

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

May 12, 2020  
GotoWebinar  
9:00 a.m.



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

Interested parties can 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 GotoWebinar link.

1. Call to Order: 5 minutes
  - A. Welcoming Remarks – *Chandra Franklin-Womack*
  - B. Anti-Trust Statement and Conflict of Interest Disclosure – *Counsel*
  - C. Meeting Format Information – *Kristina Donley*
  
2. Introductions of New Board Members – *Chandra Franklin – Womack* 5 minutes
  
3. Consideration and Action to: 5 minutes

Approve the Minutes from Prior Board of Directors' Meetings  
– *Chandra Franklin – Womack* \*
  
4. Public Comment 15 minutes
  
5. TWIA Operational Highlights – *John Polak* 5 minutes
  
6. Financial 40 minutes

Consideration and Possible Action on the Following Financial Topics:

  - A. Report of the Secretary/Treasurer – *Corise Morrison* \*
    1. Income Statement
    2. Management Discussion and Analysis
  - B. Financial Statement Review by Staff – *Jerry Fadden*
    1. Income Statement and Expense Statement
    2. Balance Sheet
    3. Cash & Short-Term Investments
    4. Cash Flow Statement
    5. Historical Data
    6. Net Revenue Coverage
  - C. Investment Plan Review – *Jerry Fadden* \*
  - D. Funding – *Jerry Fadden*
    1. 2020-2021 Funding Including Bank Line of Credit\*
    2. Update Regarding Partial Redemption of 2014 Bonds
    3. Review Status of 2020 Reinsurance Program Placement
  - E. Financial Audit by Calhoun, Thomson + Matza – *Clark Thomson*
    1. Audit Wrap-Up Reports
    2. Statutory Report\*
    3. GASB\*
    4. Internal Control Letter

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|---|------------|
| 7. Actuarial – <i>Jerry Fadden</i><br>Consideration and Possible Action on the Following Actuarial Topics:<br>A. Reserve Adequacy<br>B. Policy Count/Exposures<br>C. Status of RFP for Actuarial Services*  | 30 minutes |
| 8. Internal Audit – <i>Bruce Zaret – Weaver</i><br>Consideration and Possible Action on the Following Internal Audit Topics:<br>A. Internal Audit Status & Update   | 10 minutes |
| 9. Underwriting – <i>Denise Larzalere</i><br>Consideration and Possible Action on the Following Underwriting Topics:<br>A. Operational Review Update –<br>Including Procedures Related to Receipt of Premiums*  | 10 minutes |
| 10. Claims<br>Consideration and Possible Action on the Following Claims Topics:<br>A. Claims Operations – Overview – <i>Dave Williams</i><br>B. Claims Litigation – <i>David Durden</i>   | 10 minutes |
| 11. TWIA Operations<br>Consideration and Possible Action on the Following Operations Topics:<br>A. IT Systems Update – <i>Camron Malik</i><br>B. Depopulation – <i>Denise Larzalere</i><br>C. Communications Update – <i>Jennifer Armstrong</i>   | 20 minutes |
| 12. Closed Session ( <b>Board Only</b> )<br>A. Personnel Issues<br>B. Legal Advice  | 60 minutes |
| 13. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors   | 5 minutes  |
| 14. Committees – <i>Chandra Franklin – Womack</i><br>A. Report on May 7 <sup>th</sup> Legislative and External Affairs Committee Meeting – <i>Mike Gerik</i>  | 5 minutes  |
| 15. Future Meetings – <i>Chandra Franklin – Womack</i><br>A. Items for Addition to Agenda for Future Meetings<br>B. Future Meeting Dates <ul style="list-style-type: none"> <li>• August 4, 2020 – Tremont House, Galveston</li> <li>• December 8, 2020 – Omni Hotel, Corpus Christi</li> </ul> | 5 minutes  |
| 16. Adjourn   |            |

Estimated Total Length of Meeting

3 hours 50 minutes

\*Indicates item on which general manager believes the board of directors is likely to take action.  
However, the board of directors may take action regarding any item on this agenda.

\*\* In accordance with Governor Abbott's directive suspending certain statutory provisions relating to open meetings and requiring certain actions of the boards of governmental bodies, this meeting may be conducted entirely by teleconference or web conference with no one gathered at a physical location.

# 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**

5700 South MoPac Expressway, Building A, Austin, Texas 78749 • P.O. Box 99090, Austin, Texas 78709-9090  
512-899-4900 / Fax 512-899-4950

### 3. Approve the Minutes

**Minutes of the Texas Windstorm Insurance Association**

**Board of Directors Meeting**

**Marriott South Hotel**

4415 South IH 35  
Austin, Texas 78744

February 18, 2020

1. Call to Order: Ms. Franklin-Womack called the meeting to order at 9:00 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 reviewed the conflict of interest disclosure concerning the board members.

The following Board members were present, representing:

- |    |                                       |                                       |
|----|---------------------------------------|---------------------------------------|
| 1. | Chandra Franklin Womack (Vice Chair)  | First Tier Coastal Representative     |
| 2. | Georgia Neblett                       | First Tier Coastal Representative     |
| 3. | Mike Gerik                            | Industry Representative               |
| 4. | Corise Morrison (Secretary/Treasurer) | Industry Representative               |
| 5. | Karen Guard                           | Industry Representative               |
| 6. | Tony Schrader (via teleconference)    | Non-Seacoast Territory Representative |

The following TWIA staff, counsel, and agents were present:

- |    |  |                        |
|----|--|------------------------|
| 1. | John Polak, General Manager                                      | TWIA                   |
| 2. | Jerry Fadden, Chief Financial Officer                            | TWIA                   |
| 3. | Dave Williams, VP Claims   | TWIA                   |
| 4. | David Durden, VP Legal   | TWIA                   |
| 5. | Denise Larzalere, VP Underwriting                                | TWIA                   |
| 6. | Jennifer Armstrong, VP Communications<br>and Legislative Affairs | TWIA                   |
| 7. | Amy Koehl, Executive Assistant                                   | TWIA                   |
| 8. | Mike Perkins, Association Counsel                                | Perkins Law Group PLLC |

The following were also present:

Ron Davis	Bank of America/Merrill Lynch
Richard Meister	Bank of America/Merrill Lynch
Clark Thomson	Calhoun, Thomson + Matza
Scott Weiss	Calhoun, Thomson + Matza
Ryan Brannan	CWIC
Tad Delk	Guy Carpenter
Carlos Garcia	Guy Carpenter
Albert Betts	ICT
Angie Cervantes	ICT
Lee Loftis	IIAT
Anne O’Ryan	ACCMI
Kimberly Donovan	OPIC
Katie Porter	Perkins Law Group
Eleanor Kitzman	Resolute Underwriters



Gerald Ladner	State Auto Insurance
Beaman Floyd	TCAIS
Marianne Baker	TDI
David Muckerheide	TDI
Kenisha Schuster	TDI
Jessica Davidson	TWIA
Xiuyu Li	TWIA
Bruce Zaret	Weaver
Allen Cashin	Willis Re

2. Introductions: Meeting attendees introduced themselves.
3. Election of Officers: As a result of a recent board member resignation, the office of chair of the board had been vacated. Ms. Franklin-Womack asked if any of the board members were interested in taking on a position on the executive committee. Mr. Gerik asked if there was a need for another officer since the board lost another member. Mr. Perkins said it would be appropriate for the board to elect a slate of officers. Ms. Neblett moved that Ms. Franklin-Womack serve as board chair and Ms. Morrison continue in her current position as secretary/treasurer. Ms. Morrison seconded the motion. The motion passed. Ms. Morrison moved to elect Ms. Neblett as vice chair. Ms. Franklin-Womack seconded the motion. The motion passed.
4. Approval of Minutes: The minutes from the December 10, 2019 meeting in Corpus Christi, Texas were reviewed. Mr. Gerik moved to approve the minutes as presented. Ms. Neblett seconded the motion. The motion passed. Ms. Franklin-Womack pointed the board members to a previously unapproved set of minutes from May 24, 2019 for approval. Ms. Morrison moved to approve those minutes. Ms. Neblett seconded the motion. The motion passed.
5. Public Comment: There was no public comment. Ms. Neblett said she received the outgoing chairman's resignation letter and asked that it be made a part of the meeting minutes.
6. TWIA Operational Highlights: Mr. Polak reported that all changes from the 86<sup>th</sup> legislative session with a 2019 effective date were implemented on or before their required deadlines. More than 1,200 agents were trained on the new processes between October 2019 and mid-January 2020. A new policy renewal process and a process to determine replacement cost value at the time of policy issuance were implemented by the required legislative deadlines. The TWIA Board of Directors completed a training program in December 2019 as required by Senate Bill 615. The Association remains below plan for Q4 operating expenses. The Association achieved all objectives for strategic initiatives in 2019. Underwriting and claims service levels exceeded turnaround time and quality standards. Litigated claims and complaints remain well below plan in Q4 2019.
7. Legislative Implementation Update: Ms. Armstrong reviewed the legislative implementation program as of January 31, 2020. She also reviewed the fourth quarter 2019 legislative and regulatory meetings in which staff participated.

8. Financial:

- A. Report of the Secretary/Treasurer: Ms. Morrison reviewed the Treasurer's Report. Mr. Gerik moved to approve the report. Ms. Neblett seconded the motion. The motion passed.
- B. Financial Statement Review by Staff: TWIA's financial results for the twelve months ended December 31, 2019 reflect net income of \$59.4 million, compared to a budget of \$98.7 million. Excluding the impact of Hurricane Harvey reserve adjustments, net income would have been \$149.4 million.

