Association's new Vice President of People and Business Operations, Michelle Friesenhahn and Director of Claims, David Harkin. Mr. Harkin sat in for David Williams, Vice President of Claims.

Mr. Durden reiterated that all projects are on track including the cloud migration project.

6. Financial:
  - A. Report of the Secretary/Treasurer: Ms. Guard reviewed the Treasurer's Report. Mr. Garrett moved to approve the report. Ms. Neblett seconded the motion. The motion passed unanimously.
  - B. Financial Statement Review by Staff: Year to date direct written premiums totaled \$139.5 million. Direct earned premiums were \$164.2 million.

On February 20, 2024, the TWIA Board of Directors voted to establish \$6.5 billion as the Association's 1:100 probable maximum loss (PML) for the 2024 storm season. In addition to the \$2.45 billion in statutory funding from other sources, the \$6.5 billion PML requires \$4.05 billion in reinsurance for the 2024 hurricane season. Staff is currently in the process of acquiring \$3.5 billion in new reinsurance to accompany the \$700 million in existing multi-year catastrophe bonds. Working with the Association's broker, Gallagher Re, \$750 million in traditional reinsurance has already been placed and on April 11<sup>th</sup>, 2024, TWIA closed on a \$1.4 billion catastrophe bond that will provide fully collateralized reinsurance coverage for multiple storm seasons. The remaining \$1.2 billion of reinsurance is expected to be placed in the traditional market in late April and early May. In accordance with statutory accounting rules, no written or earned ceded premium is recorded for the 2024-2025 program until the new program becomes effective on June 1, 2024 at the start of hurricane season. Premium ceded to reinsurers is fully earned over the six-month hurricane risk period.

There was no round seven depopulation program in 2023/2024 because no carriers registered to participate.

Year-to-date total direct losses and loss adjustment expense incurred totaled \$59.6 million, which was over the budgeted amount of \$24.9 million.

Year-to-date operating expenses were \$9.7 million. Notable expense items under budget include personnel expenses (\$610,000) and other expenses including rental, travel and postage (\$166,000). Notable expense items over budget include professional and consulting services (\$133,000) and software

and hardware (\$40,000).

- C. Investment Plan Review: Annually, the TWIA Board of Directors reviews the adequacy and implementation of the Association's investment plan as reflected in the Statement of Investment Objectives and Guidelines. This document does not apply to investments in the CRTF or the assets previously held by the Texas Treasury Safekeeping Trust Company representing the proceeds and debt service payment of the Series 2014 bonds.

Currently, staff is not recommending any changes to the investment plan. Due to the elevated interest rates throughout 2023, the Association shifted available investments into US Treasury Money Market Mutual Funds to maximize interest income. This strategy will continue into the 2024 hurricane season to continue to benefit from relatively high interest yields and maintain liquidity in the event of a catastrophic event.

Ms. Neblett moved the Board of Directors of the Texas Windstorm Insurance Association acknowledges its review of the adequacy and implantation of the Statement of Investment Objectives and Guidelines of the Association and accepts staff's recommendation to make no changes to the investment plan at this time. Ms. Grossman seconded the motion. The motion passed unanimously.

- D. 2024 Hurricane Season Line of Credit: Mr. Harbour said staff is proposing to obtain a credit line of \$500 million with \$400 million provided by JP Morgan Chase and the remaining \$100 million from Bank of America.

The proposed pricing for the 2024 line of credit includes a commitment fee of 42.5 basis points per annum on the unused portion of the revolving credit line and an upfront fee of 10 basis points or \$500,000. It is anticipated that this line of credit, if unused, would be terminated on December 27, 2024 which is the earliest cancellation date allowable under the contract terms.

Ms. Neblett moved to adopt the resolution for the line of credit as shown in the materials. Ms. Grossman seconded the motion. The motion passed unanimously.

- E. Financial Audit by Calhoun, Thomson + Matza: Clark Thomson from Calhoun, Thomson + Matza reviewed the audit results. Ms. Neblett moved to approve the audit report. Ms. Grossman seconded the report. The motion passed unanimously.

7. Actuarial:

- A. Policy Count/Exposures: Policy counts are up but that growth has slowed. The total growth year over year is 10.4%.
- B. Reserve Adequacy: The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as

of December 31, 2023.

After reviewing recently settled and remaining outstanding claims, the ultimate estimate for Hurricane Harvey remains at \$1.655 billion. The actual ultimate costs of Hurricane Harvey may still differ substantially from the selected ultimate estimate due to variability in the outcome of disputed claims.

As of March 31, 2024, TWIA carried \$77.1 million in total gross loss and loss adjustment expense reserves. The total gross loss and loss adjustment expense reserves include the reserves for Hurricanes Harvey and all other outstanding claims.

In the opinion of the Chief Actuary, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements.

- C. 2024 Funding; Reinsurance: The TWIA Board of Directors established at its February 20, 2024 meeting the 100-year probable maximum loss (PM) for the 2024 hurricane season at \$6.5 billion. To satisfy the minimum funding level required by statute, the Association is in the process of securing \$4.05 billion total reinsurance coverage, comprised of \$700 million in existing catastrophe bonds originally issued in 2022 and 2023 and \$3.35 billion in traditional reinsurance and new catastrophe bonds.

TWIA staff has worked with Gallagher Re and Gallagher Securities to reposition the existing catastrophe bonds within the 2024 reinsurance program and to issue \$1.4 billion in new catastrophe bonds for 2024. The Association has secured \$750 million in traditional reinsurance for the 2024 hurricane season. Staff is in the process of placing the remaining \$1.2 billion of coverage now, which is expected to be provided by the traditional reinsurance market. The complete reinsurance program will be placed in advance of the June 1 effective date.

#### 8. Internal Audit:

- A. Internal Audit Status Report: Mr. Zaret reported on the current internal audit activities, which include legal and compliance, application development and database administration, accounts payable and expense processing, accounts receivable, depopulation, actuarial, underwriting, funding structure, legislative and external affairs, financial close and reporting and catastrophe plan.

Upcoming audits and activities include customer experience, strategic communications, executive management, operational planning and reporting and cash management.

- B. IT Audit Update: This item will be covered in closed session.

9. Underwriting:

- A. Operational Review Update: Over 99% of transactions were issued within 10 days of receiving the application and payment. Of those, 98% of the transactions were straight through processed by the system and 2% of the transactions were referred by the system to Underwriting for additional information, review and approval prior to issuance. Out of 83,613 calls for the quarter, 91.25% of the calls were answered in under 20 seconds.

A standard sample of agencies (20) were selected for review in the fourth quarter of 2023 to verify compliance with the Texas Windstorm Insurance Association (TWIA) declination of coverage and flood insurance requirements. All policies/agents reviewed were 100% compliant with the requirement for proof of declination of coverage. All policies/agents reviewed were 100% compliant with the flood coverage requirements, noting that only 3% of the policies selected/reviewed required flood insurance. All agents selected have an active property and casualty insurance license.

9. Claims:

- A. Claims Operations: First notice of loss to property inspection was 2.6 days compared to an industry average of 5.3 days. The total cycle time of first notice of loss to payment (daily) was 8.3 days. The total cycle time of first notice of loss to payment (cat) was 6.9 days. The historical claim volume for 2024 is 3,250.
- B. Litigation Report: For the first quarter of 2024, two new claims lawsuits were received and 15 were closed. For TWIA claims with letters of representation, 51 were received for the quarter and 64 were closed.

## 10. TWIA Operations:

- A. IT Systems Update: Mr. Malik reported the cloud program is in the construction phase with development and testing underway. Upon completing inception, it was discovered some work was underestimated and there was a lack of expert resources in the enterprise data warehouse and portals space. Both of which were addressed by the system integrator and guidewire. The system integrator and TWIA continue to work well together and the project teams are focused on achieving the goals of the program.

Staff has reviewed the ITS agent time study and followed up on all items with the agents. The affected departments and IT worked to identify and prioritize the work. The business teams are now working to nail down requirements and development will commence as they become available.

All projects are making good progress and are under budget. Overall, systems continue in production support mode with monthly releases and the

infrastructure and operations team continues to support the organization in meeting quality goals.

- B. Communications and Legislative Affairs Update: Lieutenant Governor Dan Patrick issued interim charges on topics for senate committees to study before the 2025 legislative session. Among the issues to be studied by the Senate Business and Commerce Committee is addressing the rising cost of insurance.

Association staff have been meeting regularly with officials from legislative offices.

The Agent Advisory Group (AAG) met for its second quarterly meeting on April 4, 2024.

11. Closed Session: The meeting went into closed session at 10:19 am. The meeting opened back up at 11:07 am.

12. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: There was nothing to consider.

13. Committees: There is a vacancy on the Actuarial and Underwriting Committee with the departure of a board member. Ms. Neblett said it would be ideal if a member of OPIC could serve on the committee. Ms. Neblett suggested adding Ms. Grossman to the committee in addition to a representative from OPIC. The board agreed to add the two new members to the Actuarial and Underwriting Committee. Mr. Gerik said he wasn't sure there was a need for an additional member to join the Legislative and External Affairs Committee. No changes were made and thus the Legislative and External Affairs committee's members are Mr. Gerik, Ms. Neblett, and Mr. Schrader.

14. Future Meetings:

- August 6, 2024 – Tremont House – Galveston
- December 10, 2024 – Omni Hotel – Corpus Christi

15. Adjourn: The meeting adjourned at 11:18 am.

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Prepared by: Amy Koehl  
Senior Project Administrator

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Approved by: Chandra Franklin Womack  
TWIA Chair

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Approved by: Georgia Neblett  
TWIA Vice Chair

4. Annual TWIA Rate Filing  
4A. Review of TWIA Staff Rate Adequacy  
Analysis and Actuarial & Underwriting  
Committee Recommendations



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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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# Actuarial & Underwriting Committee

TWIA Actuarial Department – 2024 Rate Indications

July 15, 2024

# Contents

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- **Actuarial Principles**
- **Statutory Language**
- **Recent Legislative Changes**
- **Rate Adequacy Methodology**
- **Rate Adequacy Analysis**
- **Reconciliation of Changes in Rate Indications**
- **Change in Reinsurance Provision**
- **Historical Rate Indications vs Rate Changes**



# Actuarial Principles

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## **Casualty Actuarial Society Statement of Principles**

1. A rate is an estimate of the expected value of future costs
2. A rate provides for all costs associated with the transfer of risk
3. A rate provides for the costs associated with an individual risk transfer
4. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer

# Statutory Language

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## Sec. 2210.001

“The association shall function in such a manner as to not be a direct competitor in the private market;...”

Sec. 2210.355 (b) In adopting rates under this chapter, the following must be considered:

- (1) the past and prospective loss experience within and outside this state of hazards for which insurance is made available through the plan of operation, if any;
- (2) expenses of operation, including acquisition costs;
- (3) a reasonable margin for profit and contingencies;
- (4) payment of public security obligations issued under this chapter, including the additional amount of any debt service coverage determined by the association to be required for the issuance of marketable public securities; and
- (5) all other relevant factors, within and outside this state.

Sec. 2210.355 (c) Rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer.

# Recent Legislative Changes

## HB 769

SECTION 1. Subchapter H, Chapter 2210, Insurance Code, is amended by adding Section 2210.3512 to read as follows:

Sec. 2210.3512. REQUIREMENT FOR VOTE ON RATE FILING. The board of directors may not vote on a proposed rate increase if:

- (1) there is a vacancy on the board; and
- (2) the vacancy has existed for at least 60 days at the time the vote is to be taken.

SECTION 2. The heading to Section 2210.453, Insurance Code, is amended to read as follows:

Sec. 2210.453. FUNDING LEVELS; REINSURANCE AND ALTERNATIVE RISK FINANCING MECHANISMS; REINSURANCE FROM CERTAIN INSURER OR BROKER PROHIBITED.

SECTION 3. Section 2210.453, Insurance Code, is amended by adding Subsection (f) to read as follows:

(f) The association may not purchase reinsurance under this section from an insurer or broker involved in the execution of a catastrophe model on which the association relies in:

- (1) determining the probable maximum loss applicable for the period covered by the reinsurance; or
- (2) adopting rates under Section 2210.355.

# Recent Legislative Changes

## SB 1448

SECTION 1. Section 2210.351, Insurance Code, is amended by amending Subsection (d) and adding Subsection (f) to read as follows:

(d) The association may use a rate filed by the association without prior commissioner approval if:

(1) the filing is made not later than the 30th day before the date of any use or delivery for use of the rate;

(2) the filed rate does not exceed ~~[105 percent of]~~ the rate in effect on the date on which the filing is made; and

(3) ~~[the filed rate does not reflect a rate change for an individual rating class that is 10 percent higher than the rate in effect for that rating class on the date on which the filing is made; and~~

~~[-4-]~~ the commissioner has not disapproved the filing in writing, advising of the reasons for the disapproval and the criteria the association is required to meet to obtain approval.

(f) The association may not file a rate under this section that exceeds the rate in effect on the date on which the filing is made unless two-thirds of the board of directors votes to approve the rate.

# Recent Legislative Changes

## SB 1448

SECTION 2. Section 2210.352, Insurance Code, is amended by amending Subsection (a-1) and adding Subsection (a-3) to read as follows:

(a-1) The association may use a rate filed by the association under this section without prior commissioner approval if:

(1) the filing is made not later than the 30th day before the date of any use or delivery for use of the rate; and

(2) the filed rate does not exceed [~~105 percent of~~] the rate used by the association in effect on the date on which the filing is made[~~;~~ and

~~[(3) the filed rate does not reflect a rate change for an individual rating class that is 10 percent higher than the rate in effect for that rating class on the date on which the filing is made].~~

(a-3) The association may not file a rate under this section that exceeds the rate in effect on the date on which the filing is made unless two-thirds of the board of directors votes to approve the rate.

# Rate Adequacy Methodology

## **TWIA employs the “Loss Ratio Method” to determine rate level indications.**

- This approach compares the estimated percentage of each premium dollar needed to cover future losses, loss adjustment expense and other fixed expenses for a prospective accident year to the amount of each premium dollar that is available to pay for such costs (referred to as the permissible loss ratio).
- This relationship is defined as:

$$\text{Indicated Rate Change Factor} = \frac{(\text{Loss \& LAE Ratio} + \text{Fixed Expense Ratio})}{(1 - \text{Variable Expense Ratio})}$$

# Rate Adequacy Methodology

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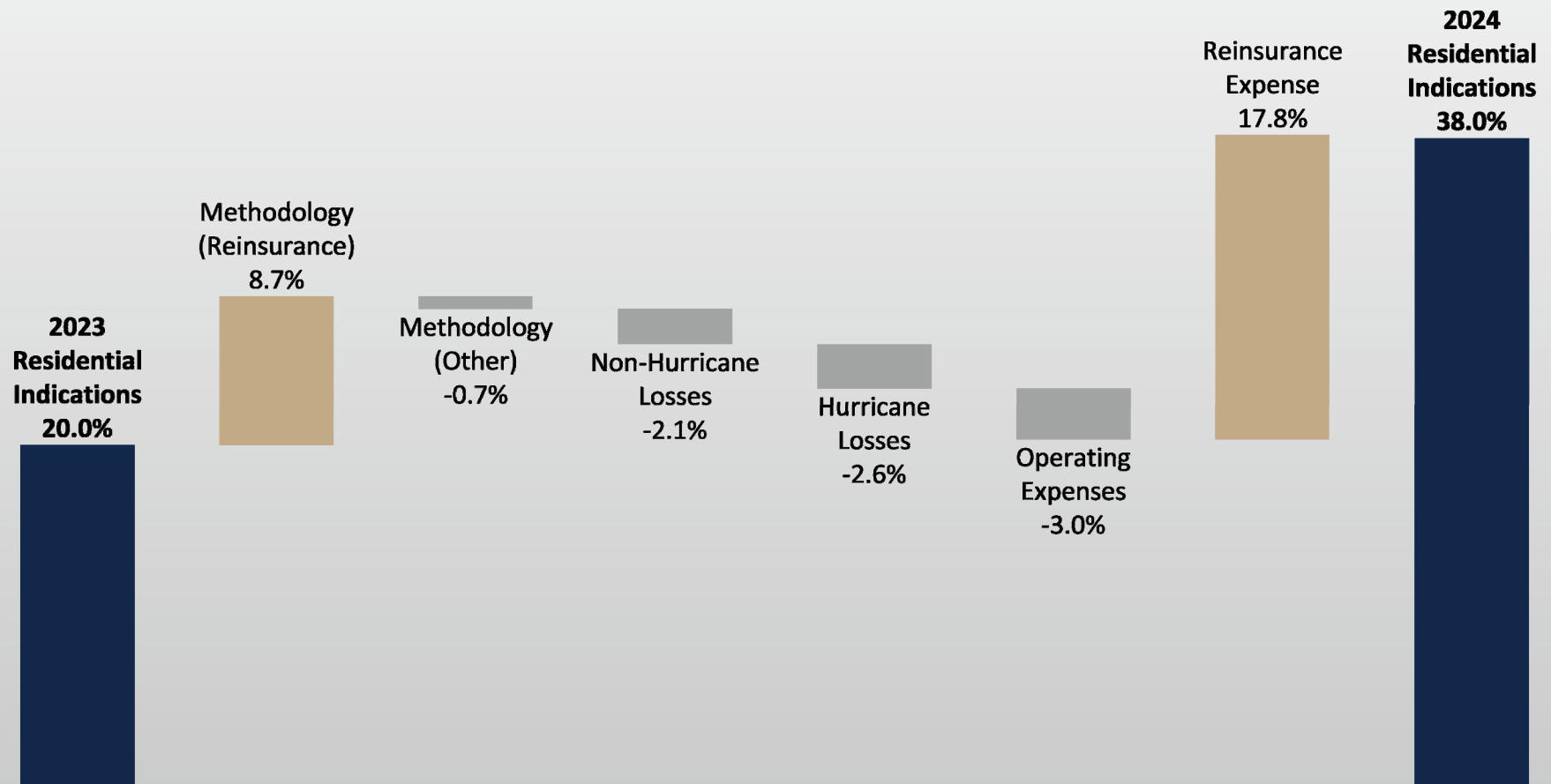
- The Loss and LAE Ratio includes provisions for:
  - Hurricane losses and loss adjustment expenses
  - Non-hurricane losses and loss adjustment expenses
- The Fixed Expense Ratio includes:
  - General operating expenses
  - Net cost of reinsurance  
(total premiums less expected average annual recoveries)
  - Any debt service outstanding on public securities  
(no debt service is included in the 2024 indications)
- The Variable Expense Ratio includes:
  - Commissions, taxes, licenses and fees
  - Provisions for CRTF and contingencies

# 2024 Rate Adequacy Analysis

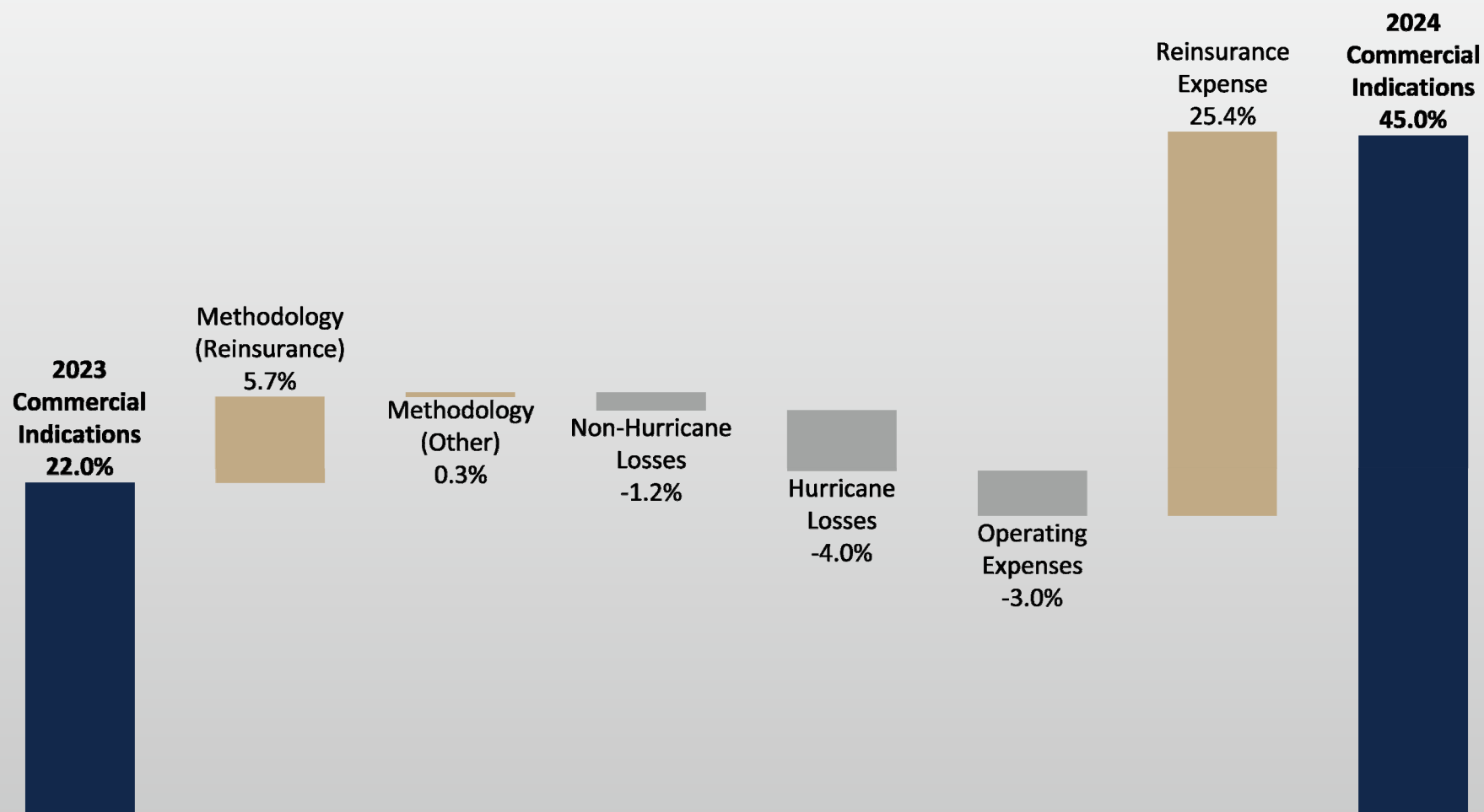
Rate Element	Residential					Commercial				
	2021 Review	2022 Review	2023 Review	2024 Review	2024 vs. 2023	2021 Review	2022 Review	2023 Review	2024 Review	2024 vs. 2023
Non-Hurricane Loss Provision	14.9%	14.7%	15.4%	<b>13.9%</b>	-1.5%	8.1%	6.7%	5.5%	<b>4.6%</b>	-0.9%
Hurricane Loss Provision										
Experience	41.5%	40.2%	39.2%	<b>38.2%</b>	-1.0%	51.7%	48.7%	48.1%	<b>48.4%</b>	0.3%
Modeled	52.2%	52.7%	53.0%	<b>48.1%</b>	-4.9%	64.4%	53.3%	61.1%	<b>55.1%</b>	-6.0%
Combined	46.8%	46.5%	46.1%	<b>43.2%</b>	-3.0%	58.1%	51.0%	54.6%	<b>51.8%</b>	-2.9%
Fixed Expenses										
Operating	8.1%	8.2%	7.5%	<b>5.2%</b>	-2.3%	8.1%	8.2%	7.5%	<b>5.2%</b>	-2.3%
Reinsurance	18.6%	19.1%	23.5%	<b>44.0%</b>	<b>20.5%</b>	19.7%	19.6%	26.4%	<b>50.4%</b>	<b>24.0%</b>
Outstanding Debt Service	18.6%	0.0%	0.0%	<b>0.0%</b>	0.0%	18.6%	0.0%	0.0%	<b>0.0%</b>	0.0%
Total	45.3%	27.3%	31.0%	<b>49.2%</b>	18.2%	46.4%	27.8%	33.9%	<b>55.6%</b>	21.7%
(A) Total Loss Provision plus Fixed Expenses	107.0%	88.5%	92.5%	<b>106.3%</b>	13.8%	112.6%	85.5%	94.0%	<b>112.0%</b>	18.0%
Variable Expenses										
Commissions	16.0%	16.0%	16.0%	<b>16.0%</b>	0.0%	16.0%	16.0%	16.0%	<b>16.0%</b>	0.0%
Taxes and Fees	1.9%	1.9%	1.9%	<b>1.8%</b>	-0.1%	1.9%	1.9%	1.9%	<b>1.8%</b>	-0.1%
CRTF Funding & Contingencies	5.0%	5.0%	5.0%	<b>5.0%</b>	0.0%	5.0%	5.0%	5.0%	<b>5.0%</b>	0.0%
(B) Total Variable Expenses	22.9%	22.9%	22.9%	<b>22.8%</b>	-0.1%	22.9%	22.9%	22.9%	<b>22.8%</b>	-0.1%
(C) Permissible Loss Ratio (1 - B)	77.1%	77.1%	77.1%	<b>77.2%</b>	0.1%	77.1%	77.1%	77.1%	<b>77.2%</b>	0.1%
(D) Rate Indication (A / C - 1)	39.0%	15.0%	20.0%	<b>38.0%</b>	18.0%	46.0%	11.0%	22.0%	<b>45.0%</b>	23.0%