Total 2019 direct written premiums of \$372 million reflect a decrease of \$23.5 million (6.0%) from the prior year total of \$395.6 million. The decrease resulted from year over year policy and exposure declines and the depopulation of 1,600 policies on June 1, 2018 and 2,080 on June 1, 2019. Direct written premium was \$23.4 million higher than the budgeted \$348.6 million.

The December policy count totaled 189,203, representing a 13,005 (6.4%) decline from the policy count at December 31, 2018 (202,208). However, policy count as of December 31, 2019 is 9,393 (5.2%) higher than the 2019 budgeted level (179,811).

Direct premiums earned totaled \$381.6 million compared to \$410 million in 2018 (a decline of \$28.4 million or 6.9%). Direct premium earned was \$14.4 million higher than the budget of \$367.1 million.

TWIA has ceded \$1.7 million of depopulation premium through December 2019. A total of 2,080 policies were transferred to the two participating carriers on June 1, 2019.

Reinsurance costs incurred during the year (ceded insurance premium) totaled \$92.4 million (reflecting 100% of the ceded written premium from the June 1 reinsurance and CAT bond renewal).

The year to date direct loss and LAE incurred of \$113.5 million reflects the actuarial analysis as of year-end and included a \$90 million increase to Hurricane Harvey reserves. This resulted in a reported direct loss and LAE ratio in 2019 of 20.7% compared to the budgeted 16.9%. Non-hurricane loss and LAE expenses incurred totaled \$23.5 million compared to a budget of \$61.9 million, resulting in a non-hurricane loss ratio of 6.2% less than the budgeted 16.9% loss ratio.

The 2019 total operating expenses of \$29.5 million are below budget by \$6 million or 17%. The variance is mostly attributed to deferment of the Project ELEVATE launch until 2020. In addition, legal expense associated with the \$500 million line of credit was overstated in the 2019 budget.

Commission expense and premium taxes, totaling \$66.5 million, were above budget by \$3.8 million or 6.1% as year to date direct written premium exceeded budget.

Gross investment income for the year was \$8.6 million, compared to the budget of \$7.8 million, reflecting an improved rate environment. Interest expense on Class 1 bonds was as budgeted at \$28.3 million.

The accrual for the annual CRTF contribution at year end 2019 is \$94.4 million based on catastrophe/calendar year results through December 31, 2019.

The deficit as of December 31, 2019 was \$312.7 million, compared to \$277.9 million at December 31, 2018, as total net income for the year of \$59.4 million was offset by required surplus adjustments for non-admitted assets (\$135K) and statutory fund cost (\$94.4 million).

Mr. Fadden said on July 1, 2019, the series 2014 bonds became callable without penalty. These bonds helped pay for Hurricane Harvey claims. With the passing of the call date, the bonds can be refinanced or paid early with the approval of the board, the commissioner and the Texas Public Finance Authority. Staff's interpretation of the statute was that it was precluded from using 2019 earnings to pay off the bonds early. There were a lot of discussions about the series 2014 bonds. There were comments at TWIA Actuarial and Underwriting Committee meetings stating the bonds should have been paid off earlier. However, they could not be paid off earlier without a penalty. There are still outstanding questions with TDI, but staff is continuing the conversation. Mr. Fadden pointed the board members to a document that showed the savings and the additional contribution to the CRTF. Staff is suggesting \$45 million as a portion to pay off part of the bonds. Ms. Morrison asked what the logic was behind that number. Mr. Fadden said it was a balanced approach. Either application of the funds has a benefit. This provides some debt capacity to avoid an Association surcharge in the future. The CRTF is over \$125 million. That provides liquidity needed in case of an event. Ms. Neblett asked if this was all subject to review by TDI and the Texas Public Finance Authority. Mr. Fadden said yes, and he was hoping to have a response from the commissioner before staff files the financial statements for 2019.

Mr. Gerik asked what happens if the bonds are paid down and there is a storm this year, what happens next? Mr. Fadden said the paydown would not affect how a hurricane is funded. Earnings to date would be used as an immediate source of funding. Then the CRTF would be tapped. Once that is exhausted, Class 1 bonds would be issued, depending on the size of the event. Ms. Neblett asked what happens if the Association can't issue Class 1 bonds? Mr. Fadden said if that happens, there are assessments. Mr. Gerik said his concern is if there is a significant event in 2020 and more Class 1 bonds are issued but there isn't enough revenue to pay close to \$700 million in bonds.

Ms. Neblett moved WHEREAS, by resolutions adopted at its May 24, 2019 meeting, this Board authorized and directed Association staff to request approval to refinance outstanding class 1 public securities (2014 Bonds) from the Commissioner of Insurance (the Commissioner) and to pursue a request for the

issuance of public securities to refinance the 2014 Bonds by the Texas Public Finance Authority (TPFA). The 2014 Bonds were issued in the original principal amount of \$500,000,000 and \$318,600,000 of such amount remains outstanding with interest accruing on that balance;

WHEREAS, Association staff has reported to this Board that although refinancing the 2014 Bonds remains under consideration as a possible course of action, general market conditions and other circumstances specifically related to the association's financial condition and operations have combined to produce unexpected challenges with respect to the potential consummation of a refinancing transaction on terms considered to be favorable to the Association and its policyholders;

WHEREAS, Association staff has determined that the bond resolution and other documents authorizing the issuance of the 2014 Bonds (the Transaction Documents), Texas Insurance Code Section 2210.072(a), and 28 Texas Administrative Code Section 5.4134 authorize the Association to request that TPFA redeem a portion of the outstanding 2014 Bonds through an early repayment process, subject to approval by the Commissioner; and

WHEREAS, in consideration of the foregoing and for the benefit of the Association and its policyholders, this Board hereby adopts the following resolutions and takes the following action.

RESOLVED, that this Board hereby elects to pay a portion of the outstanding 2014 Bonds prior to its stated maturity or mandatory sinking fund redemption date in the principal amount of \$ 45 million (Principal Payment) in accordance with the Transaction Documents utilizing any assets legally available for such purpose;

RESOLVED, that the Association staff is hereby directed to seek approval of the Commissioner in accordance with Texas Insurance Code Section 2210.072(a) and other applicable law prior to transferring the Redemption Payment (as defined below) to TPFA in order to consummate such an optional redemption of a portion of the 2014 Bonds;

RESOLVED, that after obtaining Commissioner approval, the Association staff is hereby authorized to request that the TPFA redeem a portion of the 2014 Bonds at the redemption price that corresponds to the Principal Payment plus accrued interest thereon to the date of redemption (such combined amount constituting the Redemption Payment); and

FURTHER RESOLVED, that in the event all required approvals and consents are obtained, Association staff is hereby directed to request that the TPFA consummate the partial redemption as soon as reasonably practical and to transfer the Redemption Payment to the TPFA. Mr. Gerik seconded the motion. The motion passed.

9. Actuarial:

- A. Reserve Adequacy: The TWIA actuarial staff completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of December 31, 2019.

The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of \$1.66 billion to \$1.77 billion. TWIA has selected to continue to record the Hurricane Harvey ultimate loss and loss adjustment expense at \$1.77 billion. The actual ultimate costs of Harvey may differ substantially from the selected \$1.7 billion. This variability arises from the assumptions made regarding the adequacy of case reserves for 1,041 open claims, the potential impact of future re-openings of closed claims as of December 31, 2019 and the outcome of disputed claims. Even though TWIA has recorded the Hurricane Harvey estimate of ultimate loss and loss adjustment expenses at a level which is considered reasonable, there remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. The actuarial team will continue to monitor current cases reserve adequacy, current & future litigation/disputes and future re-openings to ensure all outstanding obligations are properly reserved.

As of December 31, 2019, TWIA carried \$169.1 million in total gross loss and loss adjustment expense reserves with \$68K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

In the opinion of the senior 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. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

- B. Policy Count/Exposures: There has been a continuing decline in policy counts, reflecting a decline of 6.4%. Staff is expecting a reduction of 10,000 in the next year. Mr. Gerik asked what the forecast is for the decline. Ms. Larzalere said she is seeing a decline in policies in force. Mr. Fadden said staff is showing a 6% decline for next year. Mr. Gerik asked if the Association is losing the better exposures and keeping the worst exposures. Ms. Larzalere said for depopulation, she isn't seeing that. Staff can't tell the quality of the policy. Mr. Fadden said the policies that tend to leave are for homes that are newer, those with newer roofs, etc. Mr. Gerik asked staff to put together a study on the loss exposures, roof type, age of roof, coverage amount, age of dwelling from the last five years. Ms. Neblett asked if staff tracks policies that leave and then come back. Ms. Larzalere said it was a small amount, but staff does keep track. She added that staff keeps track of the address, it isn't known if the property was sold and then came back.

- C. Appointment of Actuary and Qualification Documentation: Mr. Fadden reviewed the qualifications of Xiuyu Li as a Qualified Actuary. She was appointed initially in December 2017 and must be reappointed. The board members reviewed the qualifications document.
- D. 2020 Funding, Reinsurance and Line of Credit: Mr. Fadden turned the meeting over to Tad Delk, a representative from Guy Carpenter to review a presentation he put together on reinsurance. He reviewed the state of the market and said there is abundant capacity. Ms. Neblett asked if Guy Carpenter has used a combination of the models and historic experience to come up with a reinsurance number. Mr. Delk said the number came solely from modeling. Mr. Fadden said staff uses historical experience and models for the rate adequacy analysis but not reinsurance purchases. Mr. Fadden went into some additional detail regarding the models, saying staff uses a blend of both RMS and AIR. Ms. Guard asked Mr. Fadden why he liked the AIR model. Mr. Fadden said with the help of Guy Carpenter, within the catalog of events, staff compares that to actual losses. AIR tends to be more accurate. He said he felt it was best to use a blend of models.

Mr. Perkins read the following motion: The TWIA Board of Directors has received and discussed a detailed presentation from the association's reinsurance broker with input from staff and in response adopts the following resolutions.

1. The Board agrees to continue to use the average of the results from the two catastrophe models presented as a reference point for making its reinsurance purchase decision.
2. The Board agrees that model results based on near term assumptions are preferable to long term.
3. The Board agrees that the words, "total available loss funding" in statute contemplate inclusion of loss adjustment expenses in determining the probable maximum loss for the association for a catastrophe year with a probability of one in one hundred.
4. The Board agrees based on the foregoing and the information presented that for catastrophe year 2020 the one in one hundred probable maximum loss amount is \$4.2 billion.
5. The Board directs the association's reinsurance broker to pursue placement of the reinsurance program for the 2020-2021 reinsurance contract year using a combination of catastrophe bonds and traditional reinsurance in an aggregate amount of \$2.1 billion excess of \$2.1 billion on the most favorable terms that can be achieved in the market.
6. Staff is authorized and directed to submit these resolutions and supporting information to the Texas Department of Insurance for any review or approval that may be required by the Commissioner of Insurance under law.

Mr. Gerik said he would make the motion. Ms. Morrison seconded the motion. The motion passed.

- E. Actuarial RFP: This item came out of the December board meeting. The RFP was sent to 15 targeted respondents. It is a two-stage process. Mr. Fadden is expecting proposals by February 26. ELT members will evaluate the proposals

based on a certain set of criteria, then they will be brought to the actuarial committee. Presentations will be subject to the Open Meetings Act. Hopefully the selected firm can start the work in early April. Ms. Neblett asked if the chair of the committee could be involved with the initial screen of candidates. Mr. Fadden said that would be a good idea.

10. Internal Audit:

- A. Internal Audit Status & Update: Mr. Zaret said internal audit has issued audit reports on payroll, human resources, accounts payable and expense processing and vendor management. Audit reports are in final review for vendor management analytics and business continuity/continuity of operations. The fieldwork is complete for the accounts receivable audit. Upcoming audits include claims, database and application administration, underwriting and depopulation.

11. Underwriting:

- A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. Staff is surpassing this standard with over 95% processed within 10 days. Over 80% of new business and renewals are processed within one day. Quality assurance results on underwriting decisions continue to exceed established goals.

Telephone service response time continues to meet and exceed applicable standards. Service quality scores have been in the “meets expectations” category. Service observation is now standard procedure and as an Association the departments are calibrating calls and have agreed upon service standards for telephone service.

The department is operating below budget largely due to managing headcount and reducing the number of physical inspections.

Legislative implementation has been addressed on policy terms and the new renewal process. Staff has conducted over a dozen agent webinar training sessions across two months with over 1,300 attendees and positive feedback.

For the period of October 1, 2019 – December 31, 2019, staff has received 2,272 WPI-3s applications. The average turnaround time is between three and four days and reroof is the number one reason (51% of certificates). Two engineer firms represent approximately one quarter (25%) of all applications. The Confirmation of Application review completed for applications (WPI-3s) received in the previous quarter was sent to 94 engineers. One issue was self-identified by the engineer and was resolved. Underwriting continues to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

Audits were performed on 20 agents (200 policies) in the fourth quarter to verify compliance with the declination of coverage and flood insurance requirements. None of the policies/properties selected for review required flood insurance. All 20 agents (200 policies) were compliant with the requirement for proof of

declination of coverage. Staff also reviewed the 190 policies that were auto-issued to confirm a copy of a WPI-8 had been provided where required. The review identified 16 policies requiring a WPI-8 that did not have the proper documentation uploaded by the agent. These have been referred to underwriting for research and follow up. All 20 agents have an active property and casualty insurance license.

12. Claims:

- A. Claims Operations: Mr. Williams reported there were three new Harvey claims since the last board meeting and 75 claims were closed. The percentage of closed Harvey claims is 99% and there are currently 1,006 open claims. There were 293 complaints to TDI, representing 0.38% of all claims. Current new claim volume is 6,704 which is 20% lower than projected. Projected claim volume is 8,436.
- B. Claims Litigation: Mr. Durden reported there were 38 new claims in suit for the quarter and 14 were closed. There are 75 claims with letters of representation with 109 closed during the quarter. Of the suits held by plaintiff firms, the most are held by Daly & Black.

13. TWIA Operations:

- A. IT Systems Update: Mr. Polak provided an update on the status of the IT projects.
- B. Depopulation: Mr. Polak reviewed the depopulation information. There are 1,800 policies slated to go to other carriers.
- C. Communications Update: In Q4 2019, staff maintained contact with key legislative offices to act as a resource on Association operational questions, the TWIA Board of Directors and committee meetings held during the quarter and the Association's progress in implementing and complying with the new laws passed by the 86<sup>th</sup> legislature, regular session.

Communications and Legislative Affairs continues to manage the legislative implementation program by coordinating with Association project teams to ensure the deadlines of the legislative changes are met and providing change management support for the program's initiatives.

The department is engaging in coastal outreach efforts, including attending the Santa Fe Chamber of Commerce monthly membership meeting luncheon, giving staff an opportunity to meet with chamber members and local business owners about recent legislation affecting TWIA.

Media coverage during Q4 2019 was dominated by the board's rate consideration process. The two meetings of the TWIA Actuarial & Underwriting Committee in October and November and the board meeting in December garnered significant media coverage among coastal media outlets.

- D. Review and Approval of 2020 Budget: Mr. Polak reviewed the details of the 2020 budget, which was held over from the December 2019 meeting. Ms. Franklin-Womack asked how long the vacancies have been open. Mr. Polak said they have been rolling through. She said it looked like there was a 2.2% increase for salaries, was there any changes to the benefits package. Vice President of



Human Resources, JD Lester, said the benefits are proportional to the salaries. The positions that are open are different from the past; there is a need for higher dollar employees. There hasn't been a substantial increase in costs for benefits, this year they were flat. Ms. Guard said since premiums are declining, is staff looking for ways to save on the expense side. Mr. Polak said the biggest expense is commissions. A document will be put together showing how staff is staying ahead of declining premiums. Ms. Morrison moved to accept the budget as presented. Mr. Gerik seconded the motion. The motion passed.

- E. Performance Evaluation of General Manager: This item was covered in closed session.
14. Closed Session: The meeting went into closed session at 11:47 am. The meeting opened at 12:51 pm.
15. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: Ms. Morrison moved to change the general manager's salary as discussed during the closed session. Ms. Neblett seconded the motion. The motion passed.
16. Committees: Ms. Franklin-Womack said the board members need to start thinking about the Legislative and External Affairs Committee and who would serve as members. Mr. Gerik will chair the committee with members Ms. Neblett and Mr. Schrader. A meeting will be set up shortly.
17. Future meetings:
- May 12, 2020 – Hyatt Regency – Austin
  - August 4, 2020 – Tremont House – Galveston
  - December 2020 – TBD
18. Adjourn: The meeting adjourned at 1:14 p.m.

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Prepared by: Amy Koehl  
Executive Assistant

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Approved by: Chandra Franklin-Womack  
TWIA Chairman

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Approved by: Georgia Neblett  
TWIA Vice Chairman

January 22, 2020

Texas Department of Insurance  
Attn: Commissioner Kent Sullivan – Commissioner of Insurance  
P.O. Box 149104  
Austin, Texas 78714-9014

RE: Letter of Resignation

Dear Commissioner,

As I made you aware, I have started a new position on the insurance company side of the industry this past week. After discussing with my family and my new employer, as well as much deliberation on my own, I have decided that it would be in the best interest for TWIA and its Board of Directors, as well as your office, for me to step down and resign.

Given the current makeup of the Board with its current members, and the requirements for the makeup of the Board, I strongly believe my continued involvement would most certainly cause criticism from policyholders, the media and the legislature that the board was too heavily weighted on the insurance company side. There have already been questions and challenges raised because the Board is currently without a coastal agency member, as well as an inland representative. In the last Board meeting held in December, public comments were made questioning the validity and legality of whether the Board votes were enforceable, given the perception that the Board is weighted heavier to the insurance industry members. Even though you have stated that I would have the option to complete my term if I wish, I fear my involvement on the Board, now that I am working with an insurance company, would only create additional hardships and criticisms for your office as well as the TWIA offices and board members involved.

Therefore, please accept this letter as my formal notice of resignation effective immediately from the Board of Directors with the Texas Windstorm Insurance Association. I have been very honored and humbled to be appointed by you to serve alongside the other members of this Board and it has been my pleasure to do so. I wish you and your office the best of success in your continued work and your future endeavors. Certainly, if there are any other opportunities to serve in another capacity moving forward, for your office or the State, I will be happy to serve in any way that I can.

Sincerely,



Bryan L. Shofner

cc: John Polak – TWIA Exec. Director  
TWIA Board of Directors

## 5. TWIA Operational Highlights

# 2020 TWIA Enterprise Scorecard

Reporting YTD as of March 31, 2020



	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	7.8%	→	9.0%	1.2%	
Net Gain From Operations <sup>1</sup>	\$49.3 M	↗	\$43.4 M	-\$5.9 M	
Enterprise Projects	97%	→	90%	-7%	
Policy Administration	98%	→	90%	-8%	
Claims Handling	100%	→	90%	-10%	
Litigated Claims	0.00%	→	0.50%	0.50%	
Complaints	2	→	6	4	

Reference Data	
Policies In-Force	187,189
Exposures In-Force	\$55.1 billion
Written Premiums YTD	\$74.6 million
Claims Received YTD	714
Losses Incurred YTD <sup>2</sup>	\$100.3 million

<sup>2</sup> Excludes IBNR

<sup>1</sup> Net Gain from Operations equals YTD 2020 net income reduced by YTD monthly principal prepayments on public securities.