# Reconciliation of Change in Rate Indications Residential 2024 vs 2023



# Reconciliation of Change in Rate Indications Commercial 2024 vs 2023



# Reinsurance Provision Revision

## Previous Methodology

$$\text{Reinsurance Expense \%} = \frac{\text{Reinsurance Premium} - \text{Growth} - \text{Adjusted Average Annual Loss}}{\text{Prospective Earned Premium}}$$

- Estimated the reinsurance provision at the midpoint of the contract
- Reinsurance premium and average annual loss were based on TWIA exposures as of November 30
- Assumptions (trending, exposure growth) required to align the timing difference
- Average annual loss was restated to reflect future exposure growth
- Reinsurance premium was fixed and did not reflect future exposure growth

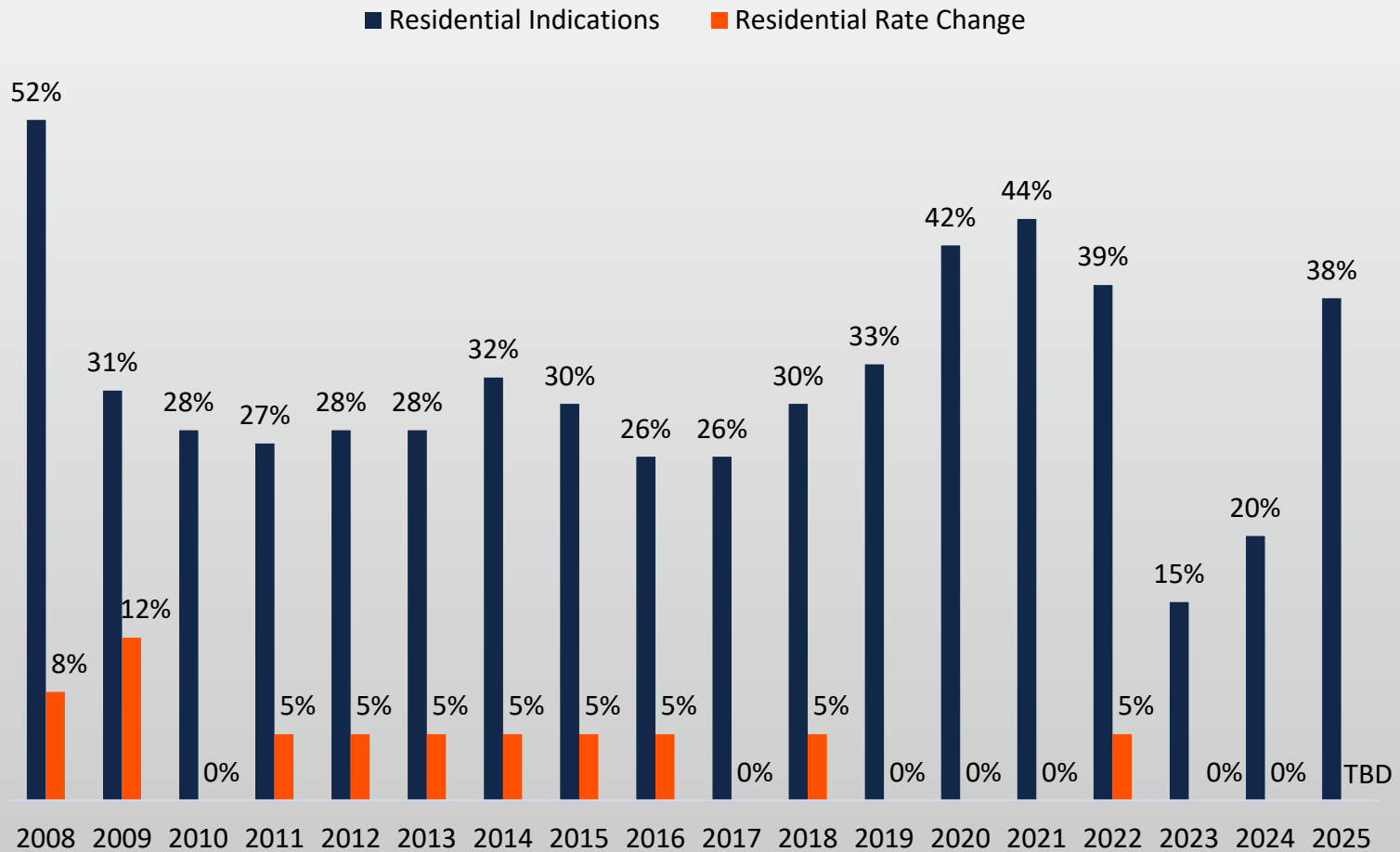
# Reinsurance Provision Revision

## Revised Methodology

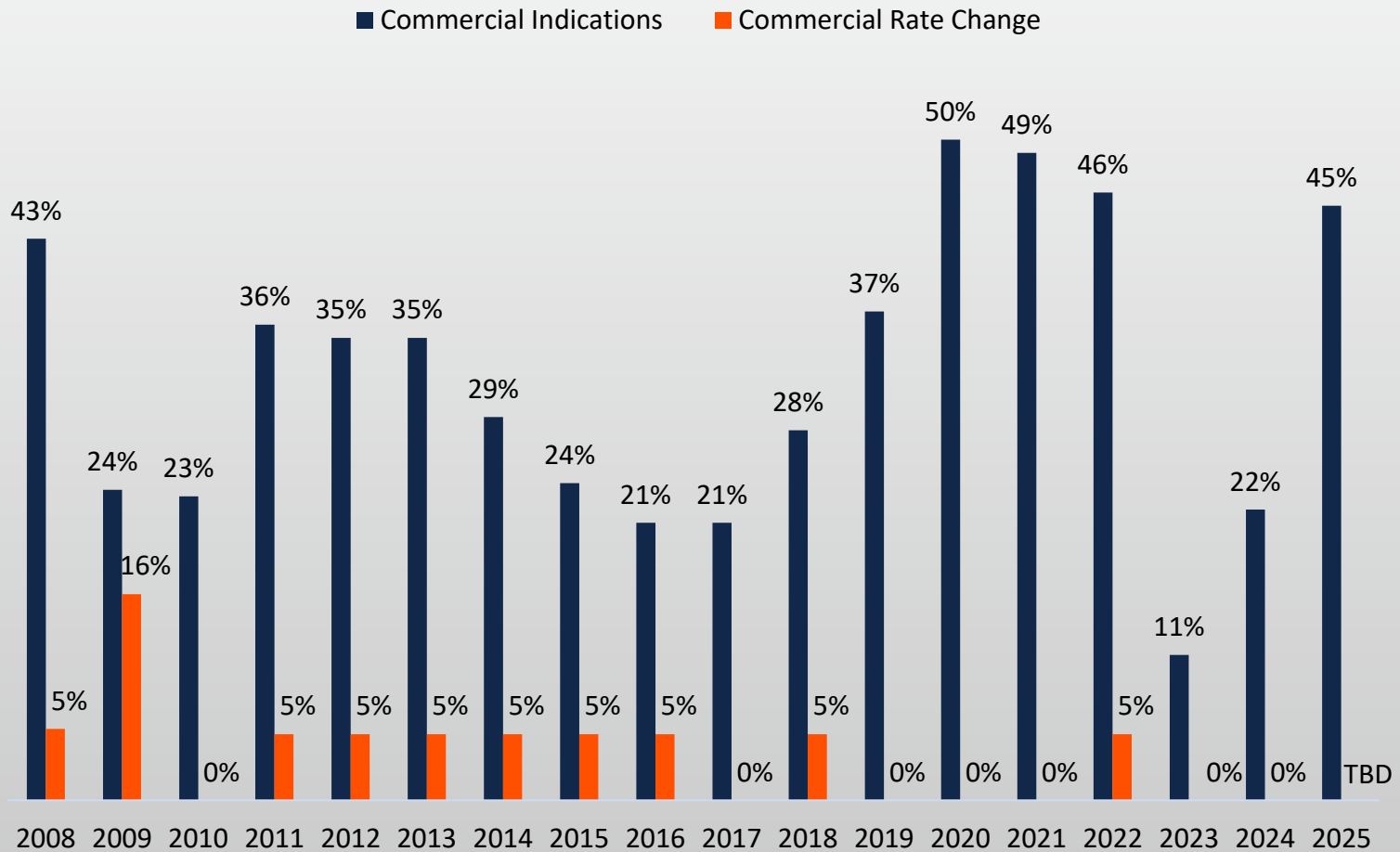
$$\text{Reinsurance Expense \%} = \frac{\text{Reinsurance Premium} - \text{Average Annual Loss}}{\text{In-Force Premium}}$$

- Estimates the reinsurance provision as of 11/30
- Reinsurance premium and average annual loss are based on TWIA exposures as of November 30
- No growth assumptions needed
- Assumes the net cost of reinsurance will grow proportionally with the in-force premium as exposures increase
- More actuarially sound as it is based on actual information and requires fewer assumptions for future growth

# Residential Rate Indications vs Rate Changes 2008-2025



# Commercial Rate Indications vs Rate Changes 2008-2025



# Questions

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## MEMORANDUM

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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



## 4B. Required 2024 Annual Rate Filing

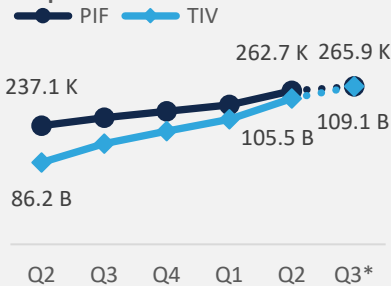
## 5. TWIA Operational Dashboard



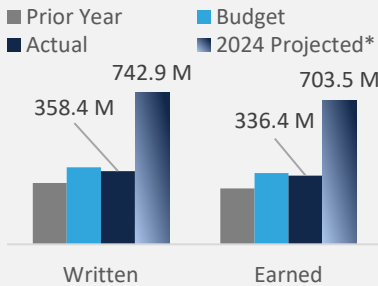
# Operational Dashboard

Reporting as of June 30, 2024

## Exposure Growth



## Premiums



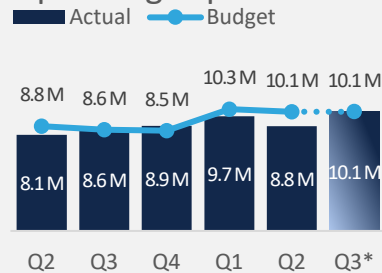
## Net Income

**Actual:** \$ 24.0 M  
**Budget:** \$ 172.5 M  
 ▼ \$ 148.5 M

CRTF Balance

\$451.4 M

## Operating Expenses



## Claims Activity

**Reported Claims:** 8,378  
**Incurred Loss & LAE:** \$189.5 M  
**Loss Ratio:** 56.3%

## Claims Disputes

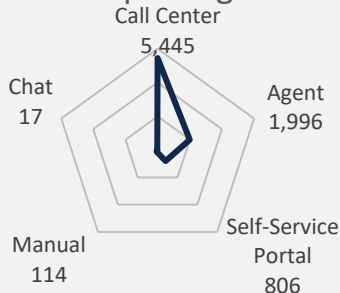
(% of Reported Claims)

**TDI Complaints:** 8 (0.1%)  
**Disputes:** 74 (0.9%)  
**Lawsuits:** 4 (0.0%)

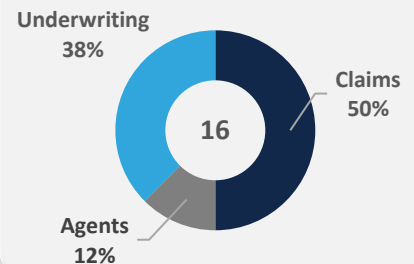
## Headcount

**Employees:** 230  
**Contractors:** 44  
**Total:** 274

## Claims Reporting



## Complaints by Reason



Exposure Growth, Operating Expenses, and Headcount as of Reporting Date  
 All other amounts are Year to Date

CY 2023 Gross Premium to Surplus Ratio 1.49: 1



# Enterprise Projects

Status Update as of June 30, 2024



Enterprise Projects	Initiative Type	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
● Legislative Implementation Program (LIP88)	Mandatory		■	■	■	■	■	■	■				
<i>LIP88 - SB 2232 - Agent Requirements/Standards</i>	Mandatory		■	■	■	■	■	■					
<i>LIP88 - HB1900 - Cancel Notices (from 30 to 60 days)</i>	Mandatory		■	■	■	■	■	■					
<i>LIP88 - HB 998 - TFPA Property Owners Assoc (Condos)</i>	Mandatory		■	■	■	■	■	■					
● Association Surcharge for GW9 - Ph 1 Technical	Mandatory	■	■	■	■								
● Association Surcharge for GW9 - Ph 2 Business	Mandatory	■	■	■	■	■	■	■	■				
● Conversational AI - Chatbot for Claims (Ph 1-3)	Discretionary Planned		■	■	■	■	■	■					
● Guidewire Cloud Migration (PC9)	Discretionary Planned			■	■	■	■	■	■	■			
● Audit Tracking (Legal & Compliance)	High Priority				■	■	■	■					
● Contingent Surcharge 2024 (Planning)	Mandatory					■	■						

6. Financial  
6A. Report of the Secretary/Treasurer  
6A1. Income Statement

# Statutory Income Statement – Treasurer’s Report (In 000s)



	For the six months ended June 30,		
	Actuals - 2024	Actuals - 2023	
1			2
2			3
3			4
4			5
5			6
6			7
7			8
8			9
9			10
10			11
11			12
12			13
13			14
14			15
15			16
16			17
17			18
18			19
19			20
20			21
21			22
22			23
23			24
24			25
25			26
26			27
27			28
28			29
29			30
30			31
31			32
32			33
33			34
34			35
35			36
36			37
37			38
38			39
39			40
40			41
41			42
42			43
43			44
44			45
45			46
46			47
47			48
48			49
49			50
50			

## 6A2. Management Discussion and Analysis

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis of Financial Results

### For the Six Months Ended June, 30 2024

#### Written and Earned Premiums

<b>Actual vs Budget</b>	Jun-2024 YTD Actual	Jun-2024 YTD Budget	Variance Inc (Dec)	Variance % Inc (Dec)
Direct Written Premiums	\$ 358.4 M	\$ 376.3 M	(\$ 17.9 M)	(4.8%)
Direct Earned Premiums	\$ 336.4 M	\$ 348.7 M	(\$ 12.3 M)	(3.5%)
Policies In-Force	262,740	255,819	6,921	2.7%

<b>Current Yr vs Prior Yr Actual</b>	Jun-2024 YTD Actual	Jun-2023 YTD Actual	Variance Inc (Dec)	Variance % Inc (Dec)
Direct Written Premiums	\$ 358.4 M	\$ 300.5 M	\$ 57.9 M	19.3%
Direct Earned Premiums	\$ 336.4 M	\$ 273.2 M	\$ 63.1 M	23.1%
Policies In-Force	262,740	237,112	25,628	10.8%

#### Reinsurance Costs

- The 2024-2025 reinsurance program incepted on June 1, 2024. Coverage for the 2024 hurricane season consists of \$2.1 billion of collateralized catastrophe bonds and \$1.950 billion of traditional reinsurance. Gross ceded premiums associated with the \$4.050 billion in coverage totaled \$389.9 million compared to a budgeted estimate of \$298.0 million. This total reflects an overall rate-on-line (ROL) of 9.6% compared to the 9.1% ROL for the 2023 program. The net cost of the reinsurance program after ceding commission was \$379.4 million. Reinsurance premiums ceded are recognized over the hurricane season beginning June 1 and ending on November 30 of each year.

#### Depopulation Program

- There was no round 7 depopulation program in 2023/2024 as no carriers registered to participate.



# Texas Windstorm Insurance Association

## Management's Discussion and Analysis of Financial Results

### For the Six Months Ended June, 30 2024

#### (cont'd)

#### Loss and Loss Adjustment Expense Incurred

	Jun-2024	Jun-2024	Variance	Variance %
<b>Actual vs Budget</b>	YTD Actual	YTD Budget	Inc (Dec)	Inc (Dec)
Direct Losses Incurred	\$ 148.5 M	\$ 49.6 M	\$ 98.9 M	199.6%
Direct LAE Incurred	\$ 41.0 M	\$ 14.1 M	\$ 26.9 M	191.2%
<b>Total Direct Losses &amp; LAE</b>	<b>\$ 189.5 M</b>	<b>\$ 63.6 M</b>	<b>\$ 125.8 M</b>	<b>197.7%</b>
<b>Loss &amp; LAE Ratio</b>	<b>56.3%</b>	<b>18.3%</b>		<b>38.1%</b>

	Jun-2024	Jun-2023	Variance	Variance %
<b>Current Yr vs Prior Yr Actual</b>	YTD Actual	YTD Actual	Inc (Dec)	Inc (Dec)
Direct Losses Incurred	\$ 148.5 M	\$ 67.6 M	\$ 80.9 M	119.7%
Direct LAE Incurred	\$ 41.0 M	\$ 13.3 M	\$ 27.8 M	209.2%
<b>Total Direct Losses &amp; LAE</b>	<b>\$ 189.5 M</b>	<b>\$ 80.9 M</b>	<b>\$ 108.6 M</b>	<b>134.3%</b>
<b>Loss &amp; LAE Ratio</b>	<b>56.3%</b>	<b>29.6%</b>		<b>26.7%</b>

- The ultimate loss and loss adjustment expense estimate for Hurricane Harvey was reduced by \$5 million in December 2023 to \$1.655 billion

#### Operating Expenses

	Jun-2024	Jun-2024	Variance	Variance %
<b>Actual vs Budget</b>	YTD Actual	YTD Budget	Inc (Dec)	Inc (Dec)
Operating Expenses	\$ 18.5 M	\$ 20.3 M	(\$ 1.8 M)	(9.0%)
<b>Operating Expense Ratio</b>	<b>5.5%</b>	<b>5.8%</b>		<b>(0.3%)</b>

	Jun-2024	Jun-2023	Variance	Variance %
<b>Current Yr vs Prior Yr Actual</b>	YTD Actual	YTD Actual	Inc (Dec)	Inc (Dec)
Operating Expenses	\$ 18.5 M	\$ 16.8 M	\$ 1.7 M	10.1%
<b>Operating Expense Ratio</b>	<b>5.5%</b>	<b>6.2%</b>		<b>(0.6%)</b>

- Net operating expenses shown above and on the statutory income statement exclude claims related expenses which are recorded in losses and loss adjustment expense. Expenses under budget include Personnel Expenses (\$1.4 million), Professional & Consulting Services (\$236,000) and Other Expenses including rental, travel, and postage (\$275,000). Notable expense items over budget include Software & Hardware (\$52,000).

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis of Financial Results

### For the Six Months Ended June, 30 2024

(cont'd)

#### Commission Expense and Premium Taxes

<b>Actual vs Budget</b>	Jun-2024 YTD Actual	Jun-2024 YTD Budget	Variance Inc (Dec)	Variance % Inc (Dec)
Commission Expense	\$ 57.3 M	\$ 60.2 M	(\$ 2.9 M)	(4.9%)
Premium Taxes	\$ 6.2 M	\$ 6.9 M	(\$ .6 M)	(9.2%)

<b>Current Yr vs Prior Yr Actual</b>	Jun-2024 YTD Actual	Jun-2023 YTD Actual	Variance Inc (Dec)	Variance % Inc (Dec)
Commission Expense	\$ 57.3 M	\$ 48.0 M	\$ 9.3 M	19.3%
Premium Taxes	\$ 6.2 M	\$ 5.5 M	\$ .7 M	13.6%

#### Other Income (Expense)

- Operating account balances have been reduced to maximize amounts invested in Money Market Mutual Funds which provide a higher rate of interest earnings. Yields on the Association's investments in Money Market Mutual Funds have increased as the Federal Reserve raised interest rates to combat the high levels of inflation.