## Key Quarterly Activities

- Paid \$45 million toward the redemption of the Series 2014 bonds used for the payment of Hurricane Harvey claims and contributing \$52.6 million to the Catastrophe Reserve Trust Fund (CRTF) from 2019 net earnings.
- Transitioned nearly 100% of Association staff to remote operations while continuing to meet our service level agreements and obligations.
- Implemented a temporary payment option providing payment leniency to support policyholders impacted by COVID-19.
- Remain below plan for Q1 2020 operating expenses.
- On track to complete Association objectives for all strategic initiatives in 2020.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels.
- Remain below plan on litigated claims and complaints in Q1 2020.

## 6. Financial

### 6A. Report of the Secretary/Treasurer

#### 6A1. Income Statement

**TEXAS WINDSTORM INSURANCE ASSOCIATION**  
**Statutory Income Statement - Treasurer's Report**  
**for the three months ended March 31,**  
**(000's omitted)**

	2020	2019
<b>Direct Premiums Written</b>	\$ 74,590	\$ 74,777
<b>Premiums Earned:</b>		
Direct Premiums Earned	\$ 92,323	\$ 96,663
Ceded Reinsurance Premiums	-	-
Ceded Reinsurance Premiums - Depopulation	(532)	(1,220)
Net Premiums Earned	91,791	95,443
<b>Deductions:</b>		
Direct Losses and LAE Incurred	3,071	3,887
Direct Losses and LAE Incurred - Harvey	-	-
Direct Losses and LAE Incurred - Ike & Dolly	-	-
Ceded Losses and LAE Incurred - Depopulation	(65)	(33)
Operating Expenses	7,196	6,881
Commission Expense	12,039	11,955
Ceding commissions / brokerage	-	-
Ceding commissions / brokerage - Depopulation	(128)	(293)
Premium / Maintenance Tax	1,409	1,435
Total Deductions	23,522	23,831
<b>Net Underwriting Gain or (Loss)</b>	68,269	71,612
<b>Other Income or (Expense):</b>		
Gross Investment Income	1,234	2,703
CRTF Funds Received	-	-
Member Assessment Income	-	-
Interest Expense on Class 1 Bonds	(6,571)	(7,600)
Debt Issuance & Other Investment Expenses	(121)	(94)
Other Income (Expense)	-	43
Total Other Income or (Expense)	(5,458)	(4,949)
<b>Net Income (Loss)</b>	\$ 62,811	\$ 66,663
<b>Surplus (Deficit) Account:</b>		
Beginning Surplus (Deficit)	\$ (183,792)	\$ (277,864)
Net Income (Loss)	62,811	66,663
Change in Provision for Reinsurance	-	-
Change in nonadmitted assets - Other	(2,602)	(4,635)
Other	-	-
Statutory Fund Cost	-	-
Ending Surplus (Deficit)	\$ (123,583)	\$ (215,836)

## 6A2. Management Discussion and Analysis

**Texas Windstorm Insurance Association**  
**Management's Discussion and Analysis of Financial Results for the**  
**Three Months Ended March 31, 2020**

**Direct Written Premium:** Year-to-date direct written premiums of \$74.6 million reflect a slight decrease of \$187,000 (0.3%) from the same period last year of \$74.8 million. The decrease resulted from year over year policy and exposure declines, and the depopulation of 2,080 policies on June 1, 2019. Direct Written Premium was \$3.9 million higher than the budgeted \$70.7 million.

The March 2020 policy count of 187,189 was 731 policies lower than the February 2020 policy count primarily due to a decrease in renewals from residential and commercial policies. However, the policy count as of March 31, 2020 was 2,189 (1.2%) higher than the 2020 budgeted level.

**Direct Premiums Earned:** Year-to-date direct premiums earned totaled \$92.3 million compared to \$96.7 million for the same period last year (a decline of \$4.3 million or 4.5%). Direct premium earned was \$1.9 million higher than the budget of \$90.4 million.

**Ceded Depop Premium:** TWIA has ceded \$532,000 of depopulation premium through March 2020 from the policies selected in the latest round of the depopulation program effective December 1, 2019.

**Loss and Loss Adjustment Expense Incurred:** Direct losses and LAE incurred for the quarter ended March 31, 2020 totaled \$3.1 million, which was \$816,000 (21.0%) below the prior year level of \$3.9 million and \$4.2 million (57.6%) lower than the budget of \$7.2 million. Favorable loss development on non-Harvey claims accounted for roughly \$1 million of the current year favorable variance from plan with the remainder due to early spring storm activity that was less severe than anticipated in the budget. The reported non-hurricane loss ratio was 3.3% for the first quarter of 2020 compared to the 2020 budgeted first quarter of 8.0%, and the prior year first quarter reported 4.0%.

**Operating Expenses:** Year to date operating expenses of \$7.2 million were \$315,000 or 4.6% higher than prior year but below budget by \$954,000 (11.7%). The favorable variance to budget in 2020 is primarily related to timing of project contractors and consultants in IT, and postage. TWIA headcount at March 31, 2020 was 213, down slightly from the 221 as of December 31, 2019.

**Commission Expense and Premium Taxes:** Commission expense and premium taxes, totaling \$13.4 million were consistent with prior year amounts and above the 2020 budget by \$740,000 or 5.8% as Direct Written Premium exceeded budget.

**Other Income (Expense):** Gross investment income for the quarter totaled \$1.2 million, a decrease of \$1.5 million from the prior year income of \$2.7 million. The decline was due primarily to lower yields on investments from Federal Reserve interest rate cuts and slightly lower average invested balances. Gross investment income for the current quarter was below budget by \$578,000. Investment income is expected to continue to lag budgeted amounts due to expectations of an extended low interest rate environment in the near term. Interest expense on Class 1 bonds was on budget at \$6.6 million.



**Net Income:** Net income for the three months ended March 31, 2020 totaled \$62.8 million, a decrease of \$3.9 million (5.8%) from prior year levels. Net income for the period was \$5.9 million higher than the budget of \$56.9 million.

**Surplus/(Deficit):** The deficit as of March 31, 2020 was \$123.6 million compared to \$183.8 million at December 31, 2019. Net income for the period of \$62.8 million was partially offset by a temporary increase in non-admitted assets of \$2.6 million due primarily to a Guidewire License fee that was paid during the quarter and is non admitted as a prepaid expense.

## 6B. Financial Statement Review by Staff

### 6B1. Income Statement and Expense Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Income Statement (000's omitted)				
for the three months ended March 31,				
	Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019
<b>Premiums Written:</b>				
Direct	\$ 74,590	\$ 70,720	\$ 3,870	\$ 74,777
Ceded	-	-	-	-
Ceded - Depopulation	(532)	(843)	311	(1,220)
Net	<u>74,058</u>	<u>69,877</u>	<u>4,181</u>	<u>73,557</u>
<b>Premiums Earned:</b>				
Direct	\$ 92,323	\$ 90,411	\$ 1,912	\$ 96,663
Ceded	-	-	-	-
Ceded - Depopulation	(532)	(843)	311	(1,220)
Net	<u>91,791</u>	<u>89,568</u>	<u>2,223</u>	<u>95,443</u>
<b>Deductions:</b>				
Direct Losses and LAE Incurred	3,071	7,246	(4,175)	3,887
Direct Losses and LAE Incurred - Harvey	-	-	-	-
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	(65)	(63)	(2)	(33)
Operating Expenses	7,196	8,150	(954)	6,881
Commission Expense	12,039	11,315	724	11,955
Ceding commissions / brokerage	-	-	-	-
Ceding commissions / brokerage - Depopulation	(128)	(202)	75	(293)
Premium / Maintenance Tax	1,409	1,393	16	1,435
Total Deductions	<u>23,522</u>	<u>27,838</u>	<u>(4,317)</u>	<u>23,831</u>
<b>Net Underwriting Gain or (Loss)</b>	<u>68,269</u>	<u>61,729</u>	<u>6,540</u>	<u>71,612</u>
<b>Other Income or (Expense):</b>				
Gross Investment Income	1,234	1,812	(578)	2,703
CRTF Funds Received	-	-	-	-
Member Assessment Income	-	-	-	-
Interest Expense on Debt	(6,571)	(6,571)	-	(7,600)
Debt Issuance/Maintenance & Other Investment Expenses	(121)	(45)	(76)	(94)
Other Income (Expense)	-	-	-	43
Total Other Income or (Expense)	<u>(5,458)</u>	<u>(4,804)</u>	<u>(654)</u>	<u>(4,949)</u>
<b>Net Income (Loss)</b>	<u>\$ 62,811</u>	<u>\$ 56,925</u>	<u>\$ 5,886</u>	<u>\$ 66,663</u>
<b>Surplus (Deficit) Account:</b>				
Beginning Surplus (Deficit)	(183,792)	(183,792)	-	(277,864)
Net Income (Loss)	62,811	56,925	5,886	66,663
Change in Provision for Reinsurance	-	-	-	-
Change in nonadmitted assets - Other	(2,602)	(4,018)	1,417	(4,635)
Other	-	-	-	-
Statutory Fund Cost	-	-	-	-
Ending Surplus (Deficit)	<u>\$ (123,583)</u>	<u>\$ (130,885)</u>	<u>\$ 7,302</u>	<u>\$ (215,836)</u>
<b>Key Operating Ratios:</b>				
<b>Direct:</b>				
<b>Loss &amp; LAE Ratio:</b>				
Non Hurricane	3.3%	8.0%	-4.7%	4.0%
Hurricane Harvey	0.0%	0.0%	0.0%	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	<u>3.3%</u>	<u>8.0%</u>	<u>-4.7%</u>	<u>4.0%</u>
<b>UW Expense Ratio:</b>				
Acquisition	18.0%	18.0%	0.1%	17.9%
Non Acquisition	7.8%	9.0%	-1.2%	7.1%
UW Expense Ratio	<u>25.8%</u>	<u>27.0%</u>	<u>-1.2%</u>	<u>25.0%</u>
<b>Combined Ratio</b>	<u>29.1%</u>	<u>35.0%</u>	<u>-5.8%</u>	<u>29.0%</u>
<b>Net:</b>				
<b>Loss &amp; LAE Ratio:</b>				
Non Hurricane	3.3%	8.0%	-4.7%	4.0%
Hurricane Harvey	0.0%	0.0%	0.0%	0.0%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	<u>3.3%</u>	<u>8.0%</u>	<u>-4.7%</u>	<u>4.0%</u>
<b>UW Expense Ratio:</b>				
Acquisition	17.9%	18.0%	-0.1%	17.7%
Non Acquisition	7.8%	9.1%	-1.3%	7.2%
UW Expense Ratio	<u>25.7%</u>	<u>27.1%</u>	<u>-1.4%</u>	<u>25.0%</u>
<b>Combined Ratio</b>	<u>29.0%</u>	<u>35.1%</u>	<u>-6.1%</u>	<u>29.0%</u>

TEXAS WINDSTORM INSURANCE ASSOCIATION				
Statutory Expense Report (000's omitted)				
for the three months ended March 31,				
Description	Actuals - 2020	Budget - 2020	Variance - 2020	Actuals - 2019
Personnel Expenses				
Salaries & Wages - Permanent	\$ 2,854	\$ 3,031	\$ (177)	\$ 2,824
Contractor & Temporary Help	1,528	2,281	(753)	3,708
Payroll Taxes	236	276	(41)	234
Employee Benefits	1,103	1,067	36	1,092
Recruiting, Training & Other	52	91	(39)	47
Subtotal	<u>5,772</u>	<u>6,746</u>	<u>(974)</u>	<u>7,905</u>
Professional & Consulting Services				
Legal	96	162	(67)	163
Accounting & Auditing	89	79	10	61
Information Technology	462	1,210	(747)	594
Actuarial Services	36	36	-	35
Ombudsman Program	130	114	16	125
Surveys & Inspections	375	375	(1)	405
Disaster Recovery Services	51	24	27	24
Other Services <sup>1</sup>	1,051	976	75	943
Subtotal	<u>2,290</u>	<u>2,976</u>	<u>(686)</u>	<u>2,351</u>
Hardware/Software Purchases & Licensing	847	820	27	756
Rental & Maintenance - Office/Equipment	319	330	(11)	315
Travel Expenses	51	83	(32)	44
Postage, Telephone and Express	127	228	(102)	151
Capital Management Expenses	5	6	(1)	15
Depreciation	7	7	(0)	-
Other Operating Expenses	299	315	(16)	299
Total Operating Expenses	<u>\$ 9,718</u>	<u>\$ 11,513</u>	<u>\$ (1,794)</u>	<u>\$ 11,834</u>
Capitalization of Fixed Assets	-	-	-	-
Reimbursement of Depop Servicing Expense	(20)	(19)	(1)	(19)
Allocation To ULAE	(2,432)	(3,258)	827	(4,840)
Allocation To Investing & Other Expense	(71)	(85)	14	(94)
Net Operating Expense - UW Operations	<u>\$ 7,196</u>	<u>\$ 8,150</u>	<u>\$ (954)</u>	<u>\$ 6,881</u>

(1) Summary Details for Other Services:

Expert Panel	\$ 437	
Marshall & Swift/Boeckh	\$ 251	Residential/RTC Annual & Com Building Insight - Express
ISO Services Inc	\$ 100	
Call Center Expense	\$ 80	
Xactware User Fees	\$ 45	
EagleView Technologies Inc	\$ 33	
SpatialKey Inc	\$ 30	
McLean & Co	\$ 19	
ADP	\$ 11	
Xactware weather reports	\$ 9	
*Other Outside Services	\$ 36	
<b>Total Other Services</b>	<u>\$ 1,051</u>	

## 6B2. Balance Sheet

1	<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>			1
2	<b>Statutory Balance Sheet (000's omitted)</b>			2
3				3
4				4
5		<u>March-20</u>	<u>December-19</u>	5
6	<b>Admitted Assets</b>			6
7	Cash and short term investments:			7
8	Unrestricted	\$ 465,173	\$ 432,595	8
9	Restricted - Funds Held at TTSTC	\$ 89,235	\$ 82,016	9
10	Restricted - Funds Held at TTSTC (Non Admitted)	-	-	10
11	Total cash and short term investments	<u>554,408</u>	<u>514,611</u>	11
12	Premiums receivable & other	2,081	1,499	12
13	Assessment receivable	26	90,000	13
14	Amounts recoverable from reinsurers	74	7	14
15	<b>Total admitted assets</b>	<u><u>\$ 556,589</u></u>	<u><u>\$ 606,117</u></u>	15
16				16
17	<b>Liabilities, Surplus and other funds</b>			17
18	<b>Liabilities:</b>			18
19	Loss and Loss adjustment expenses	\$ 153,917	\$ 169,130	19
20	Underwriting expenses payable	10,262	9,962	20
21	Unearned premiums, net of ceded unearned premiums	167,763	185,495	21
22	Ceded reinsurance funds payable	909	22,560	22
23	Principal Outstanding on Class 1 Pre Event Bonds	318,600	318,600	23
24	Interest Payable on Class 1 Pre Event Bonds	6,571	13,142	24
25	Provision for reinsurance	-	-	25
26	Other payables	22,150	18,378	26
27	Statutory fund payable	-	52,641	27
28	<b>Total liabilities</b>	<u>680,172</u>	<u>789,909</u>	28
29				29
30	<b>Surplus and others funds</b>			30
31	Unassigned surplus	(123,583)	(183,792)	31
32	<b>Total liabilities, surplus and other funds</b>	<u><u>\$ 556,589</u></u>	<u><u>\$ 606,117</u></u>	32
33				33
34				34
35	<b>Balance in CRTF</b>	<u><u>\$ 176,152</u></u>	<u><u>\$ 122,496</u></u>	35
36				36
37	<b>Balance in CRTF including Statutory fund payable</b>	<u><u>\$ 176,152</u></u>	<u><u>\$ 175,137</u></u>	37

## 6B3. Cash & Short-Term Investments

Texas Windstorm Insurance Association  
 Unrestricted Cash and Short Term Investments (\$ in 000's)  
 March 31, 2020

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Blended Rate of Interest Bearing Investments	Investment Duration of Interest Bearing Investments (in months)	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 3/31/20:</b>										
Bank of America	162	165,621	165,783	0.48%	<1	36%	Superior	12.5%	\$155	No
BlackRock Liquidity Funds (1)	-	71,857	71,857	0.20%	<1	15%	N/A	N/A	N/A	N/A
Citibank	4	47,140	47,144	0.25%	<1	10%	Superior	13.0%	\$133	No
JP Morgan Chase	20,315	-	20,315	0.00%	<1	4%	Superior	14.2%	\$207	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	-	160,074	160,074	0.30%	<1	34%	N/A	N/A	N/A	N/A
Wells Fargo	-	-	-	0.00%	<1	0%	Superior	12.6%	\$145	No
<b>Total of all financial institutions</b>	<b>20,481</b>	<b>444,692</b>	<b>465,173</b>	<b>0.35%</b>	<b>&lt;1</b>	<b>100%</b>				
<b>Balances as of 12/31/19:</b>										
Bank of America	162	146,463	146,625	0.92%	<1	34%	Superior	12.2%	\$147	No
BlackRock Liquidity Funds (1)	-	113,076	113,076	1.60%	<1	26%	N/A	N/A	N/A	N/A
Citibank	5	47,002	47,006	1.40%	<1	11%	Superior	12.7%	\$129	No
JP Morgan Chase	16,209	-	16,209	0.00%	<1	4%	Superior	13.9%	\$189	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	-	109,679	109,679	1.46%	<1	25%	N/A	N/A	N/A	N/A
Wells Fargo	-	-	-	0.00%	<1	0%	Superior	12.0%	\$141	No
<b>Total of all financial institutions</b>	<b>16,375</b>	<b>416,220</b>	<b>432,595</b>	<b>1.30%</b>	<b>&lt;1</b>	<b>100%</b>				

(1) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.  
 (2) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of December 31, 2019. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.