<b>Actual vs Budget</b>	Jun-2024 YTD Actual	Jun-2024 YTD Budget	Variance Inc (Dec)	Variance % Inc (Dec)
Gross Investment Income	\$ 14.3 M	\$ 12.0 M	\$ 2.3 M	19.3%

<b>Current Yr vs Prior Yr Actual</b>	Jun-2024 YTD Actual	Jun-2023 YTD Actual	Variance Inc (Dec)	Variance % Inc (Dec)
Gross Investment Income	\$ 14.3 M	\$ 9.1 M	\$ 5.2 M	57.8%

#### Net Income

<b>Actual vs Budget</b>	Jun-2024 YTD Actual	Jun-2024 YTD Budget	Variance Inc (Dec)	Variance % Inc (Dec)
Net Income (Loss)	\$ 24.0 M	\$ 172.5 M	(\$ 148.5 M)	(86.1%)

<b>Current Yr vs Prior Yr Actual</b>	Jun-2024 YTD Actual	Jun-2023 YTD Actual	Variance Inc (Dec)	Variance % Inc (Dec)
Net Income	\$ 24.0 M	\$ 104.7 M	(\$ 80.7 M)	(77.1%)

# Texas Windstorm Insurance Association Management's Discussion and Analysis of Financial Results For the Six Months Ended June, 30 2024 (cont'd)

## Surplus (Deficit)

<b>Current Period vs. Prior Year End Actual</b>	Jun-2024 YTD Actual	Dec-23 YTD Actual	Variance Inc (Dec)	Variance % Inc (Dec)
Surplus (Deficit)	\$ 72.7 M	\$ 45.9 M	\$ 26.8 M	58.6%

- Ending surplus increased from the prior year-end amount by \$26.8 million. Surplus increased due to year-to-date net income of \$ 24 million and a decrease of \$2.9 million in non-admitted assets.

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## 6B. Financial Statement Review



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

QUARTERLY  
FINANCIAL  
STATEMENTS  
AND  
SCHEDULES

June 2024

# Statutory Income Statement (In 000s)



	For the period Jun-2024 Year to Date			
	Actuals - 2024	Budget - 2024	Variance - 2024	Actuals - 2023
<b>1</b>				<b>1</b>
<b>2</b>				<b>2</b>
<b>3</b>				<b>3</b>
<b>4 Premiums Written:</b>				<b>4</b>
<b>5 Direct</b>	\$ 358,405	\$ 376,308	\$ (17,903)	\$ 300,469
<b>6 Ceded</b>	(389,883)	(298,000)	(91,883)	(204,356)
<b>7 Ceded - Depopulation</b>	0	0	0	0
<b>8 Net</b>	<u>(31,478)</u>	<u>78,308</u>	<u>(109,786)</u>	<u>96,112</u>
<b>9</b>				<b>9</b>
<b>10 Premiums Earned:</b>				<b>10</b>
<b>11 Direct</b>	\$ 336,359	\$ 348,702	\$ (12,343)	\$ 273,217
<b>12 Ceded</b>	(64,980)	(49,667)	(15,314)	(34,059)
<b>13 Ceded - Depopulation</b>	0	0	0	0
<b>14 Net</b>	<u>271,379</u>	<u>299,035</u>	<u>(27,656)</u>	<u>239,157</u>
<b>15</b>				<b>15</b>
<b>16 Deductions:</b>				<b>16</b>
<b>17 Direct Losses and LAE Incurred</b>	189,477	63,638	125,839	80,853
<b>18 Direct Losses and LAE Incurred - Harvey</b>	0	0	0	0
<b>19 Direct Losses and LAE Incurred - Ike &amp; Dolly</b>	0	0	0	0
<b>20 Ceded Losses and LAE Incurred - Depopulation</b>	0	0	0	(1)
<b>21 Operating Expenses</b>	18,522	20,349	(1,827)	16,818
<b>22 Commission Expense</b>	57,275	60,209	(2,934)	47,999
<b>23 Ceding commissions / brokerage</b>	(10,503)	(13,340)	2,837	(8,511)
<b>24 Ceding commissions / brokerage - Depopulation</b>	0	0	0	0
<b>25 Premium / Maintenance Tax</b>	6,236	6,868	(632)	5,487
<b>26 Total Deductions</b>	<u>261,007</u>	<u>137,723</u>	<u>123,283</u>	<u>142,646</u>
<b>27</b>				<b>27</b>
<b>28 Net Underwriting Gain or (Loss)</b>	<u>10,372</u>	<u>161,312</u>	<u>(150,940)</u>	<u>96,511</u>
<b>29</b>				<b>29</b>
<b>30 Other Income or (Expense):</b>				<b>30</b>
<b>31 Gross Investment Income</b>	14,324	12,009	2,316	9,079
<b>32 Debt Issuance/Maintenance Fees &amp; Other Investment Expenses</b>	(14)	(78)	64	(58)
<b>33 Line of Credit Fees</b>	(697)	(728)	30	(728)
<b>34 Premium Charge offs/Write offs</b>	0	0	0	(126)
<b>35 Billing Fees</b>	0	0	0	0
<b>36 Miscellaneous Income (Expense)</b>	0	0	0	6
<b>37 Total Other Income or (Expense)</b>	<u>13,613</u>	<u>11,203</u>	<u>2,410</u>	<u>8,174</u>
<b>38</b>				<b>38</b>
<b>39 Net Income (Loss)</b>	<u>\$ 23,985</u>	<u>\$ 172,515</u>	<u>\$ (148,529)</u>	<u>\$ 104,685</u>
<b>40</b>				<b>40</b>

# Surplus (Deficit) and Key Operating Ratios (In 000s)



	For the period Jun-2024 Year to Date				
	Actuals - 2024	Budget - 2024	Variance - 2024	Actuals - 2023	
1					1
2					2
3					3
4	<b>Surplus (Deficit) Account:</b>				4
5	\$ 45,853	\$ 45,853	0	\$ 38,643	5
6	23,985	172,515	(148,529)	104,685	6
7	0	0	0	0	7
8	2,865	(1,577)	4,442	(1,571)	8
9	0	0	0	0	9
10	(0)	(98,950)	98,950	(80,200)	10
11	<u>\$ 72,703</u>	<u>\$ 117,841</u>	<u>\$ (45,138)</u>	<u>\$ 61,557</u>	11
12					12
13	<b>Key Operating Ratios:</b>				13
14	<b>Direct:</b>				14
15	<b>Loss &amp; LAE Ratio:</b>				15
16	56.3%	18.3%	38.1%	29.6%	16
17	0.0%	0.0%	0.0%	0.0%	17
18	0.0%	0.0%	0.0%	0.0%	18
19	<u>56.3%</u>	<u>18.3%</u>	<u>38.1%</u>	<u>29.6%</u>	19
20	<b>UW Expense Ratio:</b>				20
21	17.7%	17.8%	(0.1%)	17.8%	21
22	5.5%	5.8%	(0.3%)	6.2%	22
23	<u>23.2%</u>	<u>23.7%</u>	<u>(0.4%)</u>	<u>24.0%</u>	23
24					24
25	<u>79.6%</u>	<u>41.9%</u>	<u>37.6%</u>	<u>53.5%</u>	25
26					26
27	<b>Net:</b>				27
28	<b>Loss &amp; LAE Ratio:</b>				28
29	69.8%	21.3%	48.5%	33.8%	29
30	0.0%	0.0%	0.0%	0.0%	30
31	0.0%	0.0%	0.0%	0.0%	31
32	<u>69.8%</u>	<u>21.3%</u>	<u>48.5%</u>	<u>33.8%</u>	32
33	<b>UW Expense Ratio:</b>				33
34	21.5%	20.1%	1.5%	19.9%	34
35	6.8%	6.8%	0.0%	7.0%	35
36	<u>28.4%</u>	<u>26.9%</u>	<u>1.5%</u>	<u>27.0%</u>	36
37					37
38	<u>98.2%</u>	<u>48.2%</u>	<u>50.0%</u>	<u>60.8%</u>	38
39					39
40	<b>Note: Beginning budgeted surplus adjusted to actual for comparative purposes.</b>				40

# Statutory Expense Statement (In 000s)



Description	For the six months ended June 30,			
	Actuals - 2024	Budget - 2024	Variance - 2024	Actuals - 2023
<b>Personnel Expenses</b>				
Salaries & Wages - Permanent	\$ 7,289	\$ 8,303	\$ (1,014)	\$ 6,931
Contractor & Temporary Help	2,661	2,199	462	2,361
Payroll Taxes	545	624	(79)	524
Employee Benefits	2,171	2,408	(237)	2,278
Recruiting, Training & Other	148	237	(89)	51
Subtotal	\$ 12,814	\$ 13,771	\$ (956)	\$ 12,144
<b>Professional &amp; Consulting Services</b>				
Legal	\$ 207	\$ 236	\$ (29)	\$ 325
Accounting & Auditing	150	154	(3)	143
Information Technology	2,255	2,873	(618)	920
Actuarial Services	72	69	3	68
Ombudsman Program	130	130	(0)	93
Surveys & Inspections	726	671	55	681
Disaster Recovery Services	4	8	(3)	7
Other Services (1)	3,027	2,807	220	2,693
Subtotal	\$ 6,571	\$ 6,947	\$ (376)	\$ 4,931
Hardware/Software Purchases & Licensing	2,125	2,068	57	1,723
Rental & Maintenance - Office/Equipment	460	519	(58)	449
Travel Expenses	91	106	(15)	69
Postage, Telephone and Express	629	712	(84)	612
Capital Management Expenses	0	0	0	0
Depreciation & Amortization	1,553	1,553	(0)	1,557
Other Operating Expenses	775	826	(51)	780
<b>Total Operating Expenses</b>	<b>\$ 25,018</b>	<b>\$ 26,501</b>	<b>\$ (1,483)</b>	<b>\$ 22,266</b>
Capitalization of Fixed Assets	0	0	0	0
Reimbursement of Depop Servicing Expense	(0)	0	(0)	(3)
Allocation To ULAE	(6,473)	(6,105)	(368)	(5,388)
Allocation To Investing & Other Expense	(24)	(48)	24	(58)
<b>Net Operating Expense - UW Operations</b>	<b>\$ 18,522</b>	<b>\$ 20,349</b>	<b>\$ (1,827)</b>	<b>\$ 16,818</b>

(1) Summary Details for Other Services:

VENDOR	Amount	Department
Accenture LLP	\$ 1,033	Expert Panel
Marshall & Swift/Boeckh	321	Underwriting
AON Re Inc	300	Actuary
Clear Point Claims LLC	254	Underwriting
Risk Management Solutions Inc	185	Expert Panel
Xactware Solutions Inc	167	Claims
EagleView Technologies Inc	166	Claims
ISO Services Inc	142	Claims
LYNX Services LLC	100	Claims
Floatbot, Inc	82	Claims
LexisNexis Risk Solutions FL Inc	74	Underwriting
*Other Outside Services below \$50K	202	Various Departments
<b>Total Other Services</b>	<b>\$ 3,027</b>	



# Statutory Balance Sheet (In 000s)



	Jun-2024	Dec-2023
1		
2 <b>Admitted Assets</b>		
3 Cash and short term investments:		
4   Unrestricted	\$ 521,227	\$ 647,820
5   Restricted - Funds Held at TTSTC	0	0
6   Restricted - Funds Held at TTSTC (Non Admitted)	0	0
7   Total cash and short term investments	521,227	647,820
8 Premiums receivable & other	55,590	46,833
9 Assessment receivable	0	0
10 Amounts recoverable from reinsurers	0	0
11 <b>Total admitted assets</b>	<b>\$ 576,818</b>	<b>\$ 694,653</b>
12		
13 <b>Liabilities, Surplus and other funds</b>		
14 <b>Liabilities:</b>		
15 Loss and Loss adjustment expenses	144,981	44,784
16 Underwriting expenses payable	18,717	14,582
17 Unearned premiums, net of ceded unearned premiums	38,168	341,024
18 Ceded reinsurance premiums payable	280,383	77,739
19 Principal Outstanding on Class 1 Pre Event Bonds	0	0
20 Interest Payable on Class 1 Pre Event Bonds	0	0
21 Provision for reinsurance	0	0
22 Other payables	21,866	14,670
23 Statutory fund payable	0	156,000
24 <b>Total liabilities</b>	<b>504,115</b>	<b>648,800</b>
25		
26 <b>Surplus and others funds</b>		
27 Unassigned surplus (deficit)	72,703	45,853
28 <b>Total liabilities, surplus and other funds</b>	<b>\$ 576,818</b>	<b>\$ 694,653</b>
29		
30		
31 <b>Balance in CRTF</b>	<b>\$ 451,368</b>	<b>\$ 283,006</b>
32		
33 <b>Balance in CRTF including Statutory fund payable</b>	<b>\$ 451,368</b>	<b>\$ 439,006</b>
34		

# Statement of Cash Flows

## (In 000s)



	For the period Jun-2024 Year to Date			
	Actuals - 2024	Budget - 2024	Variance - 2024	
1				1
2				2
3				3
4	<b>Cash flows from operating activities:</b>			4
5	\$ 170,684	\$ 254,695	\$ (84,012)	5
6	(89,281)	(56,542)	(32,739)	6
7	(65,195)	(71,070)	5,875	7
8	0	0	0	8
9	(1,060)	0	(1,060)	9
10	<u>15,147</u>	<u>127,083</u>	<u>(111,936)</u>	10
11	<b>Cash flows from nonoperating activities:</b>			11
12	(156,000)	(160,242)	4,242	12
13	0	0	0	13
14	<u>(156,000)</u>	<u>(160,242)</u>	<u>4,242</u>	14
15	<b>Cash flows from investing activities:</b>			15
16	0	0	0	16
17	14,947	11,961	2,987	17
18	<u>14,947</u>	<u>11,961</u>	<u>2,987</u>	18
19	<b>Cash flows from financing activities:</b>			19
20	0	0	0	20
21	0	0	0	21
22	(687)	(758)	70	22
23	<u>(687)</u>	<u>(758)</u>	<u>70</u>	23
24				24
25	(126,592)	(21,956)	(104,637)	25
26	647,820	647,820	0	26
27	<u>\$ 521,227</u>	<u>\$ 625,864</u>	<u>\$ (104,637)</u>	27
28				28
29	\$ -	0	\$ -	29
30	\$ 63	\$ 4,980	(4,917)	30
31				31
32	<b>Note: Beginning budgeted Cash and Short-term investments adjusted to actual for comparative purposes.</b>			32

# Cash and Short-Term Investments (In 000s)



## Unrestricted Cash and Short Term Investments (\$ in 000's) June 30, 2024

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Average Daily Balance for the Quarter	Investment Income during the Quarter	Average Annual Yield	Total Deposit % of TWIA's Portfolio	N.A. Bank Credit Rating	N.A. Tier 1 Capital Ratio	N.A. Regulatory Capital	Are funds in excess of the N.A. Regulatory Capital?
							< 40%	Superior or Strong	> 10%	> \$25B	> .2% of N.A. Reg Capital
<b>Balances as of 06/30/2024:</b>											
Bank of America, Operating	\$ 162	\$ 25,664	\$ 25,826	\$ 30,754	\$ 306	4.0%	5%	Superior	13.5%	\$189	No
Citibank	195	0	195	0	0	0.0%	0%	Superior	14.2%	\$151	No
JP Morgan Chase	0	33,450	33,451	48,452	376	3.1%	6%	Superior	16.0%	\$268	No
Citibank IMMA	0	117	117	117	1	1.7%	0%	N/A	N/A	N/A	N/A
JP Morgan U.S. Treasury Plus Money Market Fund (1)	0	115,255	115,255	111,580	1,438	5.2%	22%	N/A	N/A	N/A	N/A
Chase Goldman Sachs (1)	0	116,325	116,325	109,479	1,409	5.1%	22%	N/A	N/A	N/A	N/A
BOA Morgan Stanley (2)	0	48,700	48,700	48,486	622	5.1%	9%	N/A	N/A	N/A	N/A
BOA Dreyfus Treasury (2)	0	97,453	97,453	115,834	1,495	5.2%	19%	N/A	N/A	N/A	N/A
Fidelity Treasury (2)	0	83,906	83,906	61,370	799	5.2%	16%	N/A	N/A	N/A	N/A
<b>Total of all financial institutions</b>	<b>\$ 357</b>	<b>\$ 520,870</b>	<b>\$ 521,227</b>	<b>\$ 526,072</b>	<b>\$ 6,445</b>	<b>4.9%</b>	<b>100%</b>				
<b>Balances as of 03/31/2024:</b>											
Bank of America, Operating	\$ 162	\$ 31,491	\$ 31,653	\$ 26,385	\$ 268	4.1%	6%	Superior	13.5%	\$188	No
Citibank	195	0	195	0	0	0.0%	0%	Superior	14.1%	\$149	No
JP Morgan Chase	0	37,907	37,907	40,333	403	4.0%	8%	Superior	17.4%	\$262	No
Citibank IMMA	0	116	116	116	1	1.7%	0%	N/A	N/A	N/A	N/A
JP Morgan U.S. Treasury Plus Money Market Fund (1)	0	108,650	108,650	167,892	2,171	5.2%	22%	N/A	N/A	N/A	N/A
Chase Goldman Sachs (1)	0	104,773	104,773	164,034	2,113	5.2%	21%	N/A	N/A	N/A	N/A
BOA Morgan Stanley (2)	0	48,073	48,073	47,870	617	5.2%	10%	N/A	N/A	N/A	N/A
BOA Dreyfus Treasury (2)	0	115,921	115,921	129,408	1,679	5.2%	23%	N/A	N/A	N/A	N/A
Fidelity Treasury (2)	0	48,253	48,253	48,046	628	5.2%	10%	N/A	N/A	N/A	N/A
<b>Total of all financial institutions</b>	<b>\$ 357</b>	<b>\$ 495,183</b>	<b>\$ 495,540</b>	<b>\$ 624,084</b>	<b>\$ 7,879</b>	<b>5.0%</b>	<b>100%</b>				
(1) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.											
(2) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.											
Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of March 31, 2024. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.											



# Historical Data ( In 000s)

1971 - 2024												
(\$ with 000's omitted)												
YEAR	GROSS						NET				CRTF BALANCE END OF PERIOD	
	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES		WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED	UNDERWRITING GAIN (LOSS)		
1971-1987	\$ 35,367,740	\$ 788,610			\$ 164,538	\$ 187,465	\$ 113,518	\$ 187,465	\$ 35,926	\$ (109,874)		
1988	4,266,615	56,773	-5.4%	-15.0%	19,061	2,509	3,551	2,509	4,066	(3,024)		
1989	4,236,600	55,401	-	-	18,066	14,176	5,330	14,176	4,037	(12,883)		
1990	4,248,611	56,155	3.1%	-2.1%	18,244	1,590	16,761	1,590	4,171	11,000		
1991	4,346,209	54,145	25.0%	-2.0%	20,504	1,783	7,167	1,783	4,343	1,042		
1992	5,155,790	55,471	-20% (I)/-75% (B)	-22.9%	11,495	1,321	4,014	1,321	4,220	(1,527)		
1993	6,500,165	56,921	30.0%	-	19,377	4,778	123,515	4,778	5,161	113,576		
1994	7,645,176	63,348	-	-	26,545	1,572	25,692	1,572	6,982	17,138	124,847	
1995	8,828,140	69,807	25.0%	-	32,419	4,033	29,016	4,033	8,119	16,864	151,284	
1996	10,001,843	72,977	-	-	40,359	1,484	37,153	1,484	10,627	25,042	179,020	
1997	10,907,937	75,361	-	-	42,463	4,133	41,045	4,133	11,038	25,874	216,896	
1998	11,633,935	77,261	0.2%	-3.0%	44,411	27,235	28,256	27,235	12,181	(11,160)	238,221	
1999	11,972,502	75,947	-9.4%	-	44,581	11,320	28,702	11,320	11,524	5,858	250,403	
2000	12,052,604	73,815	8.7%	9.0%	48,012	7,937	28,470	7,937	11,681	8,852	268,563	
2001	13,249,407	77,022	18.5%	4.0%	54,631	8,011	31,112	8,011	12,936	10,165	280,063	
2002	16,003,048	85,668	-	5.0%	72,968	32,359	44,516	32,359	16,584	(4,427)	303,185	
2003	18,824,457	96,420	-	10.0%	87,987	24,955	51,702	24,955	19,682	7,065	305,599	
2004	20,796,656	103,503	9.6%	10.0%	102,384	6,115	52,230	6,115	21,911	24,204	308,729	
2005	23,263,934	109,693	-	10.0%	113,928	178,370	65,438	178,370	25,277	(138,209)	311,508	
2006	38,313,022	143,999	3.1%	13.4%	196,833	5,188	85,467	5,188	37,138	43,141	361,823	
2007	58,641,546	216,008	4.2%	3.7%	315,139	17,985	135,843	17,985	51,768	66,090	388,542	
2008	58,585,060	215,537	8.2%	5.4%	331,049	2,587,123	(138,560)	1,117,123	53,759	(1,309,442)	-	
2009	61,700,891	230,545	12.3%	15.6%	382,342	(486,314)	389,600	(183,974)	87,899	485,675	-	
2010	67,452,357	242,664	-	-	385,550	555,025	351,730	252,685	85,598	13,447	76,334	
2011	71,083,333	255,945	5.0%	5.0%	403,748	202,539	321,781	202,539	81,665	37,577	146,650	
2012	74,186,949	266,726	5.0%	5.0%	443,480	401,873	321,122	401,873	93,583	(174,334)	178,902	
2013	76,921,369	270,814	5.0%	5.0%	472,739	30,975	295,130	30,975	100,524	163,631	186,184	
2014	78,763,302	275,626	5.0%	5.0%	494,036	(13,994)	367,555	(13,994)	109,189	272,360	216,813	
2015	78,551,742	272,219	5.0%	5.0%	503,824	178,886	377,594	178,886	114,973	83,736	487,170	
2016	73,393,573	254,346	5.0%	5.0%	487,354	38,669	370,404	38,625	109,756	222,023	587,860	
2017	65,023,810	231,567	-	-	423,074	1,476,861	347,354	1,475,302	97,878	(1,225,826)	1,220	
2018	58,041,760	202,208	5.0%	5.0%	395,552	175,718	301,515	175,998	96,399	29,118	5,986	
2019	55,189,815	189,203	-	-	372,017	113,513	287,477	113,398	92,415	81,664	122,496	
2020	55,009,638	184,890	-	-	369,600	118,669	261,574	118,470	90,594	52,510	179,174	
2021	59,543,596	193,002	-	-	395,113	19,026	276,372	19,048	95,623	161,701	182,712	
2022	75,698,532	222,480	5.0%	5.0%	518,299	51,213	311,395	51,248	120,093	140,054	190,004	
2023	95,677,314	247,531	0.0%	0.0%	653,043	91,367	371,366	91,373	140,022	139,972	283,006	
2024	105,516,849	262,740	0.0%	0.0%	358,405	189,477	271,379	189,477	71,529	10,372	451,368	
<b>TOTAL *</b>					<b>8,883,171</b>	<b>6,274,943</b>	<b>6,043,287</b>	<b>4,803,369</b>	<b>1,960,871</b>	<b>(720,953)</b>		

\*2024 data through 06/30/2024.