## 6B4. Cash Flow Statement

1	<b>TEXAS WINDSTORM INSURANCE ASSOCIATION</b>			1	
2	<b>Statement of Cash Flows (000's omitted)</b>			2	
3	<b>for the twelve months ended March 31,</b>			3	
4				4	
5		<u>Actuals - 2020</u>	<u>Budget - 2020</u>	<u>Variance - 2020</u>	5
6					6
7	<b>Cash flows from operating activities:</b>				7
8	Premiums collected, net of reinsurance	\$ 56,094	\$ 65,809	\$ (9,715)	8
9	Losses and loss adjustment expense paid	(18,285)	(30,695)	12,410	9
10	Underwriting expenses paid	(21,868)	(24,766)	2,898	10
11	CRTF funds received	-	-	-	11
12	Member assessment received	89,974	90,000	(26)	12
13	Other	(75)	(14,378)	14,303	13
14	Net cash provided by operating activities	<u>105,840</u>	<u>85,971</u>	<u>19,869</u>	14
15	<b>Cash flows from nonoperating activities:</b>				15
16	Statutory fund paid	(52,641)	(100,266)	47,625	16
17	Other	-	-	-	17
18	Net cash provided by nonoperating activities	<u>(52,641)</u>	<u>(100,266)</u>	<u>47,625</u>	18
19	<b>Cash flows from investing activities:</b>				19
20	Sales and maturities of investments	-	-	-	20
21	Net investment income	(13,402)	(11,375)	(2,027)	21
22	Net cash provided by investing activities	<u>(13,402)</u>	<u>(11,375)</u>	<u>(2,027)</u>	22
23	<b>Cash flows from financing activities:</b>				23
24	Borrowed funds	-	-	-	24
25	Borrowed funds repaid	-	-	-	25
26	Net cash provided by financing activities	<u>-</u>	<u>-</u>	<u>-</u>	26
27					27
28	Net increase (decrease) in cash and short-term investments	39,797	(25,671)	65,468	28
29	Cash and short-term investments, Beginning	514,611	514,611	-	29
30	Cash and short-term investments, Ending	<u>\$ 554,408</u>	<u>\$ 488,940</u>	<u>\$ 65,468</u>	30
31					31

## 6B5. Historical Data

TEXAS WINDSTORM INSURANCE ASSOCIATION											
HISTORICAL DATA											
1971 - 2020											
(\$ with 000's omitted)											
YEAR	GROSS					NET				CRTF BALANCE END OF PERIOD	
	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES RESID COMML		WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED		UNDERWRITING GAIN (LOSS)
1971	\$ 278,710	13,415			\$ 2,393	\$ 92	\$ 868	\$ 92	\$ 385	\$ 391	
1972	739,983	33,577			4,138	214	3,468	214	849	2,405	
1973	1,017,048	45,743			4,286	1,427	4,288	1,427	1,099	1,763	
1974	1,064,772	45,901			4,512	452	4,378	452	1,106	2,819	
1975	1,169,763	46,365			6,036	592	5,263	592	1,417	3,254	
1976	1,387,252	48,747			8,130	231	6,953	231	1,878	4,844	
1977	1,616,220	51,382			9,922	203	9,080	203	2,258	6,619	
1978	1,633,521	48,820			10,523	296	10,249	296	2,329	7,624	
1979	1,816,410	46,128			11,045	2,370	11,039	2,370	2,178	6,490	
1980	1,936,388	43,613			9,675	14,217	10,245	14,217	2,079	(6,051)	
1981	2,105,244	42,495			9,137	2,715	9,313	2,715	2,097	4,501	
1982	2,285,594	51,034			8,641	982	9,106	982	2,095	6,029	
1983	2,165,231	44,894			6,900	157,112	7,585	157,112	1,937	(151,463)	
1984	3,178,079	51,311			9,450	1,294	7,989	1,294	2,493	4,202	
1985	4,061,660	57,181			18,232	1,510	3,534	1,510	3,638	(1,614)	
1986	4,510,378	60,028			20,987	1,202	5,229	1,202	3,997	30	
1987	4,401,486	57,976			20,532	2,555	4,931	2,555	4,091	(1,715)	
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	55,146,800	187,189	-	-	74,590	3,071	91,791	3,005	20,516	68,269	176,152
<b>TOTAL</b>					<b>6,663,301</b>	<b>5,808,262</b>	<b>4,642,992</b>	<b>4,336,758</b>	<b>1,463,526</b>	<b>(1,157,293)</b>	

\*2020 data through 03/31/20.

**TEXAS WINDSTORM INSURANCE ASSOCIATION  
HISTORICAL DATA  
1997 - 2019 (23 Years)  
(\$ with 000's omitted)**



1	<b>Premium and Other Revenues</b>				1
2	<b>Direct Earned Premium</b>		<b>6,036,261</b>		2
3	Investment Income /Other		78,376		3
4	<b>Premium and Other Revenues</b>		<b>6,114,637</b>		4
5					5
6	<b>Expenditures</b>				6
7	Reinsurance Premiums/Commissions		(1,758,527)	28.8%	7
8	Losses		(1,388,745)	22.7%	8
9	Funded into CRTF	A	(1,035,034)	16.9%	9
10	Agents Commissions		(993,790)	16.3%	10
11	Operating Expenses		(453,816)	7.4%	11
12	Class 1 Bond Interest/LOC Expenses		(200,923)	3.3%	12
13	Early Redemption withholdings from 2019		(45,000)	0.7%	13
14	Repayment of Class 1 Bonds	B	(181,400)	3.0%	14
15	Other/Adjustments		(46,451)	0.8%	15
16	Federal Taxes		(10,951)	0.2%	16
17	<b>Total TWIA Expenditures</b>		<b>(6,114,637)</b>	100.0%	17
18					18
19	<b>Net</b>		-	-	19
20					20
21					21
22					22
23	<b>Payment of Losses:</b>				23
24	Reinsurers	D	1,498,435	}	2,499,068
25	Industry (Member Assessments)	E	1,000,633		
26	Proceeds of Class 1 Bonds	F	449,172	}	3,085,411
27	CRTF Distributions	G	1,247,494		
28	TWIA Direct Loss Payments	C	1,388,745		
29	<b>Total Losses</b>		<b>5,584,479</b>		<b>5,584,479</b>
30			-		-
31					
32	<b>CRTF Summary</b>				32
33	Beginning Balance (12/31/1996)		179,020		33
34	Contributions	A	1,035,034		34
35	Payment of Losses	G	(1,247,494)		35
36	Interest and Surcharges		208,577		36
37	Ending Balance		<u>175,137</u>		37
38					38
39	<b>Class 1 Debt Summary</b>				39
40	Proceeds of Offering		500,000		40
41	Payment of Losses	F	<u>(449,172)</u>		41
42	Net Proceeds Remaining - Debt Service Reserve Funds		<u>50,828</u>		42
43					43
44	<b>Class 1 Principal Outstanding</b>				44
45	Original Principal Amount		500,000		45
46	Principal Payments	B	<u>(181,400)</u>		46
47	Remaining Outstanding (12/31/19)		<u>318,600</u>		47

## 6B6. Net Revenue Coverage

TEXAS WINDSTORM INSURANCE ASSOCIATION						
Net Coverage / Debt Service Coverage						
for the twelve months ended,						
	(1)	(2)	(3)	(4)	(5)	(6)
	Actual					
<b>ACTUAL PRIOR 4 QUARTERS ENDING:</b>		<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	
Direct Premiums Earned		496,457	451,347	409,954	381,571	
Other Revenues		3,345	6,695	7,481	8,655	
Net Premium and Other Revenues	<b>A</b>	499,802	458,042	417,435	390,226	
Non-Catastrophic Losses and Loss Adjustment Expenses		38,669	42,618	11,718	23,513	
All other Expenses		235,765	200,310	207,279	187,943	
Total All Expenses	<b>B</b>	274,434	242,928	218,996	211,456	
<b>Total Actual Net Coverage Revenues</b>	<b>C=A-B</b>	<b>225,369</b>	<b>215,114</b>	<b>198,439</b>	<b>178,771</b>	
<b>Actual Obligations and Admin Expenses</b>	<b>D</b>	<b>80,391</b>	<b>80,405</b>	<b>80,330</b>	<b>80,322</b>	
<b>Actual Net Coverage %</b>	<b>C/D</b>	<b>280%</b>	<b>268%</b>	<b>247%</b>	<b>223%</b>	
<b>Maximum Annual Debt Service</b>	<b>E</b>	<b>80,381</b>	<b>80,381</b>	<b>80,381</b>	<b>80,381</b>	
<b>Debt Service Coverage</b>	<b>A/E</b>	<b>6.2</b>	<b>5.7</b>	<b>5.2</b>	<b>4.9</b>	
		Projected				Budget
<b>ORIGINAL PROJECTED 4 QUARTERS ENDING:</b>		<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>
Direct Premiums Earned		520,509	468,886	407,846	367,141	357,748
Other Revenues		1,006	3,320	4,604	7,781	7,331
Net Premium and Other Revenues	<b>F</b>	521,515	472,206	412,450	374,922	365,079
Non-Catastrophic Losses and Loss Adjustment Expenses		91,021	80,416	70,027	61,945	61,885
All other Expenses		246,291	233,163	205,868	186,808	189,070
Total All Expenses		337,312	313,579	275,895	248,753	250,955
<b>Total Actual Net Coverage Revenues</b>		<b>184,203</b>	<b>158,627</b>	<b>136,555</b>	<b>126,169</b>	<b>114,124</b>
<b>Actual Obligations and Admin Expenses</b>		<b>80,388</b>	<b>80,404</b>	<b>80,405</b>	<b>80,321</b>	<b>80,325</b>
<b>Actual Net Coverage %</b>		<b>229%</b>	<b>197%</b>	<b>170%</b>	<b>157%</b>	<b>142%</b>
<b>Maximum Annual Debt Service</b>	<b>E</b>	<b>80,381</b>	<b>80,381</b>	<b>80,381</b>	<b>80,381</b>	<b>80,381</b>
<b>Debt Service Coverage</b>	<b>F/E</b>	<b>6.5</b>	<b>5.9</b>	<b>5.1</b>	<b>4.7</b>	<b>4.5</b>

## 6C. Investment Plan Review





## MEMORANDUM

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DATE: April 20, 2020  
TO: John Polak, General Manager  
FROM: Jerry Fadden, Chief Financial Officer  
RE: **TWIA 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 cover investments in the CRTF or the assets held by the Texas Treasury Safekeeping Trust Company representing the proceeds and debt service payments of the Series 2014 Bonds.

The primary focus of the Investment Plan is asset preservation and liquidity, along with compliance with the Texas Insurance Code and Plan of Operation of the Association.

On a quarterly basis, TWIA reviews the following criteria to monitor our counterparty relationships:

- Bank ratings and credit ratings from Moody or Standard and Poor's must meet 'AAA', 'AA', or 'A' ratings defined as "superior or strong" in credit ratings.
- Tier 1 Capital Ratio must be above a 10% ratio.
- The National Association Regulatory Capital must be in excess of \$25 Billion.
- Total investment in any one financial institution will not exceed .2% of the National Association's regulatory capital.
- Total investment in any one financial institution will not exceed 40% of TWIA's total portfolio.

On the next page, you will find an evaluation of financial institutions based on our criteria.

At this time, we are not recommending any changes to the investment plan. However, we will be seeking a resolution at the May 12, 2020 board meeting regarding board review of the adequacy of the current investment plan, copy attached, and board review of the implementation of the plan. Suggested wording of such resolution is as follows:



The Board of Directors of the Texas Windstorm Insurance Association acknowledges its review of the adequacy and implementation of the Statement of Investment Objectives and Guidelines of the Association and accepts staff's recommendation to make no changes to the document at this time.

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

<b>EVALUATION OF COUNTERPARTY RELATIONSHIPS AS OF 12/31/2019 (\$ in Billions)</b>				
<b>Financial Institution</b>	<b>N.A. Bank Credit Rating (as of 12/31/19)</b>	<b>N.A. Tier 1 Capital Ratio (as of 12/31/19)</b>	<b>N.A. Regulatory Capital (as of 12/31/19)</b>	<b>Holding Level Market Capitalization (as of 12/31/19)</b>
Wells Fargo	Superior	12.59%	\$145	\$284
Chase	Superior	14.19%	\$207	\$373
Bank of America	Superior	12.46%	\$155	\$311
Citigroup / Citibank	Superior	13.03%	\$133	\$188

## TEXAS WINDSTORM INSURANCE ASSOCIATION

### STATEMENT OF INVESTMENT OBJECTIVES AND GUIDELINES

#### I. Overview

The purpose of this statement is to provide clear objectives and guidelines for the investing and management of assets with Texas Windstorm Insurance Association ("TWIA").

TWIA was created by the Texas Legislature in 1971. TWIA's controlling statute is currently codified as Chapter 2210 of the Texas Insurance Code. The purpose of TWIA is to provide a method whereby adequate windstorm and hail insurance may be obtained in certain areas designated by the Commissioner of Insurance located in the gulf coast region of the State of Texas.

#### II. Investment Objectives

The investment objectives enable TWIA to manage funds with the primary focus of asset preservation and liquidity, as well as securing maximum total return through the application of the investment policy set forth below. This policy must comply with all restrictions on investments in accordance with the Texas Insurance Code, the Plan of Operation of the Association and any other applicable requirements. While maximizing yield is important, the Association will consider the safety of the principal and liquidity the foremost objective.

#### III. Permissible Asset Types

TWIA's Plan of Operation, which is a Texas Department of Insurance rule, requires all funds collected by the Association that are not otherwise required to be expended as provided in the Plan of Operation, to be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and/or invested in items pursuant to Texas Insurance Code, chapter 2210. (See Appendix A).

1. Checking, savings accounts, and Money Market Demand Accounts in Financial Institutions that meet the counterparty requirements outlined below in section IV of this document.
2. US Treasury Notes not to exceed 12 months, unless otherwise approved by the board of directors.
3. Money Market Fund Accounts with a maximum duration of 1 year or less, unless otherwise approved by the board of directors. Account must invest exclusively in US bonds backed by the full faith and credit of the US government.
4. Other investments proposed by the board of directors and approved by the Commissioner.

#### IV. Diversification and Evaluation of counterparty relationships:

The Association should evaluate bank financial performance, bank ranking and credit ratings from Moody or Standard & Poor's to assess the investment risk. All financial institutions ratings must meet 'AAA', 'AA', or 'A' ratings defined as "strong or superior" in credit ratings.

The Association must also evaluate the bank's capital strength through Tier 1 Capital Ratios. The Association's criterion is that the Tier 1 Capital Ratio must be above 10% for the Association to invest with such institution.

The Association should evaluate the total capital of all banks on a quarterly basis. National Association (N.A.) Regulatory Capital must be in excess of \$25B.

Total investment in any one financial institution should not exceed .2% of the of the National Association's regulatory capital. Total investments in any one financial institution should not exceed 40% of TWIA's total portfolio.

The Association should perform the above evaluation on a quarterly and/or annual basis as information is available. To the extent certain information is not available quarterly at the N.A. level; the Association should review the Tier 1 Capital Ratio and Market Capitalization at the bank holding company level.

#### **V. Monitoring, Evaluation and Compliance**

TWIA's management will review the investment policy on an annual basis and make recommendations, if necessary, to the board of directors at that time. It is the responsibility of TWIA management to report to the board of directors all cash and investment balances, interest rates and diversification ratios on a quarterly basis.

## Appendix to TWIA's Statement of Investment Objectives and Guidelines

### I. Definitions related to the guidelines

- a. Tier 1 Capital Ratio also known as Capital Adequacy is the amount of capital a bank or other financial institution has to hold as required by its financial regulator. These requirements are put into place to ensure that institutions do not take on excess leverage and become insolvent.

A firm must have a Tier 1 capital ratio of 6% or greater, and not pay any dividends or distributions that would affect its capital, to be classified as well capitalized according to the Federal Deposit Insurance Corporation (FDIC).

Formula = (Total Equity – Revaluation Reserves) / Risk Based Assets

- b. Market Capitalization is the total value of the issued shares of a publicly traded company; it is equal to the share price times the shares outstanding. This allows investment community to determine a company's size, as opposed to sales or total asset figures.

Formula = stock price X total number of shares outstanding.

### II. Permissible Assets as defined by the Plan of Operation:

All funds collected by the Association which are not otherwise required to be expended as provided in the Plan of Operation, may be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and / or may be invested only in the following:

- a. Interest bearing time deposits or certificates of deposit in any bank or banks doing business in the State of Texas and/or:
- b. In treasury notes of the government of the United States of America; and/or
- c. Money market funds which invest exclusively in the bonds or to the evidence of indebtedness of the United States of America or any of its agencies when such obligations are guaranteed as to principal and interest by the United States of America; except however:
  - i. such money market funds may make loans to or purchases of the described bonds and other evidence of indebtedness from a solvent bank or securities broker, registered under the Securities Act of 1934, under an agreement (commonly called a "repurchase agreement") which provides for the purchase by the money market fund of the type of securities described and which agreement matures in 90 days or less and provides for the repurchase by such entity of the same or similar securities purchased by the money market fund, provided that the total market value of such securities shall equal or exceed the amount of such loan or repurchase when it is made; and
  - ii. such loan collateral or securities purchased from any one bank or securities broker may not exceed the greater of 5.0% of the assets of the money market

fund or 5.0% of the amount of capital, surplus, or individual profits of such bank or securities broker; and/or

- d. In such other investments as may be proposed by the board of directors and approved by the Commissioner. The board of directors shall determine what portion of such funds shall be retained in a checking account or accounts and what portion of such reserve shall be invested in the investments listed in this subparagraph, as well as which specific investments, if any, shall be made.

6D. Funding  
6D1. 2020-2021 Funding  
Including Bank Line of Credit



# Texas Windstorm Insurance Association

**JPMorgan's Financing Proposal** | April 16, 2020



## Disclaimer

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*This proposal is intended only as an outline of certain indicative terms of the facility described herein (the “Facility”) and does not purport to be an exhaustive or all-inclusive summary of the conditions, covenants, representations, warranties and other provisions that would be contained in definitive documentation for the Facility. The final documentation may include terms and conditions required by JPMorgan Chase Bank, N.A. (together with its affiliates, “JPMorgan”) not included in this proposal. This proposal is non-binding, is not a commitment and is subject to final credit approval.*

*Texas Windstorm Insurance Association (“TWIA”) acknowledges and agrees that: (i) JPMorgan does not have an advisory or fiduciary relationship with TWIA and nothing in this proposal or our services in connection therewith or otherwise will be deemed to create an advisory or fiduciary relationship (irrespective of whether JPMorgan or any of its affiliates has provided other services or is currently providing other services to TWIA on other matters); (ii) JPMorgan has no obligations to TWIA with respect to the transaction contemplated hereby unless and except to the extent expressly stated in this proposal; and (iii) TWIA has consulted with and is relying on its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate in order to determine whether this proposal is in TWIA’s best interests.*

*This proposal from JPMorgan for the Facility is entirely independent from any proposal or other agreement from any other affiliate of JPMorgan to provide other services.*

## Transmittal Letter

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April 16, 2020

Jerry Fadden  
Chief Financial Officer | Accounting  
Texas Windstorm Insurance Association  
Email: [jfadden@twia.org](mailto:jfadden@twia.org)  
Phone: 512-505-2131

Dear Jerry,

On behalf of JPMorgan Chase Bank, N.A. (“JPMorgan” or the “Bank”), thank you for the opportunity to partner with Texas Windstorm Insurance Association (“TWIA”) again on this transaction. Attached is a summary of terms and conditions for a \$500,000,000 Line of Credit (the “Facility”) to provide short term liquidity during the upcoming hurricane season. The terms of the Facility will be substantially similar to the Credit Agreement between the Bank and TWIA, dated July 1, 2019.

**Please note this proposal is subject to normal due diligence, credit approval, satisfactory documentation and agreement on terms and conditions, and is not a commitment at this time. Indicative pricing is as of April 16, 2020.** Nothing expressed or implied herein constitutes any commitment of JPMorgan, or any of its affiliates, to lend or provide any other financial services in connection with the transaction; such obligations would arise only under separate written agreement(s) mutually acceptable to the TWIA and JPMorgan. We would reasonably expect final credit approval within ten (10) business days of receiving all necessary information from the TWIA.

Thank you and we look forward to working with TWIA again on this exciting opportunity.