## MEMORANDUM

DATE: July 19, 2024  
TO: David Durden, General Manager  
FROM: Jim Murphy, Chief Actuary  
RE: Comparison of Loss Adjustment Expenses to Losses

At the May 7 meeting of the TWIA Board of Directors, Georgia Neblett asked about the relative difference between incurred loss and loss adjustment expenses (LAE) during the first quarter of 2024 as compared to the first quarter of 2023, as shown in the Management Discussion and Analysis section. I have summarized the relevant amounts below, as of both the first and second quarters:

	YTD Actual Amounts as of			
	Mar 24	Mar 23	Jun 24	Jun 23
Direct Losses Incurred	\$ 48.7 M	\$ 20.9 M	\$ 148.5 M	\$ 67.6 M
Direct LAE Incurred	\$ 10.9 M	\$ 0.7 M	\$ 41.0 M	\$ 13.3 M
<b>Incurred LAE as % Loss</b>	<b>22.4%</b>	<b>3.2%</b>	<b>27.6%</b>	<b>19.6%</b>

These amounts are consistent with TWIA financial statements and include all payments and changes in case and IBNR (incurred but not reported) reserve balances for losses, allocated loss adjustment expenses (ALAE), and unallocated loss adjustment expenses (ULAE) that took place through the first and second quarters of each of these two years.

Staff believes that a more appropriate metric for comparing loss adjustment expenses to losses across different time periods is to look at paid ALAE as a percentage of paid loss, excluding both changes in reserves and paid ULAE (the following also excludes the final settlements for Hurricane Ike made in the first quarter of 2023, given their unique nature and the significant dollar amounts involved). Further discussion on the elimination of reserves and ULAE, along with additional information by age of claim, have been provided below.

	YTD Actual Amounts as of			
	Mar 24	Mar 23	Jun 24	Jun 23
Direct Losses Paid	\$ 21.7 M	\$ 16.3 M	\$ 73.8 M	\$ 43.8 M
Direct ALAE Paid	\$ 3.0 M	\$ 2.5 M	\$ 9.0 M	\$ 6.0 M
<b>Paid ALAE as % Loss</b>	<b>13.6%</b>	<b>15.3%</b>	<b>12.2%</b>	<b>13.7%</b>

Based on a paid ALAE-to-paid loss metric, claims adjustment costs are slightly lower in 2024 than in 2023.



### Paid ALAE vs. Incurred LAE

ALAE is by definition allocable to specific claims and is directly related to the cost for adjusters and other experts involved in the adjustment of a particular claim. Actual payments made for ALAE compared to loss payments should be the most accurate measure of claims handling efficiency from an expense perspective.

Unlike ALAE, ULAE is generally associated with the salaries and other expenses related to permanent claims staff. Outside of a major catastrophe requiring a significant increase in personnel, paid ULAE should be relatively fixed and not directly tied to the adjustment of individual claims. Therefore, its inclusion in metrics may overstate or understate actual adjustment expenses based on the total volume of claims during the measurement period.

Case reserves are estimates of future payments tied to specific claims and are continuously revised upwards and downwards as more information about the claim becomes available. Because of this volatility, including case reserves in the comparison can skew results.

IBNR reserves – reserves for claims that are incurred but not reported – are estimated on a combined loss and LAE basis and then allocated separately to loss and LAE. Any difference between the allocation percentage and actual amounts can also skew results.

One further note – the final payments on Ike claims were made during the first quarter of 2023 and all remaining reserves were closed. Given the unique nature of these litigated claims and the significant dollar amounts involved, these transactions were also removed from this analysis.

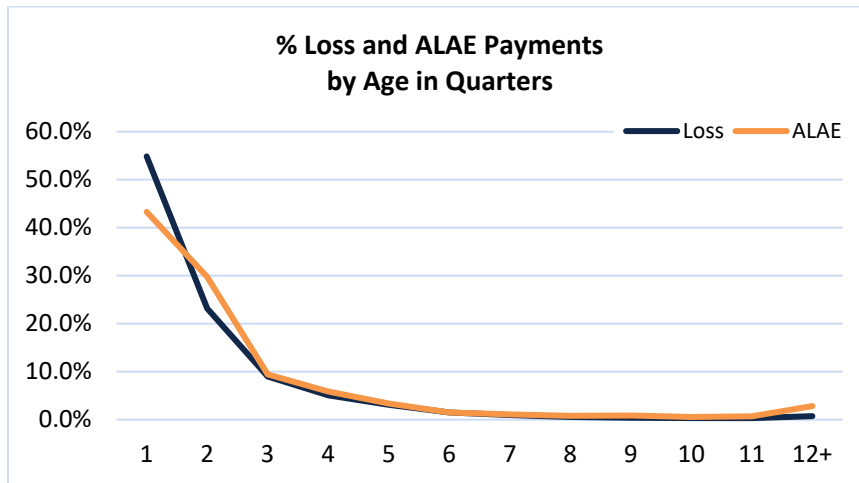
The following table shows the impact of removing paid ULAE, changes in reserves, and Ike settlements from the four quarters under review:

	YTD Actual Amounts as of			
	Mar 24	Mar 23	Jun 24	Jun 23
Direct Losses Incurred	\$ 48.7 M	\$ 20.9 M	\$ 148.5 M	\$ 67.6 M
- Change in Loss Reserves	(\$ 27.0 M)	\$ 5.6 M	(\$ 74.6 M)	(\$ 13.6 M)
- Ike Litigation		(\$ 10.1 M)		(\$ 10.1 M)
<b>Direct Losses Paid</b>	<b>\$ 21.7 M</b>	<b>\$ 16.3 M</b>	<b>\$ 73.8 M</b>	<b>\$ 43.8 M</b>
Direct LAE Incurred	\$ 10.9 M	\$ 0.7 M	\$ 41.0 M	\$ 13.3 M
- Direct Paid ULAE	(\$ 2.8 M)	(\$ 2.8 M)	(\$ 6.5 M)	(\$ 5.4 M)
- Change in ALAE Reserves	(\$ 5.1 M)	\$ 4.6 M	(\$ 25.6 M)	(\$ 1.8 M)
<b>Direct ALAE Paid</b>	<b>\$ 3.0 M</b>	<b>\$ 2.5 M</b>	<b>\$ 9.0 M</b>	<b>\$ 6.0 M</b>
<b>Paid ALAE as % Loss</b>	<b>13.6%</b>	<b>15.3%</b>	<b>12.2%</b>	<b>13.7%</b>



### Differences Based on Age of Claims

Historically, losses are paid slightly closer to the report date than ALAE, as shown on the following graph:



55% of all loss payments are made in the quarter in which the claim is reported, as compared to 43% for ALAE payments. For all other quarters, loss payments are close to or slightly less than ALAE payments.

For calendar period reporting, like financial statements, the relative amount of payments made on recent claims vs. older claims can make a difference in the paid ALAE ratios. The following table shows paid loss and ALAE amounts separately for claims in their first quarter vs. older claims for the four quarters under review:

		YTD Actual Amounts as of			
		Mar 24	Mar 23	Jun 24	Jun 23
First Quarter	Direct Losses Paid	\$ 12.2 M	\$ 7.8 M	\$ 33.7 M	\$ 19.2 M
	Direct ALAE Paid	\$ 1.3 M	\$ 1.1 M	\$ 3.8 M	\$ 2.7 M
	<b>Paid ALAE as % Loss</b>	<b>10.8%</b>	<b>14.5%</b>	<b>11.2%</b>	<b>14.1%</b>
Following Quarters	Direct Losses Paid	\$ 9.6 M	\$ 8.5 M	\$ 40.2 M	\$ 24.6 M
	Direct ALAE Paid	\$ 1.6 M	\$ 1.4 M	\$ 5.2 M	\$ 3.3 M
	<b>Paid ALAE as % Loss</b>	<b>17.0%</b>	<b>16.2%</b>	<b>13.0%</b>	<b>13.4%</b>

ALAE as a percentage of loss is generally less in the first quarter, across all four quarters shown above. One driver of differences in ALAE ratios between years is the timing of significant weather events. For example, the paid ALAE ratio for Q1 2024 is 13.6% overall compared to 15.3% for 2023 in part because 55% of payments in Q1 2024 were made on recent claims, vs. only 47% in 2023.

## 6C. Investment of Trust Fund Balances





## MEMORANDUM

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DATE: July 10, 2024  
TO: David Durden, General Manager  
FROM: Stuart Harbour, Chief Financial Officer  
RE: **Investment of Trust Fund Balances (Sec. 2210.4521)**

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Hi David, SB 900 added the following requirement regarding the Catastrophe Reserve Trust Fund (CRTF):

Sec. 2210.4521. INVESTMENT OF TRUST FUND BALANCES.

(a) The comptroller shall invest in accordance with the investment standard described by Section 404.024(j), Government Code, the portion of the trust fund balance that exceeds the amount of the sufficient balance determined under Subsection (b). The comptroller's investment of that portion of the balance is not subject to any other limitation or other requirement provided by Section 404.024, Government Code.

**(b) At least once each 12-month period, the board of directors shall determine a balance for the trust fund that the board considers to be sufficient to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section**

**2210.452(a). [Emphasis added]** After determining that sufficient balance, the board shall provide notice of the sufficient balance to the comptroller.

The TWIA Board of Directors last reviewed this provision as required in 2023 at the August Board of Directors Meeting.

This statutory provision requires the Comptroller to invest excess CRTF funds in a less restrictive manner using a "prudent investor" standard and it requires the TWIA board to provide an annual notification to the Comptroller regarding the excess funds/sufficient balance amount in the CRTF. The CRTF Balance is approximately \$451.0 M as of June 30, 2024. The CRTF is utilized for funding losses and expenses in excess of current year premiums and other revenue. Since there is a reasonable possibility that all of the funds in the CRTF may be required to be utilized in the event of an additional catastrophic event, TWIA staff believes that all the funds in the CRTF are necessary to meet the potential cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a). Thus, there are **no excess funds** in the CRTF at this time to be invested by the Comptroller under the prudent investor standard set forth in Chapter 424 of the Government Code.



Suggested language for a resolution by the TWIA board of directors at the August 6, 2024 meeting is as follows:

**Resolved, that based on association staff analysis and recommendation, the Board of Directors hereby determines that at this time the entire balance of the Catastrophe Reserve Trust Fund is required to be kept available to meet the cash flow requirements of the fund in funding the payment of insured losses as provided by Section 2210.452(a) of the Texas Insurance Code. Thus, staff is directed to notify the Texas Comptroller's Office that the fund balance does not exceed the sufficient balance as defined in statute.**

Please let me know if you have any questions or would like to discuss this matter.

Thank you,  
Stuart

6D. Selection of Auditors/Accountants for  
2024 and Authorization of  
Non-Audit Services



## MEMORANDUM

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DATE: July 10, 2024  
TO: David Durden, General Manager  
FROM: Stuart Harbour, Chief Financial Officer  
RE: **Selection of Auditors/Accountants for 2024 and Authorization of Non-Audit Services**

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Each year the association retains an accounting firm to conduct an independent audit of the association's financial statements as of and for the year ended December 31. Pursuant to an RFP process in 2021, Calhoun Thomson + Matza ("CTM") was selected to continue in their role as the association's independent auditor. I have attached the Statutory and GASB engagement letters from CTM for use in connection with the audit of the association's 2024 financial statements. Counsel has reviewed the letters and reports that they are the same as last year with no changes in terms except for a proposed fee increase from \$75,000 to \$78,750 for the Statutory audit and from \$13,525 to \$14,200 for the GAAP/GASB audit. Staff notes that the audit fees have been held constant for several years. Staff recommends to the Board of Directors that the engagements be approved, and the letters executed. Staff also request authority to use CTM as needed over the coming year for assistance with certain tax related items and for non-audit services associated with the issuance of catastrophe bonds. Resolution language follows.

**The Board of Directors of the association, acting as the audit committee, authorizes and directs that the firm of Calhoun, Thomson + Matza be engaged to conduct the upcoming annual audits of the association's financial statements on the terms set forth in the Statutory and GASB engagement letters included in the board book. The staff of the association is further authorized to engage Calhoun, Thomson + Matza to provide permitted tax related non-audit services and certain non-audit services in connection with the issuance of catastrophe bonds during the coming year as needed.**

Please let me know if you have any questions or would like to discuss this matter.

Thank you,

Stuart

**Agreement to provide services**

July 11, 2024

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
4801 Southwest Pkwy Building One, Suite 200  
Austin, Texas 78735

Dear Ms. Franklin-Womack:

This agreement to provide services (the "Agreement") is intended to describe the nature and scope of our services.

**Audit**

As agreed, Calhoun, Thomson + Matza, LLP ("CTM" or "we") will audit the statement of net position of Texas Windstorm Insurance Association (the "Association" or "you") as of December 31, 2024 and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of your Association's management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding Association assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

Also, the supplementary information accompanying the financial statements, as listed below, will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditors' report will not provide an opinion or any assurance on such supplementary information.

- Management's discussion and analysis
- Schedule of changes in net pension liability and related ratio's
- Schedule of employer contributions

You acknowledge and understand your responsibility for the preparation of the supplementary information in accordance with the applicable criteria. You also agree to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information. You also agree to present the supplementary information with the audited financial statements, or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
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information no later than the date of issuance of the supplementary information and our report thereon.

Our responsibility is to express an opinion on the financial statements based on our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We are also responsible for communicating with those charged with governance what our responsibilities are under generally accepted auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit. The term “those charged with governance” is defined as the person(s) with responsibility for overseeing the strategic direction of the Association and obligations related to the accountability of the Association, including overseeing the financial reporting process. For the Association, we agree that the Board of Directors meets that definition.

At the conclusion of our audit, we will submit to you a report containing our opinion as to whether the financial statements, taken as a whole, are fairly presented based on accounting principles generally accepted in the United States of America. If, during the course of our work, it appears for any reason that we will not be in a position to render an unqualified opinion on the financial statements, or that our report will require an explanatory paragraph, we will discuss this with you. It is possible that, because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

We will design our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Our work will be based primarily upon selected tests of evidence supporting the amounts and disclosures in the financial statements and, therefore, will not include a detailed check of all of your Association’s transactions for the period. Accordingly, an audit performed in accordance with auditing standards generally accepted in the United States of America is not a guarantee of the accuracy of the financial statements, and there is a risk that material errors or fraud may exist and not be detected by us. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. However, we will promptly inform you of any material errors or any fraud, whether material or not, that come to our attention. We will also inform you of possible illegal acts that come to our attention. In addition, during the course of our audit, financial statement misstatements may be identified, either through our audit procedures or through communication by your employees to us, and we will bring these misstatements to your attention as proposed adjustments. Management is responsible for recording such adjustments in the financial statements, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the Association’s files; or otherwise concluding and confirming in a representation letter provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the financial statements taken as a whole. At the conclusion of our audit we will communicate to those charged with governance all such uncorrected misstatements.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 3

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we are responsible for ensuring that you are aware of any significant deficiencies or material weaknesses that come to our attention during our engagement.

CTM is retaining the Association as a client in reliance on information obtained during the course of our continuing client reacceptance procedures. Scott Weiss has been assigned the role of engagement partner and is responsible for directing the engagement and issuing the appropriate report on the Association's financial statements.

#### **Responsibility to Communicate with the Audit Committee**

Although the objective of our audit of the financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit, we will communicate reportable conditions to you to the extent they come to our attention.

We will report to you, in writing, the following matters:

1. Audit adjustments detected during the audit that could, in our judgment, either individually or in aggregate have a significant effect on the Association's financial reports. Audit adjustments, whether or not recorded by the Association, are proposed corrections of the financial statements that may not have been detected except through the auditing procedures.
2. Uncorrected misstatements aggregated during the current engagement that were determined by management to be immaterial.
3. Any disagreements with management or other serious difficulties encountered during the audit.
4. Any other matter that is required to be communicated by generally accepted auditing standards.

We will also read the minutes of Audit Committee meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management.

#### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via email. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 4

ensure that emails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of email, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

#### **Ownership of Working Papers**

The working papers prepared in conjunction with our audit are the property of our Firm, constitute confidential information, and will be retained by us in accordance with our Firm's policies and procedures. However, we may be required to make certain working papers available to State insurance regulators pursuant to authority given them by law or regulation. Access to the requested working papers will be provided to the State insurance regulators pursuant to a request under Chapter 401 of the Texas Insurance Code.

#### **Reproduction of Audit Report**

If the Association plans any reproduction or publication of our report, or any portion of it, copies of masters' or printers' proofs of the entire document, or if there is no proof, a copy of the entire document in its final form, should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit report provided to management by CTM. You also agree to indemnify CTM from any and all claims that may arise from any differences between the electronic and signed versions.

#### **Review of Documents for Sale of Securities**

The audited financial statements and our report thereon should not be provided or otherwise made available to recipients of any document to be used in connection with the sale of securities (including securities offerings on the Internet) without first submitting copies of the document to us in sufficient time for our review and written approval. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Management Representations and Indemnification**

As required by auditing standards generally accepted in the United States of America, we will request certain written representations from management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of



Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 5

such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations.

#### **Availability of Records and Personnel**

You agree that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to related parties), that all material information will be disclosed to us, and that we will have the full cooperation of, and unrestricted access to, your personnel during the course of the engagement.

You also agree to ensure that any third party valuation reports that you provide to us to support amounts or disclosures in the financial statements a) indicate the purpose for which they were intended, which is consistent with your actual use of such reports; and b) do not contain any restrictive language that would preclude us from using such reports as audit evidence.

#### **Assistance by Your Personnel and Internet Access**

We also ask that your personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to Association employees and/or customers should be provided to us. In addition, we ask that you provide high-speed Internet access to our engagement team, if practicable, while working on the Association's premises. This assistance will serve to facilitate the progress of our work and minimize costs to you.

#### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Association. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your directors' meetings.

#### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Association in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence. In addition, if you hire one of our personnel, you agree to pay us a fee of 20% of that individual's base compensation at your Association 90 days from the first day of employment.

#### **Dispute Resolution Procedure**

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the "Dispute"), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
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parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the "AAA").

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys' fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties.

Any Dispute not resolved first by mediation between the parties (or if the mediation process is waived as provided herein) shall be decided by binding arbitration. The arbitration proceeding shall take place in Austin, Texas, unless the parties agree in writing to a different locale. The arbitration shall be governed by the provisions of the laws of the state in which the arbitration is to take place (except if there is no applicable state law providing for such arbitration, then the Federal Arbitration Act shall apply) and the substantive law of such state shall be applied without reference to conflicts of law rules. In any arbitration instituted hereunder, the proceedings shall proceed in accordance with the then current Arbitration Rules for Professional Accounting and Related Disputes of the AAA, except that the Arbitration Panel (as defined below) shall permit discovery that is consistent with the scope of discovery typically permitted by the Federal Rules of Civil Procedure and/or is otherwise customary in light of the complexity of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

The arbitration shall be conducted before a panel of three persons, one selected by each party, and the third selected by the two party-selected arbitrators (the "Arbitration Panel"). The party-selected arbitrators shall be treated as neutrals. The Arbitration Panel shall have no authority to award non-monetary or equitable relief, but nothing herein shall be construed as a prohibition against a party from pursuing non-monetary or equitable relief in a state or federal court. The parties also waive the right to punitive damages and the arbitrators shall have no authority to award such damages or any other damages that are not strictly compensatory in nature. In rendering their award, the Arbitration Panel shall issue in writing findings of fact and conclusions of law. The Arbitration Panel shall not have authority to grant an award that is not supported by substantial evidence or that is based on an error of law, and such absence of substantial evidence or such error of law may be reviewed on appeal to vacate an award based on the standard of review otherwise applicable in the Federal Appellate Court responsible for the jurisdiction in which the arbitration is venued, and without regard to any heightened standard of review otherwise applicable to an arbitration decision rendered by the AAA. The confidentiality provisions

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 7

applicable to mediation shall also apply to arbitration. The award issued by the Arbitration Panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. No payment of any award or posting of any bond of any kind whatsoever is required to be made or posted until such Dispute is finally determined.

In no event shall a demand for arbitration be made after the date on which the initiation of the legal or equitable proceeding on the same Dispute would be barred by the applicable statute of limitations or repose. For the purposes of applying the statute of limitations or repose, receipt of a written demand for arbitration by the AAA shall be deemed the initiation of the legal or equitable proceeding based on such Dispute.

### **Fees**

Our charges to the Association for the audit services described above will be \$14,200 all-inclusive except for out-of-town travel to Board meetings (if attendance is requested).

Our hourly rates are as follows:

Partner	\$225
Senior Manager	\$175
Senior Associate	\$135
Audit Associate	\$115

This engagement includes only those services specifically described in this Agreement; any additional services not specified herein will be agreed to in a separate letter. In the event you request us to, or we are required to, respond to a subpoena, court order, government regulatory inquiries, or other legal process against the Association or its management for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this or any prior engagements, you agree to compensate us for all time we expend in connection with such response, at our regular rates, and to reimburse us for all related out-of-pocket costs that we incur.

Bills will be rendered on a semi-monthly or other periodic basis, with payment terms of net due upon receipt. If payments are not received promptly, we reserve the right to stop work on the engagement.

If we elect to terminate our services for nonpayment, or for any other reason provided for in this Agreement, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all of our time expended, and to reimburse us for all of our out-of-pocket expenses and internal charges incurred, through the date of termination.

### **Miscellaneous**

This Agreement is only intended to cover the services specified herein, although we look forward to many more years of pleasant association with the Association. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 8

Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the Association hereby authorizes CTM to participate in this electronic confirmation process through the third party's Web site (e.g., by entering the Association's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that CTM shall have no liability in connection therewith.

Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

This Agreement may be transmitted in electronic format and shall not be denied legal effect solely because it was formed or transmitted, in whole or in part, by electronic record; however, this Agreement must then remain capable of being retained and accurately reproduced, from time to time, by electronic record by the parties to this Agreement and all other persons or entities required by law. An electronically transmitted signature to this Agreement will be deemed an acceptable original for purposes of consummating this Agreement and binding the party providing such electronic signature.

#### **Assignability**

This Agreement is nonassignable.

#### **Entire Agreement**

This Agreement constitutes the entire agreement between the parties hereto with regard to the subject matter hereof and supersedes all other agreements relating to the subject matter hereof. There are no agreements, understandings, specific restrictions, warranties or representations relating to said subject matter between the parties other than those set forth herein or herein provided.

#### **Amendment and Modification**

This Agreement may only be amended or modified by the mutual written agreement of the parties.

#### **Public Information**

Notwithstanding any provision herein to the contrary, the parties hereby acknowledge and agree that TWIA is subject to the Texas Public Information Act, Tex. Gov't Code §552.001 et seq. ("Public Information Act") and Attorney General Opinions issued under that statute and must comply with the provisions of Texas law including the Public Information Act. Within three (3)

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
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days of receipt, CTM will refer to TWIA any third party requests, received directly by CTM, for information to which CTM has access as a result of or in the course of performing services under this Agreement.

**Confidential Information and Subpoenas**

CTM will not disclose to anyone, directly or indirectly, any work-papers, data, databases, materials, information or reports in any form that are designated as confidential or that are or could be construed as confidential or subject to restrictions on disclosure under applicable law (“Confidential Information”) and received from TWIA or such Confidential Information to which CTM has access as a result of or in the course of performing services under this Agreement without the prior written consent of TWIA. This confidentiality provision does not apply to information required to be disclosed by law, legal process, and applicable professional standards or to information disclosed in connection with litigation relating to the Agreement or CTM’s performance. Each party will protect the confidentiality of the Confidential Information in the same manner that it protects the confidentiality of its own proprietary and confidential information of like kind. Nothing in this Agreement shall prohibit or limit either party’s use or disclosure of information (including, but not limited to, ideas, concepts, know-how, techniques, and methodologies) (i) previously known to it without obligation of confidence, (ii) independently developed by it, (iii) acquired by it from a third party which is not, to its knowledge, under an obligation of confidence with respect to such information, or (iv) which is or becomes publicly available through no breach of the Agreement. In the event either party receives a subpoena or other validly issued administrative or judicial process requesting Confidential Information, it shall provide prompt notice to the other of such receipt. The party receiving the subpoena shall thereafter be entitled to comply with such subpoena or other process to the extent permitted by law.

Very truly yours,

  
Acknowledged:

By \_\_\_\_\_  
Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee

Date \_\_\_\_\_

(Please sign and return to us one copy; retain the other copy for your files)

**Agreement to provide services**

July 11, 2024

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
4801 Southwest Pkwy Building One, Suite 200  
Austin, Texas 78735

Dear Ms. Franklin-Womack:

This agreement to provide services (the “Agreement”) is intended to describe the nature and scope of our services.

**Statutory Audit**

As agreed, Calhoun, Thomson + Matza, LLP (“CTM” or “we”) will audit the statutory statement of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the “Association” or “you”) as of December 31, 2024 and the related statutory statements of income, changes in surplus and other funds, and cash flows for the year then ending, in accordance with auditing standards generally accepted in the United States of America. The financial records and financial statements are the responsibility of the Association’s management. In that regard, management is responsible for establishing and maintaining effective internal control over financial reporting, establishing and maintaining proper accounting records, selecting appropriate accounting principles, safeguarding the Association’s assets, designing and implementing programs and controls to prevent and detect fraud, complying with relevant laws and regulations, and making all financial records and related information available to us.

Also, the supplementary information accompanying the statutory financial statements, as listed below, which are presented to comply with the National Association of Insurance Commissioners’ Accounting Practices and Procedures Manual and Texas state law, will be subjected to the auditing procedures applied in our audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and our auditors’ report will provide an opinion on it in relation to the statutory financial statements as a whole.

- Summary Investment Schedule as of December 31, 2024.

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 2

- Supplemental Investment Risk Interrogatories as of December 31, 2024.
- Reinsurance Interrogatories as of December 31, 2024.

You acknowledge and understand your responsibility for the preparation of the supplementary information in accordance with the applicable criteria. You also agree to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information. You also agree to present the supplementary information with the audited financial statements, or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and our report thereon.

Our responsibility is to express an opinion on the statutory financial statements based on our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We are also responsible for communicating with those charged with governance what our responsibilities are under generally accepted auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit. The term “those charged with governance” is defined as the person(s) with responsibility for overseeing the strategic direction of the Association and obligations related to the accountability of the Association, including overseeing the financial reporting process. For the Association, we agree that the Audit Committee meets that definition.

At the conclusion of our audit, we will submit to you a report containing our opinion as to whether the statutory financial statements, taken as a whole, are fairly presented based on accounting principles prescribed or permitted by the Texas Department of Insurance. If, during the course of our work, it appears for any reason that we will not be in a position to render an unqualified opinion on the statutory financial statements, or that our report will require an explanatory paragraph, we will discuss this with you. It is possible that, because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

We will design our audit, in accordance with auditing standards generally accepted in the United States of America, to obtain reasonable assurance about whether the statutory financial statements are free of material misstatements, whether caused by error or fraud. Our work will be based primarily upon selected tests of evidence

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 3

supporting the amounts and disclosures in the statutory financial statements and, therefore, will not include a detailed check of all of the Association's transactions for the period. Accordingly, an audit performed in accordance with auditing standards generally accepted in the United States of America is not a guarantee of the accuracy of the statutory financial statements, and there is a risk that material errors or fraud may exist and not be detected by us. Also, an audit is not designed to detect errors or fraud that are immaterial to the statutory financial statements. However, we will promptly inform you of any material errors or any fraud, whether material or not, that come to our attention. We will also inform you of possible illegal acts that come to our attention. In addition, during the course of our audit, statutory financial statement misstatements may be identified, either through our audit procedures or through communication by the Association's employees to us, and we will bring these misstatements to your attention as proposed adjustments. Management is responsible for recording such adjustments in the statutory financial statements, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the Association's files; or otherwise concluding and confirming in a representation letter provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the statutory financial statements taken as a whole. At the conclusion of our audit we will communicate to those charged with governance all such uncorrected misstatements.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we are responsible for ensuring that you are aware of any significant deficiencies or material weaknesses that come to our attention during our engagement.

CTM is retaining the Association as a client in reliance on information obtained during the course of our continuing client reacceptance procedures. Scott Weiss has been assigned the role of engagement partner and is responsible for directing the engagement and issuing the appropriate report on the Association's statutory financial statements.

### **Responsibility to Communicate with the Audit Committee**

Although the objective of our audit of the statutory financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit, we will communicate reportable conditions to you to the extent they come to our attention.



Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 4

We will report to you, in writing, the following matters:

1. Audit adjustments detected during the audit that could, in our judgment, either individually or in aggregate have a significant effect on the Association's financial reports. Audit adjustments, whether or not recorded by the Association, are proposed corrections of the financial statements that may not have been detected except through the auditing procedures.
2. Uncorrected misstatements aggregated during the current engagement that were determined by management to be immaterial.
3. Any disagreements with management or other serious difficulties encountered during the audit.
4. Any other matter that is required to be communicated by generally accepted auditing standards.

We will also read the minutes of Audit Committee meetings for consistency with our understanding of the communications made to you and determine that you have received copies of all material written communications between ourselves and management.

#### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail transmission. As e-mails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that e-mails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure or communication of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, the Association agrees that we shall have no liability for any loss or damage from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

#### **Ownership of Working Papers**

The working papers prepared in conjunction with our audit are the property of our Firm, constitute confidential information, and will be retained by us in accordance with our Firm's policies and procedures. However, we may be required to make certain working papers available to State insurance regulators pursuant to authority given them by law

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
July 11, 2024  
Page 5

or regulation. Access to the requested working papers will be provided to the State insurance regulators pursuant to a request under Chapter 401 of the Texas Insurance Code.

#### **Reproduction of Audit Report**

If the Association plans any reproduction or publication of our report, or any portion of it, copies of masters' or printers' proofs of the entire document, or if there is no proof, a copy of the entire document in its final form, should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Posting of Audit Report and Statutory Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the statutory financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the statutory financial statements and audit report on your Web site and the signed version of the statutory financial statements and audit report provided to management by CTM.

#### **Review of Documents for Sale of Securities**

The audited statutory financial statements and our report thereon should not be provided or otherwise made available to recipients of any document to be used in connection with the sale of securities (including securities offerings on the Internet) without first submitting copies of the document to us in sufficient time for our review and written approval. If, in our professional judgment, the circumstances require, we may withhold our written approval.

#### **Management Representations and Indemnification**

As required by auditing standards generally accepted in the United States of America, we will request certain written representations from the Association's management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations.

#### **Availability of Records and Personnel**

The Association agrees that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to

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Texas Windstorm Insurance Association  
July 11, 2024  
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related parties), that all material information will be disclosed to us, and that we will have the full cooperation of, and unrestricted access to, the Association's personnel during the course of the engagement.

You also agree to ensure that any third party valuation reports and/or actuarial reports that the Association provides to us to support amounts or disclosures in the statutory financial statements a) indicate the purpose for which they were intended, which is consistent with your actual use of such reports; and b) do not contain any restrictive language that would preclude us from using such reports as audit evidence.

### **Assistance by the Association's Personnel and Internet Access**

We also ask that the Association's personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to the Association's employees and/or customers should be provided to us. In addition, we ask that the Association provides high-speed Internet access to our engagement team, if practicable, while working on the Association's premises. This assistance will serve to facilitate the progress of our work and minimize costs to the Association.

### **Other Services**

We are always available to meet with you or other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting the Association. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your director's meetings.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the Association in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence. In addition, if you hire one of our personnel, you agree to pay us a fee of 20% of that individual's base compensation at your Association 90 days from the first day of employment.

Provisions of the National Association of Insurance Commissioners' Model Audit Rule also require the Association's audit committee to pre-approve all permissible non-attest services. We agree not to perform any services without audit committee pre-approval and you agree to implement appropriate policies and procedures to ensure that the

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audit committee pre-approves any services that we or other independent auditors are asked to perform.

### **Dispute Resolution Procedure**

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the “Dispute”), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the “AAA”).

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys’ fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties.

Any Dispute not resolved first by mediation between the parties (or if the mediation process is waived as provided herein) shall be decided by binding arbitration. The arbitration proceeding shall take place in Austin, Texas, unless the parties agree in writing to a different locale. The arbitration shall be governed by the provisions of the laws of the state in which the arbitration is to take place (except if there is no applicable state law providing for such arbitration, then the Federal Arbitration Act shall apply) and the substantive law of such state shall be applied without reference to conflicts of law rules. In any arbitration instituted hereunder, the proceedings shall proceed in accordance with the then current Arbitration Rules for Professional Accounting and Related Disputes of the AAA, except that the Arbitration Panel (as defined below) shall permit discovery that is consistent with the scope of discovery typically permitted by the

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Federal Rules of Civil Procedure and/or is otherwise customary in light of the complexity of the Dispute and the amount in controversy. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the Arbitration Panel (as defined below).

The arbitration shall be conducted before a panel of three persons, one selected by each party, and the third selected by the two party-selected arbitrators (the "Arbitration Panel"). The party-selected arbitrators shall be treated as neutrals. The Arbitration Panel shall have no authority to award non-monetary or equitable relief, but nothing herein shall be construed as a prohibition against a party from pursuing non-monetary or equitable relief in a state or federal court. The parties also waive the right to punitive damages and the arbitrators shall have no authority to award such damages or any other damages that are not strictly compensatory in nature. In rendering their award, the Arbitration Panel shall issue in writing findings of fact and conclusions of law. The Arbitration Panel shall not have authority to grant an award that is not supported by substantial evidence or that is based on an error of law, and such absence of substantial evidence or such error of law may be reviewed on appeal to vacate an award based on the standard of review otherwise applicable in the Federal Appellate Court responsible for the jurisdiction in which the arbitration is venued, and without regard to any heightened standard of review otherwise applicable to an arbitration decision rendered by the AAA. The confidentiality provisions applicable to mediation shall also apply to arbitration. The award issued by the Arbitration Panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. No payment of any award or posting of any bond of any kind whatsoever is required to be made or posted until such Dispute is finally determined.

In no event shall a demand for arbitration be made after the date on which the initiation of the legal or equitable proceeding on the same Dispute would be barred by the applicable statute of limitations or repose. For the purposes of applying the statute of limitations or repose, receipt of a written demand for arbitration by the AAA shall be deemed the initiation of the legal or equitable proceeding based on such Dispute.

### **Fees**

Our charges to the Association for the audit services described above will be \$78,750 all-inclusive except for out-of-town travel to Board meetings (if attendance is requested).

Our hourly rates are as follows:

Partner	\$225
Senior Manager	\$175
Senior Associate	\$135
Audit Associate	\$115

Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee  
Texas Windstorm Insurance Association  
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This engagement includes only those services specifically described in this letter; any additional services not specified herein will be agreed to in a separate letter. Reasonable costs and time spent in legal matters or proceedings arising from our engagement (other than litigation to which we are a party), such as subpoenas, testimony, or consultation involving private litigation or arbitration, or government regulatory inquiries at your request or by subpoena, will be billed to the Association separately and the Association agrees to pay the same.

Bills will be rendered on a semi-monthly or other periodic basis, with payment terms of net due upon receipt. If payments are not received promptly, we reserve the right to stop work on the engagement.

If we elect to terminate our services for nonpayment, or for any other reason provided for in this letter, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all of our time expended, and to reimburse us for all of our out-of-pocket expenses and internal charges incurred, through the date of termination.

### **Miscellaneous**

This Agreement is only intended to cover the services specified herein, although we look forward to many more years of pleasant association with the Association. This engagement is a separate and discrete event and any future services will be covered by a separate agreement to provide services.

Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the Association hereby authorizes CTM to participate in this electronic confirmation process through the third party's Web site (e.g., by entering the Association's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that CTM shall have no liability in connection therewith.

Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

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Texas Windstorm Insurance Association  
July 11, 2024  
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This Agreement may be transmitted in electronic format and shall not be denied legal effect solely because it was formed or transmitted, in whole or in part, by electronic record; however, this Agreement must then remain capable of being retained and accurately reproduced, from time to time, by electronic record by the parties to this Agreement and all other persons or entities required by law. An electronically transmitted signature to this Agreement will be deemed an acceptable original for purposes of consummating this Agreement and binding the party providing such electronic signature.

### **Assignability**

This Agreement is nonassignable.

### **Entire Agreement**

This Agreement constitutes the entire agreement between the parties hereto with regard to the subject matter hereof and supersedes all other agreements relating to the subject matter hereof. There are no agreements, understandings, specific restrictions, warranties or representations relating to said subject matter between the parties other than those set forth herein or herein provided.

### **Amendment and Modification**

This Agreement may only be amended or modified by the mutual written agreement of the parties.

### **Public Information**

Notwithstanding any provision herein to the contrary, the parties hereby acknowledge and agree that TWIA is subject to the Texas Public Information Act, Tex. Gov't Code §552.001 et seq. ("Public Information Act") and Attorney General Opinions issued under that statute and must comply with the provisions of Texas law including the Public Information Act. Within three (3) days of receipt, CTM will refer to TWIA any third party requests, received directly by CTM, for information to which CTM has access as a result of or in the course of performing services under this Agreement.

### **Confidential Information and Subpoenas**

CTM will not disclose to anyone, directly or indirectly, any work-papers, data, databases, materials, information or reports in any form that are designated as confidential or that are or could be construed as confidential or subject to restrictions on disclosure under applicable law ("Confidential Information") and received from TWIA or such Confidential Information to which CTM has access as a result of or in the course

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Texas Windstorm Insurance Association  
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of performing services under this Agreement without the prior written consent of TWIA. This confidentiality provision does not apply to information required to be disclosed by law, legal process, and applicable professional standards or to information disclosed in connection with litigation relating to the Agreement or CTM's performance. Each party will protect the confidentiality of the Confidential Information in the same manner that it protects the confidentiality of its own proprietary and confidential information of like kind. Nothing in this Agreement shall prohibit or limit either party's use or disclosure of information (including, but not limited to, ideas, concepts, know-how, techniques, and methodologies) (i) previously known to it without obligation of confidence, (ii) independently developed by it, (iii) acquired by it from a third party which is not, to its knowledge, under an obligation of confidence with respect to such information, or (iv) which is or becomes publicly available through no breach of the Agreement. In the event either party receives a subpoena or other validly issued administrative or judicial process requesting Confidential Information, it shall provide prompt notice to the other of such receipt. The party receiving the subpoena shall thereafter be entitled to comply with such subpoena or other process to the extent permitted by law.

Very truly yours,

  
Acknowledged:

By \_\_\_\_\_  
Ms. Chandra Franklin-Womack, Chair of the Board of Directors/Audit Committee

Date \_\_\_\_\_

(Please sign and return to us one copy; retain the other copy for your files)



## 7. Actuarial

### 7A. Policy Counts/Exposures

**Texas Windstorm Insurance Association**  
**Statistical Report**  
As of June 30, 2024



County	<u>Policies In-Force</u>		<u>PIF Growth</u>		<u>Exposure In-Force</u>		<u>Exposure Growth</u>		<u>YTD Written Premium</u>		<u>Premium Growth</u>	
	6/30/23	6/30/24	Actual	Percentage	6/30/23	6/30/24	Actual	Percentage	6/30/23	6/30/24	Actual	Percentage
Aransas	7,411	8,252	841	11.30%	3,080,247,129	3,691,430,000	\$611,182,871	19.80%	12,357,833	14,286,457	\$1,928,624	15.60%
Brazoria	41,992	49,140	7,148	17.00%	14,830,975,354	19,315,703,100	\$4,484,727,746	30.20%	45,431,762	58,712,595	\$13,280,833	29.20%
Calhoun	4,435	4,602	167	3.80%	1,372,770,684	1,555,196,300	\$182,425,616	13.30%	5,195,482	6,009,665	\$814,183	15.70%
Cameron	10,485	11,512	1,027	9.80%	4,082,605,603	4,837,084,500	\$754,478,897	18.50%	16,380,791	17,585,690	\$1,204,899	7.40%
Chambers	6,095	7,389	1,294	21.20%	2,438,273,791	3,283,227,900	\$844,954,109	34.70%	6,967,607	10,085,603	\$3,117,996	44.70%
Galveston	74,924	81,638	6,714	9.00%	29,962,695,265	35,868,226,400	\$5,905,531,135	19.70%	105,162,609	121,326,477	\$16,163,868	15.40%
Harris	4,006	4,438	432	10.80%	1,536,808,400	1,855,141,800	\$318,333,400	20.70%	4,442,975	4,763,082	\$320,107	7.20%
Jefferson	29,661	32,257	2,596	8.80%	8,633,477,742	10,497,309,700	\$1,863,831,958	21.60%	30,070,677	36,851,558	\$6,780,881	22.50%
Kenedy	28	33	5	17.90%	6,649,400	7,099,700	\$450,300	6.80%	19,477	20,990	\$1,513	7.80%
Kleberg	882	1,045	163	18.50%	277,515,700	346,791,800	\$69,276,100	25.00%	1,586,275	1,748,689	\$162,414	10.20%
Matagorda	5,181	5,591	410	7.90%	1,561,093,524	1,847,629,900	\$286,536,376	18.40%	5,778,858	6,738,475	\$959,617	16.60%
Nueces	43,107	47,219	4,112	9.50%	15,597,356,589	19,013,552,300	\$3,416,195,711	21.90%	57,681,595	68,768,353	\$11,086,758	19.20%
Refugio	398	454	56	14.10%	116,026,040	142,049,300	\$26,023,260	22.40%	430,373	492,623	\$62,250	14.50%
San Patricio	7,935	8,768	833	10.50%	2,571,592,893	3,115,527,000	\$543,934,107	21.20%	8,484,184	10,436,588	\$1,952,404	23.00%
Willacy	369	402	33	8.90%	118,931,200	140,879,700	\$21,948,500	18.50%	515,642	577,770	\$62,128	12.00%
<b>Total</b>	<b>236,909</b>	<b>262,740</b>	<b>25,831</b>	<b>10.90%</b>	<b>86,187,019,314</b>	<b>105,516,849,400</b>	<b>\$19,329,830,086</b>	<b>22.40%</b>	<b>300,506,140</b>	<b>358,404,615</b>	<b>\$57,898,475</b>	<b>19.30%</b>

**Texas Windstorm Insurance Association**  
Quarterly Liability Report  
As of June 30, 2024



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Aransas</b>										
Commercial	158	240	392	587	2,085,108	3,649,384	529,538,800	15,132,185	442	1,043
Manufactured Home	86	130	86	130	156,341	234,144	14,468,800	0	204	204
Residential	2,315	3,788	2,315	3,788	6,399,131	10,402,929	3,147,422,400	277,910,740	7,606	7,606
<b>Total</b>	<b>2,559</b>	<b>4,158</b>	<b>2,793</b>	<b>4,505</b>	<b>8,640,580</b>	<b>14,286,457</b>	<b>3,691,430,000</b>	<b>293,042,925</b>	<b>8,252</b>	<b>8,853</b>
<b>Brazoria</b>										
Commercial	239	410	442	775	2,711,264	4,950,477	832,919,000	24,774,610	831	1,520
Manufactured Home	149	241	149	241	295,977	482,245	27,786,800	0	355	355
Residential	13,897	23,901	13,897	23,901	31,463,117	53,279,873	18,454,997,300	2,548,052,000	47,954	47,954
<b>SUM:</b>	<b>14,285</b>	<b>24,552</b>	<b>14,488</b>	<b>24,917</b>	<b>34,470,358</b>	<b>58,712,595</b>	<b>19,315,703,100</b>	<b>2,572,826,610</b>	<b>49,140</b>	<b>49,829</b>
<b>Calhoun</b>										
Commercial	61	101	136	226	977,517	1,235,374	181,319,600	5,008,770	216	474
Manufactured Home	23	38	23	38	38,806	62,751	5,287,700	0	78	78
Residential	1,302	2,136	1,302	2,136	2,934,448	4,711,540	1,368,589,000	122,055,780	4,308	4,308
<b>SUM:</b>	<b>1,386</b>	<b>2,275</b>	<b>1,461</b>	<b>2,400</b>	<b>3,950,771</b>	<b>6,009,665</b>	<b>1,555,196,300</b>	<b>127,064,550</b>	<b>4,602</b>	<b>4,860</b>
<b>Cameron</b>										
Commercial	281	480	949	1,352	6,362,113	9,298,370	2,002,960,200	23,099,065	863	2,310
Manufactured Home	31	48	31	48	38,717	71,042	4,416,500	0	84	84
Residential	3,083	4,980	3,083	4,980	5,006,804	8,216,278	2,829,707,800	264,425,880	10,565	10,565
<b>SUM:</b>	<b>3,395</b>	<b>5,508</b>	<b>4,063</b>	<b>6,380</b>	<b>11,407,634</b>	<b>17,585,690</b>	<b>4,837,084,500</b>	<b>287,524,945</b>	<b>11,512</b>	<b>12,959</b>

**Texas Windstorm Insurance Association**  
Quarterly Liability Report  
As of June 30, 2024



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Chambers</b>										
Commercial	34	51	58	82	1,029,401	1,293,183	143,246,000	2,746,935	129	205
Manufactured Home	25	46	25	46	45,045	82,809	6,294,200	0	84	84
Residential	2,142	3,599	2,142	3,599	5,209,627	8,709,611	3,133,687,700	441,781,340	7,176	7,176
SUM:	2,201	3,696	2,225	3,727	6,284,073	10,085,603	3,283,227,900	444,528,275	7,389	7,465
<b>Galveston</b>										
Commercial	682	1,128	1,302	2,179	11,299,593	19,255,520	3,648,362,600	88,523,080	2,182	4,407
Manufactured Home	96	152	96	152	161,810	264,881	18,147,200	0	269	269
Residential	24,063	40,960	24,063	40,960	61,200,912	101,806,076	32,201,716,600	3,880,168,060	79,187	79,187
SUM:	24,841	42,240	25,461	43,291	72,662,315	121,326,477	35,868,226,400	3,968,691,140	81,638	83,863
<b>Harris</b>										
Commercial	45	59	158	185	844,242	1,050,040	212,178,000	6,005,770	90	260
Manufactured Home	2	2	2	2	3,092	3,092	425,000	0	7	7
Residential	1,377	2,294	1,377	2,294	2,246,700	3,709,950	1,642,538,800	224,179,020	4,341	4,341
SUM:	1,424	2,355	1,537	2,481	3,094,034	4,763,082	1,855,141,800	230,184,790	4,438	4,608
<b>Jefferson</b>										
Commercial	260	419	468	758	3,482,042	5,009,968	1,077,748,000	32,155,999	865	1,831
Manufactured Home	50	68	50	68	95,668	127,599	7,164,400	0	96	96
Residential	10,044	15,963	10,044	15,963	19,910,144	31,713,991	9,412,397,300	1,249,335,400	31,296	31,296
SUM:	10,354	16,450	10,562	16,789	23,487,854	36,851,558	10,497,309,700	1,281,491,399	32,257	33,223

**Texas Windstorm Insurance Association**  
Quarterly Liability Report  
As of June 30, 2024



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Kenedy</b>										
Commercial	0	0	0	0	0	0	0	0	0	0
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	11	15	11	15	14,682	20,990	7,099,700	46,000	33	33
SUM:	11	15	11	15	14,682	20,990	7,099,700	46,000	33	33
<b>Kleberg</b>										
Commercial	22	36	42	60	787,681	837,590	67,562,000	962,490	60	94
Manufactured Home	3	3	3	3	6,537	6,537	364,500	0	4	4
Residential	283	530	283	530	501,442	904,562	278,865,300	30,281,400	981	981
SUM:	308	569	328	593	1,295,660	1,748,689	346,791,800	31,243,890	1,045	1,079
<b>Matagorda</b>										
Commercial	57	91	146	250	524,384	973,023	151,038,000	5,578,160	182	382
Manufactured Home	26	35	26	35	57,609	80,095	4,589,200	0	53	53
Residential	1,717	2,825	1,717	2,825	3,488,679	5,685,357	1,692,002,700	180,793,960	5,356	5,356
SUM:	1,800	2,951	1,889	3,110	4,070,672	6,738,475	1,847,629,900	186,372,120	5,591	5,791
<b>Nueces</b>										
Commercial	725	1,247	1,713	2,838	11,915,201	18,903,826	3,908,433,200	104,484,420	2,364	5,468
Manufactured Home	24	36	24	36	54,704	84,602	4,814,700	0	71	71
Residential	14,397	23,959	14,397	23,959	30,543,595	49,779,925	15,100,304,400	1,721,316,160	44,784	44,784
SUM:	15,146	25,242	16,134	26,833	42,513,500	68,768,353	19,013,552,300	1,825,800,580	47,219	50,323

**Texas Windstorm Insurance Association**  
 Quarterly Liability Report  
 As of June 30, 2024



Class of Business	Policies Written		Risks Written		Premium Written		Liability at End of Quarter		In-Force at End of Quarter	
	During Qtr	YTD	During Qtr	YTD	During Qtr	YTD	Direct	Indirect	Policies	Risks
<b>Refugio</b>										
Commercial	8	9	8	13	26,848	21,920	20,943,000	277,800	31	57
Manufactured Home	23	25	23	25	47,981	51,754	2,477,700	0	31	31
Residential	130	225	130	225	236,651	418,949	118,628,600	12,302,820	392	392
SUM:	161	259	161	263	311,480	492,623	142,049,300	12,580,620	454	480
<b>San Patricio</b>										
Commercial	94	150	231	330	919,114	1,519,133	227,367,200	5,615,340	284	589
Manufactured Home	29	40	29	40	57,346	75,424	5,066,600	0	65	65
Residential	2,607	4,312	2,607	4,312	5,319,050	8,842,031	2,883,093,200	362,619,420	8,419	8,419
SUM:	2,730	4,502	2,867	4,682	6,295,510	10,436,588	3,115,527,000	368,234,760	8,768	9,073
<b>Willacy</b>										
Commercial	9	13	28	33	146,805	155,827	25,005,000	99,900	28	68
Manufactured Home	5	7	5	7	8,958	11,578	742,100	0	10	10
Residential	122	184	122	184	283,357	410,365	115,132,600	8,403,120	364	364
SUM:	136	204	155	224	439,120	577,770	140,879,700	8,503,020	402	442
<b>Total All Counties</b>										
Commercial	2,675	4,434	6,073	9,668	43,111,313	68,153,635	13,028,620,600	314,464,524	8,567	18,708
Manufactured Home	572	871	572	871	1,068,591	1,638,553	102,045,400	0	1,411	1,411
Residential	77,490	129,671	77,490	129,671	174,758,339	288,612,427	92,386,183,400	11,323,671,100	252,762	252,762
SUM:	80,737	134,976	84,135	140,210	218,938,243	358,404,615	105,516,849,400	11,638,135,624	262,740	272,881

## 7B. Reserve Adequacy



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## MEMORANDUM

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DATE: July 17, 2024

TO: David Durden  
General Manager

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

RE: TWIA Reserve Adequacy as of June 30, 2024

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The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of June 30, 2024.

After reviewing recently settled and remaining outstanding claims, the ultimate estimate for Hurricane Harvey remains at 1.655 billion. The actual ultimate costs of Hurricane Harvey may still differ from the selected ultimate estimate due to variability in the outcome of disputed claims.

As of June 30, 2024, TWIA carried \$145.2 million in total gross loss and loss adjustment expense reserves. The total gross loss and loss adjustment expense reserves include the reserves for Hurricane Harvey and all other outstanding claims.

In my opinion, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles, and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

JM



## 7C. Aon Contract



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## MEMORANDUM

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DATE: July 17, 2024

TO: David Durden  
General Manager

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

RE: Catastrophe Modeling Services Provided by Aon

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At its August 8, 2023 meeting, the TWIA Board of Directors asked staff to revisit annually the current contract with Aon to provide catastrophe modeling services in conjunction with the determination of the 100-year probable maximum loss and as part of the ratemaking process.

The Aon Statement of Work (SOW) under which they provide catastrophe modeling services provides for an automatic renewal on January 1 of each year unless either party notifies the other on or before December 1 of the preceding year.

In 2023, TWIA contacted the four modeling firms with catastrophe models currently in use to research the costs of licensing the individual models directly. Based on preliminary conversations, licensing fees would be in excess of Aon's current annual fee.

Aon has continued to provide all contracted services to TWIA in 2024 and has been responsive to all questions and requests by TWIA staff.

Staff concludes that the level and cost of services provided by Aon continue to be appropriate. Based on this, staff recommends no change to the current Aon engagement at this time, with another Request For Proposal (RFP) process to take place in 2026, five years after the initial RFP.

JM

## 7D. Statutory Maximum Limits of Liability



## MEMORANDUM

DATE: July 16, 2024

TO: James C. Murphy, FCAS, MAAA  
Chief Actuary | Vice President, Enterprise Analytics

FROM: Angela Fang, ACAS, MAAA  
Actuary

RE: Texas Windstorm Insurance Association Adjustments to Maximum Liability Limits

Section 2210.502(a) of the Texas Insurance Code states that the Texas Windstorm Insurance Association shall propose to the Commissioner inflation adjustments to its maximum liability limits at a rate that reflects any change in the BOECKH index.

TWIA Actuarial staff has completed its review of Texas Windstorm Insurance Association adjustments to its maximum liability limits. These indicated limits are as follows:

	Current 2023	Proposed 2024	% Change
Dwellings and individually owned townhouses	\$1,773,000	\$1,788,000	0.8%
Manufactured Home	\$115,800	\$116,700	0.8%
Contents of an apartment, condominium, or townhouse	\$374,000	\$379,000	1.3%
Commercial structures and associated contents	\$4,424,000	\$4,444,000	0.5%

Supporting documents are attached.

Sincerely,

Angela Fang

July 16, 2024

**Texas Windstorm Insurance Association**  
**Calculation of Indicated Limits of Liability**  
**To Be Effective January 1, 2025**  
Using Marshall & Swift / Boeckh Building Cost Index Numbers



Type of Construction	Ratio of Total TWIA Business	<u>Boeckh Index as of May/June 2023</u>			<u>Boeckh Index as of May/June 2024</u>		
		Corpus Christi	Houston	Average	Corpus Christi	Houston	Average
<u>Dwelling, including individually owned townhouse unit, &amp; associated corporeal movable property</u>							
Frame	97.02%	3292.7	3404.4	3348.6	3374.6	3376.7	3375.7
Brick	2.98%	3315.3	3508.8	3412.1	3418.4	3543.7	3481.1
Weighted Average Factor				3350.4			3378.8
Indicated Change							0.8%
Current Limit							1,773,000
Indicated Limit of Liability							1,788,000
Proposed Limit of Liability							1,788,000
<u>Manufactured Homes*</u>							
Residential Dwelling Frame	100%	3292.7	3404.4	3348.6	3374.6	3376.7	3375.7
Indicated Change							0.8%
Current Limit							115,800
Indicated Limit of Liability							116,700
Proposed Limit of Liability							116,700
<u>Individually-owned corporeal movable property located in an owner-occupied apartment, residential condominium, or townhouse unit</u>							
Frame	61.51%	3292.7	3404.4	3348.6	3374.6	3376.7	3375.7
Brick	38.49%	3315.3	3508.8	3412.1	3418.4	3543.7	3481.1
Weighted Average Factor				3373.0			3416.2
Indicated Change							1.3%
Current Limit							374,000
Indicated Limit of Liability							379,000
Proposed Limit of Liability							379,000
<u>Structure other than a dwelling or public building and the corporeal movable property located in that structure</u>							
Apartments - Brick, Wood	35.17%	3436.5	3518.7	3477.6	3491	3479.6	3485.3
Apartments - Brick, Concrete	4.38%	3373.6	3770.9	3572.3	3448.1	3785.8	3617.0
Apartments - Brick, Steel	6.99%	3497.2	4065.2	3781.2	3664.4	4159	3911.7
Commercial - Frame	20.98%	3639.6	3900.2	3769.9	3701.2	3841.7	3771.5
Commercial - Steel	18.63%	3574.0	3946.6	3760.3	3645.5	3875.9	3760.7
Commercial - Brick, Wood	0.25%	3658.3	3839.5	3748.9	3727.5	3797.1	3762.3
Commercial - Brick, Steel	0.14%	3765.3	4635.3	4200.3	3902.8	4644.3	4273.6
Commercial - Brick, Concrete	13.47%	3207.3	3787.4	3497.4	3271.5	3753	3512.3
Weighted Average Factor				3621.7			3638.0
Indicated Change							0.5%
Current Limit							4,424,000
Indicated Limit of Liability							4,444,000
Proposed Limit of Liability							4,444,000

\* Manufactured Homes indexed based on Residential Frame Building Cost Index

**Texas Windstorm Insurance Association**  
**Proposed Limits of Liability**  
**To Be Effective January 1, 2025**  
Impact on Exposures In-Force as of 6/30/24



Statutory Limits of Liability

	Current	Proposed	Increase
Dwelling	1,773,000	1,788,000	15,000
Manufactured Home	115,800	116,700	900
Contents	374,000	379,000	5,000
Non-Dwelling	4,424,000	4,444,000	20,000

	Risks at Statutory Limits	<u>Exposure</u> Current	Proposed	Increase
Dwelling	558	989,334,000	997,704,000	8,370,000
Manufactured Home	78	9,032,400	9,102,600	70,200
Contents	114	42,636,000	43,206,000	570,000
Non-Dwelling	421	1,862,504,000	1,870,924,000	8,420,000
<b>Total</b>	<b>1171</b>	<b>2,903,506,400</b>	<b>2,920,936,600</b>	<b>17,430,200</b>
Total TWIA Exposure				105,516,849,400
% Increase in TWIA Exposure				0.02%

**MS/B BUILDING COST  
INDEX NUMBERS**

**MSB**

**May - June 2023**

LOCATION	RESIDENCES		APARTMENTS, HOTEL and OFFICE BUILDING			COMMERCIAL and FACTORY BUILDINGS				
	Frame	Brick	Brick Wood	Brick Conc.	Brick Steel	Frame	Steel	Brick Wood	Brick Steel	Brick Conc.
<b>SOUTH CAROLINA</b>										
CHARLESTON	3810.2	3915.5	3286.3	3378.0	3690.0	3467.7	3812.0	3671.8	4198.2	3591.6
COLUMBIA	3578.7	3593.3	3081.4	3208.5	3561.8	3410.2	3691.5	3325.8	4133.4	3425.1
GREENVILLE	3387.6	3432.1	3238.6	3301.7	3555.7	3425.6	3635.8	3554.5	3974.0	3393.8
<b>SOUTH DAKOTA</b>										
PIERRE	3259.6	3597.5	3699.2	3755.2	3597.1	3414.4	3559.4	3788.6	3996.7	3873.1
RAPID CITY	3353.9	3727.5	3818.5	3881.4	3705.0	3494.0	3678.8	3916.6	4157.8	4043.6
SIOUX FALLS	3488.6	3617.5	3665.7	3833.9	3974.6	3682.7	3921.4	3846.3	4550.0	4152.4
<b>TENNESSEE</b>										
CHATTANOOGA	3212.5	3367.2	3303.9	3496.1	3475.8	3473.8	3891.8	3588.9	4224.4	3753.2
KNOXVILLE	2987.2	3159.0	3146.1	3436.2	3623.6	3368.0	3723.5	3355.9	4165.8	3646.8
MEMPHIS	3233.2	3302.3	3268.6	3546.0	3980.0	3487.0	3914.8	3624.0	4482.1	3755.0
NASHVILLE	3393.6	3413.6	3384.0	3548.8	4055.2	3585.8	4038.0	3661.5	4741.8	3750.0
<b>TEXAS</b>										
ABILENE	3262.9	3381.9	3241.7	3225.4	3398.7	3461.2	3443.4	3679.7	3791.9	3446.7
AMARILLO	3221.4	3314.4	3236.4	3229.8	3525.7	3448.2	3500.1	3610.9	3984.9	3376.2
AUSTIN	3348.7	3469.5	3475.6	3449.3	3813.4	3663.1	3801.1	3813.2	4193.2	3528.3
CORPUS CHRISTI	3292.7	3315.3	3436.5	3373.6	3497.2	3639.6	3574.0	3658.3	3765.3	3207.3
DALLAS	3442.2	3581.7	3588.8	3618.5	3967.5	3676.6	3668.7	3972.8	4307.7	3778.5
EL PASO	3040.1	3166.2	3268.8	3226.7	3445.6	3423.3	3522.9	3530.8	3820.5	3280.3
FORT WORTH	3372.0	3512.1	3520.8	3537.6	3881.6	3608.1	3628.8	3771.7	4316.2	3676.5
HOUSTON	3404.4	3508.8	3518.7	3770.9	4065.2	3900.2	3946.6	3839.5	4635.3	3787.4
LONGVIEW	3339.3	3413.6	3407.7	3443.7	3795.0	3584.8	3675.3	3759.0	4239.8	3579.9
LUBBOCK	3137.6	3245.0	3309.4	3380.1	3630.2	3422.4	3540.6	3542.3	3927.2	3317.7
ODESSA	3111.0	3314.4	3250.3	3239.8	3574.2	3475.0	3609.0	3569.8	3977.0	3223.1
SAN ANTONIO	3272.9	3421.1	3458.8	3432.5	3592.1	3672.5	3769.3	3672.4	4053.1	3492.0
WACO	3304.6	3382.7	3298.0	3336.8	3649.0	3400.5	3643.2	3566.0	4103.4	3353.1
WICHITA FALLS	3467.0	3580.9	3347.4	3303.7	3496.4	3539.8	3473.5	3612.7	3947.7	3399.8
<b>UTAH</b>										
SALT LAKE CITY	4035.7	4295.5	3982.0	4282.5	4479.0	4070.2	4327.3	4214.0	5467.7	4479.2
<b>VERMONT</b>										
BURLINGTON	3805.5	3892.4	4012.0	4140.9	4427.7	4071.8	4247.7	4359.5	5041.0	4315.8
MONTPELIER	3816.7	3955.3	4040.8	4186.6	4386.3	4053.0	4236.9	4361.1	5039.5	4375.6

<b>MS/B BUILDING COST INDEX NUMBERS</b>		<b>MSB</b>					<b>May - June 2024</b>				
		<b>RESIDENCES</b>		<b>APARTMENTS, HOTEL and OFFICE BUILDING</b>			<b>COMMERCIAL and FACTORY BUILDINGS</b>				
<b>LOCATION</b>	<b>Frame</b>	<b>Brick</b>	<b>Brick Wood</b>	<b>Brick Conc.</b>	<b>Brick Steel</b>	<b>Frame</b>	<b>Steel</b>	<b>Brick Wood</b>	<b>Brick Steel</b>	<b>Brick Conc.</b>	
<b>SOUTH CAROLINA</b>											
CHARLESTON	3848.1	3982.2	3299.2	3432.1	3862.8	3505.9	3888.8	3727.0	4347.3	3649.4	
COLUMBIA	3578.5	3604.0	3071.9	3208.2	3662.2	3403.2	3661.9	3319.0	4174.6	3421.3	
GREENVILLE	3441.9	3557.3	3277.4	3364.8	3695.8	3466.8	3694.3	3582.9	4086.4	3431.0	
<b>SOUTH DAKOTA</b>											
PIERRE	3285.5	3651.6	3721.0	3811.6	3754.2	3427.8	3623.7	3818.7	4171.4	3915.7	
RAPID CITY	3379.9	3790.7	3863.3	3931.3	3865.9	3489.5	3718.6	3942.9	4317.4	4075.1	
SIOUX FALLS	3527.0	3675.7	3691.4	3887.9	4160.3	3719.6	3988.6	3881.0	4721.0	4198.3	
<b>TENNESSEE</b>											
CHATTANOOGA	3279.9	3465.2	3343.0	3573.3	3641.9	3518.6	3973.7	3642.4	4413.2	3790.5	
KNOXVILLE	3035.2	3241.9	3183.9	3491.5	3748.1	3398.3	3738.4	3386.1	4245.1	3679.7	
MEMPHIS	3258.9	3395.7	3281.5	3603.0	4149.6	3507.8	3953.9	3656.5	4645.8	3788.8	
NASHVILLE	3423.7	3488.9	3407.3	3584.2	4202.5	3564.0	4025.6	3672.1	4822.2	3760.7	
<b>TEXAS</b>											
ABILENE	3288.4	3442.4	3247.4	3270.5	3512.3	3488.8	3467.4	3708.8	3965.4	3481.0	
AMARILLO	3217.6	3377.7	3216.6	3236.0	3550.2	3427.4	3451.2	3588.9	4004.6	3382.7	
AUSTIN	3382.1	3553.6	3492.9	3494.3	3948.7	3674.0	3820.1	3828.3	4299.1	3563.6	
CORPUS CHRISTI	3374.6	3418.4	3491.0	3448.1	3664.4	3701.2	3645.5	3727.5	3902.8	3271.5	
DALLAS	3462.5	3664.5	3613.6	3662.0	4112.2	3683.8	3709.1	3984.5	4465.1	3831.3	
EL PASO	3061.1	3252.5	3274.9	3272.0	3556.9	3450.5	3554.5	3551.7	3908.6	3319.6	
FORT WORTH	3395.4	3593.5	3545.3	3590.9	4039.2	3622.4	3672.5	3794.3	4469.6	3724.4	
HOUSTON	3376.7	3543.7	3479.6	3785.8	4159.0	3841.7	3875.9	3797.1	4644.3	3753.0	
LONGVIEW	3382.1	3527.0	3444.5	3519.6	3925.4	3631.1	3737.7	3807.3	4372.8	3651.1	
LUBBOCK	3196.9	3313.0	3355.1	3444.4	3762.5	3487.2	3604.1	3602.0	4022.0	3390.6	
ODESSA	3148.3	3414.9	3276.1	3291.9	3674.9	3495.8	3630.6	3594.7	4021.0	3255.3	
SAN ANTONIO	3299.1	3517.8	3479.5	3491.2	3756.7	3705.7	3814.7	3709.2	4196.9	3534.1	
WACO	3307.7	3450.8	3307.8	3366.9	3785.8	3390.2	3657.7	3576.6	4215.5	3376.5	
WICHITA FALLS	3491.0	3656.5	3360.5	3346.7	3638.3	3560.9	3518.7	3634.2	4079.7	3430.4	
<b>UTAH</b>											
SALT LAKE CITY	3995.2	4303.9	3926.3	4320.5	4564.0	4029.4	4283.7	4171.7	5544.1	4483.4	
<b>VERMONT</b>											
BURLINGTON	3786.4	3888.4	3979.8	4111.3	4511.3	4010.8	4188.4	4316.0	5050.9	4332.7	
MONTPELIER	3809.0	3975.1	4020.5	4190.5	4491.7	4016.5	4198.8	4343.6	5039.2	4406.2	



## 8. Internal Audit Status & Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association  
FROM: Dan Graves, Weaver - Internal Audit  
DATE: August 6, 2024  
SUBJECT: Status of Internal Audit Activities

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The following is our internal audit update representing current and planned activities:

➤ **Current Activities:**

Activity Description	Status
Legal and Compliance	Complete – issued
Legislative and External Affairs	Complete – issued
Financial Close and Reporting	Complete – issued
Emergency Planning - Catastrophe Plan	Complete – to be presented at the next Board Training
Customer Experience	Fieldwork in progress
Executive Management, Operational Planning and Reporting	Planning in progress

➤ **Upcoming Audits and Activities:**

Activity Description	Timing
Strategic Communications	September 2024
Cash Management	October 2024
Risk Assessment Update	October 2024

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

## Texas Windstorm Insurance Association Internal Audit Plan – Lookback (2022-2023) and Prospective (2024-2026)

Process Area	Last Report Date	2023 Inherent Risk Rating	2022	2023	2024	2025	2026
Funding Sources and Reinsurance	Nov. 2023	High		✓			x
Information Security	Apr. 2022	High	✓			x	
Emergency Planning - COOP/BCP	Nov. 2022	High	✓			x	
Emergency Planning - CAT Plan	May 2024	High			✓		
Customer Experience	N/A	High			x		
Underwriting and Policy Services	Nov. 2023	High		✓			x
Claims Processing	Dec. 2022	High	✓			x	
Human Resources Administration and Talent Retention	Dec. 2022	High	✓				x
Legislative and External Affairs	Mar. 2024	High			✓		
Strategic Communications	Mar. 2021	High			x		x
Actuarial (Pricing and Reserving)	Sept. 2023	High		✓		x	
Executive Management, Management Planning and Reporting (including Plan of Operation)	May 2021	High			x		
Information Technology Services	Apr. 2022	Moderate	✓			x	
Database and Application Administration	Apr. 2024	Moderate			✓	x	
Legal & Compliance (including Vendor Management)	Mar. 2024	Moderate			✓		x
Financial Close and Reporting	May 2024	Moderate			✓		
Accounts Payable and Expense Processing	Aug. 2023	Moderate		✓			
Application Development	Apr. 2024	Moderate			✓		
Payroll	Dec. 2022	Moderate	✓				x
Accounts Receivable	Oct. 2023	Moderate		✓			
Facilities and Services	May 2023	Low		✓			
Depopulation	Oct. 2023	Low		✓			
Environmental, Social, and Corporate Governance	N/A	Low					
Cash Management	Aug. 2021	Low			x		
Premium Taxes	Jul. 2021	Low				x	

Key	
✓	Complete
x	Planned

# 9. Underwriting Operational Review Update



MEMORANDUM

DATE: July 17, 2024  
TO: David Durden, General Manager  
FROM: Michael Ledwik, Vice President, Underwriting  
RE: Update on Underwriting Operational Results

Second Quarter 2024 Results

TWIA Underwriting Metrics	Monthly Summary			Quarterly Summary				YTD		
	Apr-24	May-24	Jun-24	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2024	2024 Goal	▲
Transaction Issuance	99.98%	99.95%	99.97%	99.93%	99.97%			99.95%	90%	9.95
Internal Underwriting QA	98.93%	98.56%	98.73%	99.34%	98.74%			99.04%	95%	4.04
Phone Service Level	88.40%	78.45%	76.93%	91.25%	81.26%			86.26%	80%	6.26
Internal Telephone QA	95.50%	95.95%	96.75%	95.58%	96.07%			95.83%	95%	0.83

I. Overview:

- 99.97% of transactions were issued within 10 days of receiving the application and payment
  - a. 98% of the transactions were straight through processed by the system
  - b. 2% of the transactions were referred by the system to Underwriting for additional information, review, and approval prior to issuance
- Out of 103,889 calls for the quarter, 81.26% of the calls were answered under 20 seconds

II. Agency Compliance Audits:

A standard sample of agencies (20) were selected for review in the second quarter of 2024 to verify compliance with the Texas Windstorm Insurance Association (TWIA) declination of coverage and flood insurance requirements.

- 75% (15 Agencies) were compliant with both the declination and flood provisions.
- 25% (5 Agencies) have open action items to provide the auditor with the declination and flood documentation to complete the audit.
- All agents selected have an active property and casualty insurance license.

# 10. Claims and Litigation

## 10A. Claims Operations

# TWIA Claims Operations 2024

TWIA Claims - 2024 Results (year-to-date)					
Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	5.8	2.9	<3	-0.1	-3%
Inspect Property to Receipt by TWIA	3.5	1.8	<8	-6.2	-78%
Total Cycle Time FNOL to Payment - Daily	N/A	9.2	<12	-2.8	-18%
Total Cycle Time FNOL to Payment - Cat	N/A	9.0	<12	-3.0	-19%
TDI Complaint Ratio					
2023	0.25% - 22 complaints from 8,867 new claims				
2024	0.10% - 8 complaints from 8,378 new claims				

Year	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Actual Volume	924	1,257	1,238	608	773	585	502	440	446	832	684	1,734	1,612	2,060	1,456
Actuarial Projected	1,698	1,698	471	475	681	681	688	333	333	809	569	574	2,092	2,112	591
Staffing Plan	572	572	572	572	572	572	572	572	572	703	703	703	703	703	703
Open Inventory	3,453	3,756	4,252	4,116	4,007	3,843	3,711	3,531	3,449	3,799	3,940	5,131	5,889	7,259	7,645

Historical TWIA Claim Volume	
Year	Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	80,257
2018	7,242
2019	6,704
2020	14,432
2021	12,535
2022	5,066
2023	8,867
2024	8,378

## TWIA - Claim Severity by Accident Year and LOB

### Reported Claims by LOB

Year	Residential		Commercial		GRAND TOTAL	
	Claims	% Δ	Claims	% Δ	Claims	% Δ
2020	14,464	-	377	-	14,841	-
2021	12,269	-15.2%	286	-24.1%	12,555	-15.4%
2022	4,424	-63.9%	60	-79.0%	4,484	-64.3%
2023	9,420	112.9%	172	186.7%	9,592	113.9%
2024	8,107	-	108	-	8,215	-

### Paid Amounts by LOB

Year	Residential		Commercial		GRAND TOTAL	
	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ
2020	\$56,594,379	-	\$7,132,559	-	\$63,726,938	-
2021	\$57,932,715	2.4%	\$8,162,442	14.4%	\$66,095,158	3.7%
2022	\$27,100,855	-53.2%	\$1,447,225	-82.3%	\$28,548,080	-56.8%
2023	\$67,257,115	148.2%	\$5,816,824	301.9%	\$73,073,939	156.0%
2024	\$58,287,772	-	\$3,242,784	-	\$61,530,556	-

### Paid Claim Severity by LOB

Year	Residential		Commercial		GRAND TOTAL	
	Severity	% Δ	Severity	% Δ	Severity	% Δ
2020	\$3,913	-	\$18,919	-	\$4,294	-
2021	\$4,722	20.7%	\$28,540	50.9%	\$5,264	22.6%
2022	\$6,126	29.7%	\$24,120	-15.5%	\$6,367	20.9%
2023	\$7,140	16.6%	\$33,819	40.2%	\$7,618	19.7%
2024	\$7,190	-	\$30,026	-	\$7,490	-

\*Paid amounts exclude loss adjustment expenses and IBNR reserves



<b>TWIA - 2024 Claims</b>				
Total Claims	Claims With No Supplemental Payments	% Claims With No Supplemental Payments	Claims With Supplemental Payments	% Claims With Supplemental Payments
8,378	8,124	97.0%	254	3.0%

<b>TWIA - 2024 Disputed Claims</b>					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
8,378	74	0.88%	48	28	0

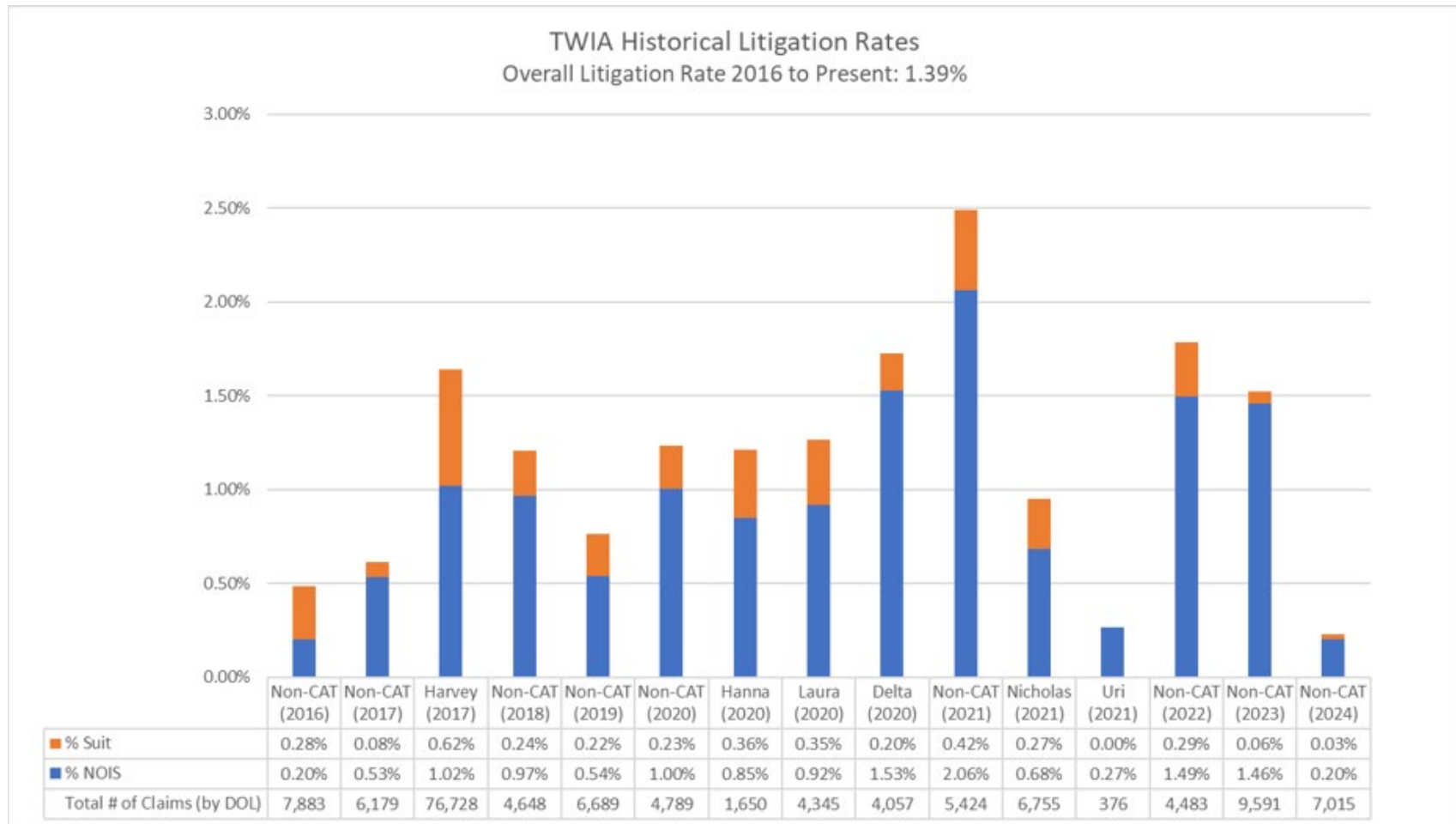
<b>TWIA - 2024 Disputed Claims With Appraisal Invoked</b>				
Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped	
Appraisals	Active	Awarded	Withdrawn	Ineligible**
48	41	1	4	2
	85%	2%	13%	

<b>TWIA - 2024 Claims With Notice of Intent or Lawsuit Served</b>				
Total Nol / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
28	28	0	0	0

A single disputed claim may have more than one “type of dispute.”

## 10B. Claims Litigation

## TWIA Litigation Summary



\*NOIS: Notice of Intent to Sue



# TWIA Litigation Tracking Activity

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## Litigation Quarter Summary Second Quarter 2024

2 <sup>nd</sup> Quarter 2024	Summary of TWIA Claims in Suit			
		New	Settled	Closed
	April	1	0	1
	May	2	0	0
	June	1	0	0
	4	0	1	

2 <sup>nd</sup> Quarter 2024	Summary of TWIA Claims with LORs			
		New	Settled	Closed
	April	23	0	32
	May	14	0	27
	June	22	0	14
	69	0	73	



## TWIA Claims Litigation June 2024

Jun-24	TWIA Claims in Suit			
	Beginning Inventory	New	Closed	Ending Inventory
	75	1	0	76

Jun-24	TWIA Claims with LORs				
	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	275	22	(14)	(1)	282

Jun-24	TWIA Claims with Suits/LORs: Detail of Ending Inventory				
	Suits		LORs		Total
	Res.	Comm.	Res.	Comm.	
	55	21	273	9	358

Jun-24	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County											
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kleberg	Matagorda	Nueces	San Patricio
4	79	3	81	4	114	11	36	1	4	20	1	358

# 11. TWIA Operations

## 11A. IT Systems Update



## MEMORANDUM

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DATE: July 17, 2024  
TO: David Durden, General Manager  
FROM: Camron Malik, CIO / VP IT  
RE: TWIA Information Technology status

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The Cloud program is moving forward and is currently in “Green” status. The program comprises projects implementing Policy, Billing, Claims, Portals, Integration, Enterprise Data Warehouse and Infrastructure. All of which are doing well. The System Integrator and TWIA continue to work well together and the project teams are focused on achieving the goals of the program.

We have reviewed the ITS Agent Time study and followed up on all items with the agents. The affected departments and IT worked to identify and prioritize the work. The business teams are now working to nail down requirements and development will commence as they become available.

The chatbot project for Claims deployed the chat (web based) and SMS (text) bots. The voice bot will be deployed in the next few weeks, once associated support work in ClaimCenter is completed.

The Surcharge for Bonds (SFB) project User Acceptance Testing (UAT) phase has kicked off. This effort will continue in Just-in-Time mode where work is slowly progressed until it is required, when it is finalized at time of need.

The IT budget is controlled and currently \$488K below projections.

Overall, systems are functioning well with monthly releases on schedule and the Infrastructure and Operations team continues to support the organization, meeting quality goals.

# 11B. ITS Recommendations Update



# ITS Time Study

System Enhancements identified to be worked

# ITS Time Study Recommendation Analysis

- Recommendations split in to two batches based on priority, effort, risk and agent impact, with delivery planned for 2024 and 2025
- Business and IT will coordinate on precise delivery schedule once requirements analysis is complete
- Actual development will commence once requirements analysis is complete

# System Enhancements Recommendations

ITS Recommendation	Description	Status
Extend time for quote to expire to 60 days	Will allow the agent to change the effective date on a quote and re-rate it rather than having to re-enter it from scratch	Business requirements in process  2024 expected completion
Allow agent to make payment on policy at any time	Staff is exploring options to provide functionality that would allow agents to pay a policy at any time in the agent portal. Due to security/legal issues we cannot allow agents to enroll policyholders in automatic payments.	2025 implementation effort
Add language to invoice that mortgage company is responsible for payments	Will add language on policy invoices to notify agents and policyholders when the policy is set up to be billed and paid by the mortgage company.	Business requirements in process  2024 expected completion
Address validation against USPS database	start of a quote process will allow user to validate address and format in accordance with USPS standards.	2025 implementation effort

# System Enhancements Recommendations

ITS Recommendation	Description	Status
Button to print application before binding	Change to allow clients to sign policy applications before agents submit the application	2025 implementation effort
Agent can change effective date to accommodate closings	Allow an agent to request that Underwriting change a policy effective date through the agent portal (similar to cancellation requests).	2025 implementation effort
Automatically close requalification activity once it is complete	Currently an agent must requalify a renewal every 3 <sup>rd</sup> year and complete an activity after it's requalified in the system	Business requirements in process 2024 completion
Work with TDI to provide access to WPI8 data electronically.	In addition, create a solution to combine WPI8 and WPI8C data. <b>Note:</b> Coordination with TDI to get the WPI8 raw data has been done.	2025 implementation effort

11C. Receive and Act on Recommendations  
from Legislative and External Affairs  
Committee Regarding Recommendations to  
Legislature and Biennial Report to  
Legislature



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

# **2024 Biennial Report to the 89<sup>th</sup> Texas Legislature**



# Letter from the General Manager

*August XX, 2024*

The Honorable Greg Abbott, Governor  
The Honorable Dan Patrick, Lt. Governor  
The Honorable Dade Phelan, Speaker of the House  
Members of the Sunset Advisory Commission

Members of the Senate Business & Commerce Committee  
Members of the House Insurance Committee  
The Honorable Cassie Brown, Commissioner of Insurance

Dear Governors, Speaker, Committee Members, and Commissioner,

Pursuant to Texas Insurance Code §2210.0025, I submit the Biennial Report of the Texas Windstorm Insurance Association (TWIA or Association) on behalf of its Board of Directors (Board). Insurance Code 2210.0025 requires the Board to submit to the commissioner, the appropriate committees of each house of the legislature, and the Sunset Advisory Commission a written report relating to the operations of the association during the preceding biennium on or before December 31 of each even-numbered year. The enclosed report summarizes recent changes made to implement legislation passed by the 88<sup>th</sup> Legislature and proposed legislative changes for your consideration in the 89<sup>th</sup> Legislative Session. The recommendations in this report cover both operational matters and topics related to TWIA's catastrophe funding.

The Texas Legislature created TWIA in 1971 after several storms, including Hurricane Celia (1970), caused private market insurers to begin excluding wind and hail coverage from their coastal homeowners' insurance policies. By providing this coverage, the Association contributes to the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas, which the Texas Legislature has determined is necessary for the economic welfare of the state.

Both legislators and the TWIA Board have emphasized the importance of addressing the Association's catastrophe funding structure. Since 2021, TWIA has seen its policy count increase after a period of decline. The Association's exposure, which is the total insured value of the properties that TWIA insures, has also increased. This growth impacts the amount of funding the Association must secure for each hurricane season to pay claims following a catastrophic storm event and brings additional urgency to efforts to ensure a more sustainable financial structure for the Association.

In the 89<sup>th</sup> Legislative Session, TWIA looks forward to continued collaboration with lawmakers and the Texas Department of Insurance on these issues and any others affecting the Association. Thank you for the opportunity to provide this information for your consideration.

Should you have any questions or need additional information, please do not hesitate to contact me at [DDurden@TWIA.org](mailto:DDurden@TWIA.org) or (512) 505-2255 or Anna Stafford, Senior Manager at [astafford@twia.org](mailto:astafford@twia.org) or (512) 505-2133.

Sincerely,  
David Durden  
General Manager

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# TWIA Board of Directors

Name	Member Representation
<b>Chandra Franklin Womack, Chair</b>	First Tier Coastal Representative
<b>Georgia R. Neblett, Vice Chair</b>	First Tier Coastal Representative
<b>Karen Guard, Secretary-Treasurer</b>	Insurance Industry Representative
<b>Tim Garrett</b>	Non Seacoast Territory Representative
<b>Michael Gerik</b>	Insurance Industry Representative
<b>Peggy Gonzalez</b>	First Tier Coastal Representative
<b>Esther Grossman</b>	Insurance Industry Representative
<b>Mary Keller</b>	Non Seacoast Territory Representative
<b>Tony Schrader</b>	Non Seacoast Territory Representative

# Status of 88<sup>th</sup> Legislative Session Changes

In 2023, the 88<sup>th</sup> Legislature enacted five of the 11 legislative recommendations included in TWIA's 2022 Biennial Report<sup>1</sup>.

A description of these law changes and TWIA's actions and progress to implement them are outlined below.

## Agent Requirements & Standards | Senate Bill 2232

Authorizes TWIA to establish standards and performance requirements for agents who offer or sell TWIA policies.

**Status:** TWIA is developing these standards, which will be vetted by the Association's Agent Advisory Group before being implemented in Q4 2024.

## Exclude Commercial Risks from Automatic Renewal Process | Senate Bill 2233

Limits automatic policy renewals to residential policies.

**Status:** TWIA implemented changes to our system and processes in May 2024 to remove commercial policies from the automatic renewal process.

## Fully Earned Policy Premiums | House Bill 3208

Requires TWIA to retain the entire annual premium on a policy cancelled by a policyholder unless the policy was cancelled for reasons specified by law.

**Status:** TWIA implemented this change, applicable to policies effective September 1, 2023 and after.

## Claim Appraisal Deadlines | House Bill 3310

Allows the Insurance Commissioner, with the advice of TWIA, to set deadlines for appraisals for TWIA claims.

**Status:** In early 2024, the Texas Department of Insurance adopted the final rules for this law, which applies to appraisals demanded on or after January 1, 2024.

## TWIA Industry Board Vacancies | House Bill 3311

Repeals the requirement that TWIA provide a slate of nominees to the Insurance Commissioner to fill an industry representative vacancy on the Board.

**Status:** No action was required by TWIA to implement this statutory change.

<sup>1</sup> <https://www.twia.org/wp-content/uploads/2022-Biennial-Report-to-88th-Legislature-1.pdf>

# Proposed Legislative Changes

The table below summarizes seven proposed legislative changes from the TWIA Board of Directors.

Item #	Topic	Description	Page #
1	<b>Multidistrict Litigation</b>	Eliminate or make optional TIC Section 2210.575(e) requiring actions against the Association be presided over by a judge appointed by the judicial panel on multidistrict litigation.	Page 6
2	<b>Premiums Used to Pay Losses</b>	Revise TIC Section 2210.071 prohibiting the use of current year premiums to pay losses occurring in prior years.	Page 7
3	<b>FORTIFIED Home Construction</b>	Consider the feasibility and possible public funding of FORTIFIED home construction and other mitigation programs.	Page 8
4	<b>Premium &amp; Maintenance Tax</b>	Exempt TWIA from premium and maintenance taxes.	Page 8
5	<b>Premium Financing</b>	Prohibit the use of premium financing for the payment of premiums.	Page 9
6	<b>Public Security Funding</b>	Provides options to address concerns with the issuance of public securities in TWIA's funding structure.	Page 10
7	<b>Reinsurance Funding</b>	Provides options to reduce the Association's reliance on reinsurance.	Page 11

# Proposed Legislative Changes

## 1 Multidistrict Litigation

**Subject:** TIC Section 2210.575(e) requires all suits concerning denied claims to be presided over by a judge appointed by the Judicial Panel on multidistrict litigation (MDL). However, the statute does not provide a procedure for securing that appointment, and the existing rules on multidistrict litigation (Government Code Section 74.161 et seq.) do not contemplate appointing presiding judges in individual cases. As a result, no litigant has ever requested an appointment by the MDL panel in the 12-plus years the law has been in effect.

- Plaintiff Stephen Pruski raised this issue in his appeal of a judgment against him. The Corpus Christi Court of Appeals agreed and ruled that all judgments entered without an MDL-appointed judge are void.
- The Texas Supreme Court recently released its opinion reversing the Court of Appeals and agreeing with TWIA that the lack of an MDL-appointed judge does not void a judgment.

**Possible Solution:** Eliminate the provision requiring an MDL-appointed judge or make the appointment optional to prevent collateral attacks on settled judgments.

- Eliminating or modifying the requirement would reduce future litigation costs and simplify ongoing litigation.
- Clarifying the procedural rules relating to litigation will benefit TWIA policyholders, their legal representatives, and the Association by eliminating uncertainty around this dispute resolution requirement.
- Alternatively, the legislature could explore the option of assigning these matters to jurists who are board-certified in insurance law.
- In lieu of eliminating this provision, staff's proposed bill language to modify this requirement is below:

Sec. 2210.575. DISPUTES CONCERNING DENIED COVERAGE. (e) If the claimant is not satisfied after completion of alternative dispute resolution, or if alternative dispute resolution is not completed before the expiration of the 60-day period described by Subsection (d) or any extension under that subsection, the claimant may bring an action against the association in a district court in the county in which the loss that is the subject of the coverage denial occurred. An action brought under this subsection ~~shall~~ may be presided over by a judge appointed by the judicial panel on multidistrict litigation designated under Section 74.161, Government Code. A judge appointed under this section must be an active judge, as defined by Section 74.041, Government Code, who is a resident of the county in which the loss that is the basis of the disputed denied coverage occurred or of a first tier coastal county or a second tier coastal county adjacent to the county in which that loss occurred.

## 2 Premiums Used to Pay Losses

**Subject:** TIC Section 2210.071(b) prohibits TWIA from paying insured losses with premium and other revenue earned in a subsequent year.

- It is relatively common for the estimated ultimate payment on claims to change over time, both favorably and adversely, even after the year in which the claim occurs. This is especially true for events taking place late in the year, late reported claims, and disputed claims.
- For catastrophe years in which insured losses and operating expenses exceed premium and other revenue, adverse development occurring in a subsequent year can be paid in accordance with TIC Chapter 2210 Subchapter B-1.
- For catastrophe years in which insured losses and operating expenses do not exceed premium and other revenue, there is no other source of funds available to pay for adverse development after the net gain from operation for that year has been transferred to the Catastrophe Reserve Trust Fund (CRTF).
- The statute should be amended to specifically authorize TWIA to pay for any adverse loss development beyond what is reserved at the end of the catastrophe year.

**Possible Solution:** Revise TIC Section 2210.071(b) to limit its prohibition to catastrophe years resulting in losses in excess of premiums.

- This would continue to require all claims occurring in catastrophe years resulting in excess losses, such as 2008 (Dolly and Ike) and 2017 (Harvey), to be paid in accordance with the statutory funding sources outlined in Subchapter B-1.
- It would also allow, in any other year, adverse development to be paid from premiums earned in the year in which the development is incurred, regardless of when the claim initially occurred.
- This would be consistent with industry practice and TWIA's current practice and would comply with statutory accounting principles that recognize changes in loss estimates in the period they become known.
- Staff's proposed bill language for this change is outlined here:

Sec. 2210.071. PAYMENT OF EXCESS LOSSES. (a) If, in a catastrophe year, an occurrence or series of occurrences in a catastrophe area results in insured losses and operating expenses of the association in excess of premium and other revenue of the association, the excess losses and operating expenses shall be paid as provided by this subchapter.

(b) The association may not pay insured losses and operating expenses resulting from an occurrence or series of occurrences in a catastrophe year in excess of premium and other revenue of the association for that catastrophe year with premium and other revenue earned in a subsequent year.

### 3 FORTIFIED Home Construction

**Subject:** TWIA does not have any programs associated with FORTIFIED home construction.

- FORTIFIED is a nationally recognized building method that goes beyond building codes to strengthen residential and commercial buildings against specific natural hazards such as high winds and hurricanes. FORTIFIED standards are based on more than 20 years of scientific research and real-world testing by the Insurance Institute for Business & Home Safety (IBHS).
- More resilient construction can improve the availability and affordability of insurance coverage, leading to less community damage, reduced costs of emergency management and disaster recovery resources, and lower insurance losses after a catastrophic event.
- Other coastal states, notably Alabama and North Carolina, have encouraged FORTIFIED home construction for both new and existing homes through a combination of public grants and policy endorsements covering upgrades to the FORTIFIED home construction standards.

**Possible Solution:** Consider providing funding support from the State of Texas, the CRTF, or other sources for FORTIFIED home construction.

- Alternatively, consider expanding the scope of this recommendation to include TWIA incentives or public funding support for all types of wind mitigation efforts, such as retrofitting existing construction with upgraded opening protections, roof attachments, and other certified improvements.
- In the absence of a request for public funding, implementing this possible solution would not require a legislative change.

### 4 Premium & Maintenance Tax

**Subject:** Texas premium and maintenance taxes impact rate indications and lessen the affordability of TWIA policies.

- Due to TWIA's policy growth, the Association paid a record \$11.4 million in premium and maintenance taxes in 2023.
- The Association projects paying approximately \$13.8 million in premium and maintenance taxes from 2024 operations.

Year	Premium Tax	Maintenance Tax & Other	Total
2010	\$6.2 Million	\$1.2 Million	\$7.3 Million
2011	\$6.5 Million	\$1.2 Million	\$7.7 Million
2012	\$7.1 Million	\$1.3 Million	\$8.4 Million
2013	\$7.6 Million	\$1.4 Million	\$9.0 Million
2014	\$7.9 Million	\$1.5 Million	\$9.4 Million
2015	\$8.1 Million	\$1.5 Million	\$9.6 Million
2016	\$7.8 Million	\$1.5 Million	\$9.3 Million
2017	\$6.8 Million	\$1.3 Million	\$8.0 Million
2018	\$6.3 Million	\$1.2 Million	\$7.5 Million
2019	\$6.0 Million	\$1.1 Million	\$7.1 Million
2020	\$5.9 Million	\$1.1 Million	\$7.0 Million
2021	\$6.3 Million	\$1.2 Million	\$7.5 Million
2022	\$8.3 Million	\$1.2 Million	\$9.5 Million
2023	\$10.4 Million	\$1.0 Million	\$11.4 Million

**Possible Solution:** Exempt TWIA from paying premium and maintenance taxes.

- A reduction in expenses has a corresponding impact on rate indications. Elimination of premium and maintenance taxes would reduce TWIA expenses by roughly 1.86% of the annual written premium.

## 5 Premium Financing

**Subject:** TWIA’s 2019 Sunset bill allowed the Association to accept partial premium payments to issue a policy and allowed policyholders to pay the Association directly via credit card or another electronic payment method. Although these law changes enabled TWIA to offer interest-free installment payment options (2-Pay, 4-Pay, and 10-Pay), more than 1,500 policyholders continue to use premium financing for the payment of their premiums.

- 83% of policies were paid in full in 2023 despite the availability of the three installment payment options.
- As of December 31, 2023, TWIA had 1,522 policies in force that were premium financed. Out of this total, 1,122 were residential policies and 400 were commercial policies.
- TWIA recently distributed targeted communications to agents and policyholders to create more awareness and encourage the adoption of TWIA’s interest-free payment options.

**Possible Solution:** Revise statute to explicitly prohibit the use of premium financing for the payment of policy premiums based on the availability of TWIA’s interest-free payment plans.

- Texas Insurance Code Chapter (TIC) 2210 and the TWIA Plan of Operation do not contain an explicit requirement that TWIA must accept or that it may reject payment via premium finance companies.
- TIC Chapter 651 governs Financing of Insurance Premiums; this and Chapter 2210, along with the TWIA Plan of Operation, contain procedural requirements related to the refund of TWIA policy premiums to premium financiers, which indicate the Texas Legislature and the Texas Department of Insurance

contemplate the use of these arrangements by TWIA policyholders.

## 6 Public Security Funding

**Subject:** TWIA catastrophe funding as described in TIC Section 2210 Subchapter B-1 includes up to \$1 billion in public securities. There are numerous potential issues with the use of public securities as part of TWIA's funding:

- Public securities may not be fully marketable or funded sufficiently quickly.
- TWIA's current repayment structure imposes a financial burden on the Association and its current and future policyholders in the years following a catastrophic event.
- The repayment of public securities reduces and, in some cases, may prevent contributions to the CRTF in the years following a catastrophe event.

**Possible Solutions:** Recommend the Legislature consider one or more of the following changes to current TWIA funding statutes to address these concerns:

- **Replace public securities with a loan from the State's Economic Stabilization Fund.**
  - This change could provide funds to pay Association losses at a reduced cost to TWIA policyholders and coastal residents.
  - Additionally, it would allow the State to earn a competitive interest rate from a loan provided to a state-created entity subject to both legislative and regulatory oversight and, therefore, with little risk of default.
- **Replace public securities with an alternative funding source.**
  - This option seeks to find another source of funding, such as a state "investment" or another mechanism to replace the public security funds in statute.
- **Allow early repayment of public securities by identifying a source of State or statewide funding.**
  - At a certain point, especially if multiple catastrophe years require the issuance of public securities, the cost to repay public securities cannot be reasonably borne by TWIA policyholders and coastal residents.
  - Having a broader repayment base, whether through statewide assessments or other more direct means, such as payments made from State funds, would increase the sustainability of TWIA funding after one or more catastrophic events.
- **Allow public securities to be backed by the State.**
  - This change would significantly reduce the repayment cost for TWIA policyholders and coastal residents at minimal risk to State funds, given the repayment mechanisms already present in statute.



- **Replace the existing separate public security repayment mechanisms with a single, ordered source of repayment for all bond classes.**
  - Repayment would be prioritized for TWIA policyholders, coastal residents, and then statewide residents, and limits could be imposed on the total amount to be repaid from each group, both for a single catastrophe year and cumulatively for multiple years.
- **Reverse the order of public securities and member company assessments within each of the three classes of funding.**
  - This change would make the public securities less likely to be needed to pay losses and provide more time before those funds would be necessary after a catastrophic event.
  - This could be done in conjunction with allowing member companies to recoup assessments either in whole or in part.

## 7 Reinsurance Funding

**Subject:** TIC Section 2210.453(b) requires TWIA to maintain total available loss funding not less than the 100-year probable maximum loss (PML) and requires the purchase of reinsurance or similar mechanisms as necessary.

- As TWIA exposures continue to grow, the Association's PML will also grow. Since the amount of statutory funding available from public securities and assessments is fixed, this significantly increases both the amount and cost of reinsurance TWIA must purchase each year.
- Increased reinsurance costs reduce contributions to the CRTF and increase the indicated rate need for TWIA policyholders.

**Possible Solution:** Recommend the Legislature consider one or more of the following changes to current TWIA funding statutes to address these concerns:

- **Adjust the statutory funding in line with changes in TWIA exposures.**
  - This change could be done either directly based on exposure change from year to year or proportional to changes in the modeled probable maximum loss, effectively keeping the statutory funding as a fixed percentage of total funding.
  - Either method would directly reduce the amount of reinsurance needed and its cost to TWIA policyholders.
- **Authorize a mechanism to maintain the CRTF at a minimum level through a statewide assessment pool or other State source.**
  - Increasing the CRTF's available balance directly decreases the amount of reinsurance that must be purchased.
  - This is especially important in the years immediately after a catastrophic event, as the CRTF will have been used, most likely in its entirety, to fund losses.

- **Identify methods to increase the amount in the CRTF to help reduce the amount of reinsurance TWIA needs.**
- **Require TWIA's premium and maintenance taxes to be deposited directly into the CRTF.**
  - This would cause a significant increase to CRTF balances annually and result in a relatively small reduction in the overall amount of tax revenue received by the State.

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## Other Topics Considered

The Legislative & External Affairs Committee and TWIA Board considered the following items but chose not to include them in the 2024 Biennial Report.

Item #	Topic	Description
1	<b>Expert Panel</b>	Modify statute and regulations to eliminate TIC Section 2210.578 requiring the use of Expert Panel recommendations.
2	<b>Appraisal Process</b>	Allow TWIA to have a formal objection process related to issues or concerns with a policyholder's selected appraiser or umpire.
3	<b>Payment of Appraisal Costs</b>	Revise the statutory provision requiring TWIA and the policyholder to split the cost of their respective appraisers to require each party to pay their own appraisal costs.
4	<b>Depopulation</b>	Authorize TWIA to activate and deactivate the Assumption Reinsurance Depopulation Program according to market fluctuations.
5	<b>TWIA/TFPA Merger Study</b>	Recommend the Legislature consider interim charges to study a merger of TWIA and TFPA to create a single residual market property insurer.
6	<b>Roof Coverage</b>	Require all roofs to have ACV coverage and exclude roofs older than 15 years from being covered by the TWIA policy.
7	<b>Indirect Damage Coverage</b>	Exclude coverage for indirect damage from the TWIA policy.
8	<b>Rate Glidepath</b>	Institute mandatory rate increases for 5 years that would move TWIA closer to rate adequacy.
9	<b>Rating Changes</b>	Modify the rating structure to allow for higher commercial rates from residential rates and different rates in areas where the exposure concentration exceeds normal UW guidelines (i.e., Galveston and Corpus Christi).
10	<b>Member Company Assessments</b>	Increase the amount of member company assessments from \$1 to \$2 billion.

## Appendix: Insurance Industry Letters

The Legislative & External Affairs Committee of the TWIA Board asked staff to contact insurance industry representatives to ask about initiatives they are pursuing related to TWIA’s funding. The Association received two letters from insurance industry representatives in response to staff’s request.

- The Insurance Council of Texas, the Texas Coalition for Affordable Insurance Solutions, the American Property and Casualty Insurance Association, and the National Association of Mutual Insurance Companies provided a joint letter for the Committee’s consideration (Page 15).
- The Reinsurance Association of America also provided a letter for the Committee’s consideration (Page 16).

DRAFT

June 12, 2024

David Durden  
General Manager  
Texas Windstorm Insurance Association

Mr. Durden,

This letter is in response to your May 30 letter asking for input on proposals for TWIA funding and TWIA reinsurance funding. This was being done as part of TWIA’s efforts to develop its biennial recommendations to the Texas legislature.

This is submitted jointly on behalf of the following state and national property and casualty trade associations: The Insurance Council of Texas, The Texas Coalition for Affordable Insurance Solutions, The American Property and Casualty Insurance Association, and the National Association of Mutual Insurance Companies.

We appreciate the opportunity to provide input on workable solutions to TWIA funding. In the past, the property and casualty industry has offered proposed solutions and worked with coastal legislators, legislative committees, and community leaders to discuss options.

Our interest remains in finding a reasonable and sustainable funding structure for TWIA to ensure its ability to meet its obligations to policyholders. The current bond debt funding structure creates additional costs and long-term debt for TWIA, making it unsustainable for its future financial well-being.

Generally, the property and casualty industry supports finding an alternative funding source for the current \$1 billion funding that is funded through TWIA debt, commonly referred to as Class 1, 2, and 3 public securities as outlined in Insurance Code, Chapter 2210, Subchapter M. Recently, there have been discussions among various stakeholders about state “investments” or other mechanisms to fund the \$1 billion, and we’d welcome the opportunity to continue those discussions.

Concurrently, we are concerned about any proposals that attempt to shift costs to member insurers or disregard sound insurance practices through means such as artificial restrictions on TWIA’s determination of its 1 in 100-year PML.

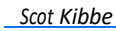
Finally, in any funding proposal, the industry believes it is critical that the funding structure maintains current member assessment requirements at a \$1 billion level and those assessments should continue to be placed after the use of available CRTF and any other funding mechanism, excluding reinsurance. Note that member insurers remain ready to support TWIA losses through our \$1 billion assessment commitment, but also must maintain their ability to help policyholders statewide recover after losses. For reference, in 2023, property and casualty insurers paid over \$45 billion in direct losses representing a 22% increase from 2022 losses, of which nearly \$10.5 billion was for homeowner insurance losses. Homeowner losses were up nearly 50% over 2022 levels.

Again, we appreciate the opportunity to provide this input and are available to answer any questions you may have.

Sincerely,

  
Albert Betts, Executive Director, ICT

  
Beaman Floyd, Lobbyist, TCAIS

  
Scot Kibbe, VP Government Relations, APCA

  
Jon Schnautz, VP State Affairs, NAMIC



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June 14, 2024

Mr. David Durden  
Texas Windstorm Insurance Association

*Via email*

**RE: RAA Comments on TWIA Funding Recommendations**

Mr. Durden:

We appreciate the opportunity to share our thoughts on the proposals you provided on May 29.

One of the fundamental tenets of the Reinsurance Association of America’s (“RAA”) advocacy priorities is ensuring maximum opportunities for the private insurance market to participate in risk transfer. What follows are some thoughts on the proposals with that advocacy goal in mind.

**Overall Observations**

We are mindful that:

- In addition to the potential assessments, member companies have their own obligations to policyholders beyond their TWIA obligations.
- Mandating PML calculations creating artificially low funding levels imperils TWIA’s solvency after a large event.

Given that, policy decisions should be made with an eye towards balancing the demands on the private market while keeping TWIA financially sustainable to meet current and future obligations.

### **TWIA Public Security Funding**

We appreciate TWIA's concerns about its current debt structure and are supportive of considering alternatives to it. We remain engaged with other industry stakeholders in exploring options to help alleviate the problems associated with the current bonding structure.

### **TWIA Reinsurance Funding**

We can appreciate TWIA's desire to reduce reliance on reinsurance. We also remain concerned that increasing the obligations on member companies will discourage additional insurance capital coming into the state.

To that end, the RAA supports efforts to bolster the CRTF to put TWIA on better financial footing, which in turn will help reduce the amount of reinsurance needed to meet its obligations. We look forward to hearing more details about proposed mechanisms which would do that.

As we approach the upcoming legislative session, we look forward to ongoing conversations with you and other stakeholders as you chart the course for TWIA. Please let us know how we can help.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Martin". The signature is written in a cursive, flowing style.

Paul Martin  
Vice President-State Relations

## 11D. Communications and Legislative Affairs Update





## MEMORANDUM

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DATE: July 17, 2024  
TO: David Durden, General Manager  
FROM: Anna Stafford, Senior Manager, Legislative & External Affairs  
RE: Legislative Affairs & External Affairs Operational Highlights

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### I. Legislative & Regulatory Affairs

#### a) Statutory Reports:

- As required by Texas Insurance Code Section 2210.107(c), on May 31, the Association transmitted the Board's Annual Report to the Texas Legislature detailing the extent to which the Association and the Board of Directors have met the requirements of Chapter 2210 of the Insurance Code. The Association also transmitted its 2024 Catastrophe (CAT) Incident Response Plan with the Annual Report, as required by Section 2210.455.
- The Legislative & External Affairs Committee met on May 21 and July 2 to consider legislative recommendations to the Board for its Biennial Report to the 89<sup>th</sup> Texas Legislature. A draft report including seven recommendations based on the Committee's deliberations will be presented to the Board for consideration at its August 6 meeting.

#### b) Legislative Hearings:

- The House Insurance Committee held an interim hearing on June 11 on issues related to the Texas property and casualty insurance market. TWIA provided a written and verbal overview of the Association's funding structure and answered legislators' questions.
- The House State Affairs Committee will hold a hearing on TWIA funding on August 16, pursuant to the Speaker's interim charges. TWIA will attend the hearing.

#### c) Legislative Implementation:

Below is the status of enacted Association-related legislation from last year's legislative session:

- Senate Bill 2232 – Agent Requirements: Association staff completed an initial agent requirements plan as authorized by this bill and is currently reviewing the draft with relevant departments. We plan to solicit feedback from the Agent Advisory Group on the draft at their October meeting. We expect to complete the new agent standards by the end of Q4 2024 for deployment in 2025.
- Senate Bill 2233 – Exclude Commercial Risks from Automatic Renewal Process: System changes to stop the automatic renewal of commercial policies as authorized by this bill were

implemented in mid-May. On May 16, the Association sent an agent bulletin reminding agents of this upcoming change and outlining the new process for commercial renewals.

- House Bill 3208 – Fully Earned Premium: In Q4 2023, TWIA implemented changes to our processes and systems to collect the full earned premium on cancelled policies (with certain exceptions) as required by this law. However, the TDI rulemaking process continued through June 2024. TDI recently approved updates to our policy forms, declaration pages, and rating rules manual to implement this law. Policyholders will begin receiving formal notice of this change in their policy packets.
- House Bill 998 – TFPA Property Owner’s Association Policies: The Texas Department of Insurance (TDI) has proposed new and amended sections to TFPA’s Plan of Operation (Texas Administrative Code) to implement this law. Written public comments on the proposal must be received by July 29. TDI held a public hearing on the proposal on July 16, which Association staff attended. The Association continues to work with the third-party vendor selected to manage these policies on behalf of TFPA while developing a process for handling claims internally.

d) Legislative Meetings: In May through June 2024, Association staff met with the following:

- Staff of the Speaker of the House to provide a general overview of TWIA issues;
- Staff of the Legislative Budget Board to provide a general overview of TWIA, focused on funding issues;
- Staff of the House State Affairs Committee and separately with Committee Chairman Todd Hunter (Nueces County) to discuss the Committee’s interim charges related to TWIA.

e) Stakeholder Inquiries: From April 1 to June 30, 2024, we received and responded to 12 legislative and TDI inquiries about various TWIA issues, and one inquiry from a property owners’ association policyholder regarding an underwriting issue.

f) Operational Updates: We continue to provide regular email updates to the Board, the Texas Department of Insurance (TDI), legislative staff, and coastal elected officials and stakeholders about TWIA’s operational activities.

## II. **Agent Advisory Group (AAG)**

a) The AAG’s third quarter meeting, scheduled for July 11, was postponed due to Hurricane Beryl. It will be rescheduled to a date amenable to the members in August.

## 15. Future Meetings

December 10, 2024 – Omni Hotel –  
Corpus Christi, TX

February 25, 2025 – Moody Gardens Hotel  
– Galveston, TX