Yours sincerely,



Allyson Goetschius, Executive Director  
[allyson.l.goetschius@jpmorgan.com](mailto:allyson.l.goetschius@jpmorgan.com)  
(212) 270-0335

## Texas Windstorm Insurance Association's dedicated team at JPMorgan Chase

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### Banking Coverage

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*Managing Director*

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**Allyson Goetschius**

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### Credit Risk Management

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# Summary of Terms and Conditions

<b>Borrower:</b>	Texas Windstorm Insurance Association ("TWIA" or the "Borrower").			
<b>Lead Arranger:</b>	JPMorgan Chase Bank, N.A. ("JPMorgan" or the "Bank").			
<b>Administrative Agent:</b>	JPMorgan Chase Bank, N.A.			
<b>Facility:</b>	<b>Line of Credit Agreement</b>			<b>Facility Size</b>
	Total Senior Credit Facility			Up to \$500.0 million
	JPMorgan Chase Bank, N.A. Line of Credit ("L/C" Commitment)			Up to \$400.0 million
	Bank of America, N.A. ("BANA") Line of Credit ("L/C" Commitment)			Up to \$100.0 million
<b>Purpose:</b>	To finance the short term liquidity needs of the Borrower to pay insurance claims in the event of a natural disaster from a windstorm or hailstorm.			
<b>Collateral:</b>	First perfected security interest in proceeds of public securities and other financing arrangements and all member insurer assessments now or hereafter assessed, collected and/or otherwise received by the Borrower and second lien perfected security interest in net premiums.			
<b>Tenor:</b>	Facility will have a final maturity date of May 31, 2021.			
<b>Amortization:</b>	N/A			
<b>Pricing Grid:</b>	Level	Tenor of Fundings <sup>(1)</sup>	Commitment Fee (bps)	Drawn Spread (L + bps)
	I	<150 days	80.0	275.0
	II	≥ 150 days	80.0	425.0
<b>Conditions Precedent to Closing / Advances:</b>	<ul style="list-style-type: none"> <li>Receipt and satisfactory review of the 2019 TWIA audit.</li> <li>Completion and delivery of satisfactory legal documentation including satisfactory opinions of counsel.</li> <li>Evidence that (i) the Plan of Operation is in place upon the closing date as well as that (ii) TWIA shall begin necessary steps to draft documents funding a post-event bond transaction.</li> <li>For each advance, the Bank shall receive documentation demonstrating that the amount of claims being made under policies issued by the Borrower exceeds the aggregate amount of TWIA's available liquid funds including without limitation, all amounts available under any and all deposit accounts, savings accounts and securities or other investments now or hereafter maintained by TWIA.</li> <li>Advances shall not exceed the amount by which the aggregate amount of claims exceeds the aggregate amount of liquid assets.</li> </ul>			
<b>Mandatory Prepayment:</b>	<ul style="list-style-type: none"> <li>After the occurrence of a natural windstorm or hailstorm, Class I Public Securities must be issued to prepay any fundings on the L/C.</li> <li>In the event and on each occasion that TWIA receives any proceeds of any Public Securities or Member Assessments at any time, TWIA shall immediately prepay the L/C in an aggregate amount equal to the lesser of (i) 100% of such Public Securities proceeds or Member Assessments or (ii) the aggregate amount of the loans then outstanding.</li> <li>After the occurrence of a natural windstorm or hailstorm disaster, and in the event Public Securities are not issued, TWIA will levy assessments on its member insurers, subject to applicable legal requirements, in an amount sufficient to cover and repay in full the aggregate amount of loans (including, without limitation, accrued interest on such loans) to be advanced to TWIA in accordance with the other provisions of the agreement.</li> </ul>			
<b>Termination Option:</b>	May be exercised by TWIA on either of the following dates: December 27, 2020 and March 26, 2021 at no penalty.			
<b>Covenants:</b>	The covenants will remain consistent with the Credit Agreement between the Bank and TWIA, dated July 1, 2019.			
<b>Upfront Fee:</b>	10.0 bps on Total Senior Credit Facility commitments at closing, allocated on a pro rata basis to all participating banks.			
<b>Lender Counsel:</b>	Locke Lord LLP. Legal fees are estimated at \$40,000 and capped at \$50,000.			

(1) Defined as the length of time after a funding on the L/C occurs to repayment either by public securities or member assessments

## Due Diligence Call Discussion Topics

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- Review of 2020 storm season approved funding stack and update on reinsurance market.
- Overview of 2019 financial results (audit delivery is a condition to closing).
- FY19 insurance members participation and preliminary FY20/21 expected participation.
- Confirmation that member assessments are 'bullet proof' and cannot be legally diverted to pay policyholder claims.
- Political wherewithal of Governor to supersede the Insurance Commissioner and pause rate increases/divert member assessments in a storm event.
- Expected financial impact from COVID and modified premium installment plan implementation on policyholder delinquencies, debt service coverage of bonds, net earnings, CRTF balance.
- Board of Directors update – appointment of new members.

**RESOLUTIONS OF THE BOARD OF DIRECTORS  
OF  
TEXAS WINDSTORM INSURANCE ASSOCIATION**

**May 12, 2020**

The undersigned authorized representative of the TEXAS WINDSTORM INSURANCE ASSOCIATION (the “Association”) hereby certifies that the following resolutions were adopted at a public meeting of the Association’s board of directors (the “Board”) lawfully held and noticed, effective as of the date hereof:

RESOLVED, that in order to provide the Association with liquidity to facilitate payment by the Association of claims to its policyholders and related expenses, the Association may enter into a Credit Agreement (the “Credit Agreement”) by and among the Association and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent (the “Administrative Agent”), and each of the financial institutions which are signatories thereto or which may become a party thereto from time to time (each a “Lender” and, collectively the “Lenders”);

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Lenders one or more promissory notes in the original aggregate principal amount of up to \$500,000,000 (collectively, the “Notes”);

RESOLVED, FURTHER, to secure repayment of the Association’s payment and performance obligations under the Credit Agreement and the Notes the Association may execute and deliver to the Administrative Agent, a Financing and Pledge Agreement (the “Pledge Agreement”);

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Administrative Agent a Blocked Account Control Agreement (the “Blocked Account Agreement”, together with the Credit Agreement, the Notes, and the Pledge Agreements, collectively, the “Credit Documents”);

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Notes shall bear interest on the unpaid principal balance thereof at the rate or rates provided for in the Credit Agreement (said interest rate(s) to never exceed the maximum amount of interest permitted under applicable law, including without limitation, Chapter 1204 of the Texas Government Code), with accrued interest on the Notes being due and payable on the Interest Payment Dates (as defined in the Credit Agreement), and with the outstanding principal balance of the Notes being finally due and payable on the Maturity Date (as defined in the Credit Agreement);

RESOLVED, FURTHER, that in order to induce the Agent and the Lenders to enter into the Credit Agreement, the Association is hereby authorized to pay to the Administrative Agent and

the Lenders any and all fees for extending credit to the Association thereunder as agreed pursuant to the Credit Documents;

RESOLVED, FURTHER, that the chief financial officer and/or the general manager of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association to negotiate the specific terms of, and to execute and deliver to the Agent and the Lenders, the Credit Documents and such other instruments as Agent and Lenders may reasonably require in their discretion in connection with the Credit Agreement (the "Ancillary Documents") and to take such other action in the consummation and/or administration of the renewal and extension of Credit Documents and the Ancillary Documents as such officer(s) shall deem to be necessary or desirable, and any and all acts heretofore taken by the above-described officer(s) to such end are hereby expressly ratified and confirmed as the acts and deeds of the Association;

RESOLVED, FURTHER, that the Credit Documents and the Ancillary Documents shall be in form and substance satisfactory to the Agent and the Lenders and in form and substance approved by the above-described officer(s) executing the same on behalf of the Association, his or her approval of each such instrument to be conclusively evidenced by the execution thereof by such officer(s);

RESOLVED, FURTHER, that such officer(s) of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association and without further authorization of the Board, to negotiate and agree to on terms acceptable to such officer(s) any and all further renewals, extensions, modifications and/or amendments, but not any additional increases, to the credit extended to the Association pursuant to the Credit Agreement, and to execute and deliver to the Agent and the Lenders such documents as the Agents and the Lenders shall require to evidence any such renewal, extension, modification or amendment, but not any additional increase, and to take such other action in the consummation of the transactions therein contemplated as the officer(s) acting shall deem to be necessary or desirable;

RESOLVED, FURTHER, that any and all documents, agreements, certificates, opinions, letters, financing statements, consents, schedules and other instruments and writings executed and delivered on behalf of the Association in connection with the foregoing resolutions by the above-named representative of the Association shall be deemed to be the act of the Association and shall be in all respects binding against the Association;

RESOLVED, FURTHER, that the Board has determined it to be in the best interest of the Association for the Association to enter into, execute and deliver the Credit Documents and to enter into, execute and deliver any Ancillary Documents required in connection with the Credit Agreement;

RESOLVED, FURTHER, that the execution and delivery of and performance under the Credit Documents and the Ancillary Documents, and other actions contemplated herein, can reasonably be expected to benefit the Association, directly or indirectly; and

RESOLVED, FURTHER, that any and all acts, transactions or agreements undertaken by the officers of the Association for and on behalf and in the name of the Association, prior to the adoption of the foregoing resolutions, in connection with any of the foregoing matters including but not limited to, negotiation of the terms and/or execution and delivery of the Credit Documents and the Ancillary Documents be, and they are hereby, ratified, confirmed and approved in all respects for all purposes.

Executed and effective as of the date first written above.

Authorized Officer of the Association:

By: \_\_\_\_\_  
(Signature)

Its: \_\_\_\_\_ |  
(Printed Name and Title)

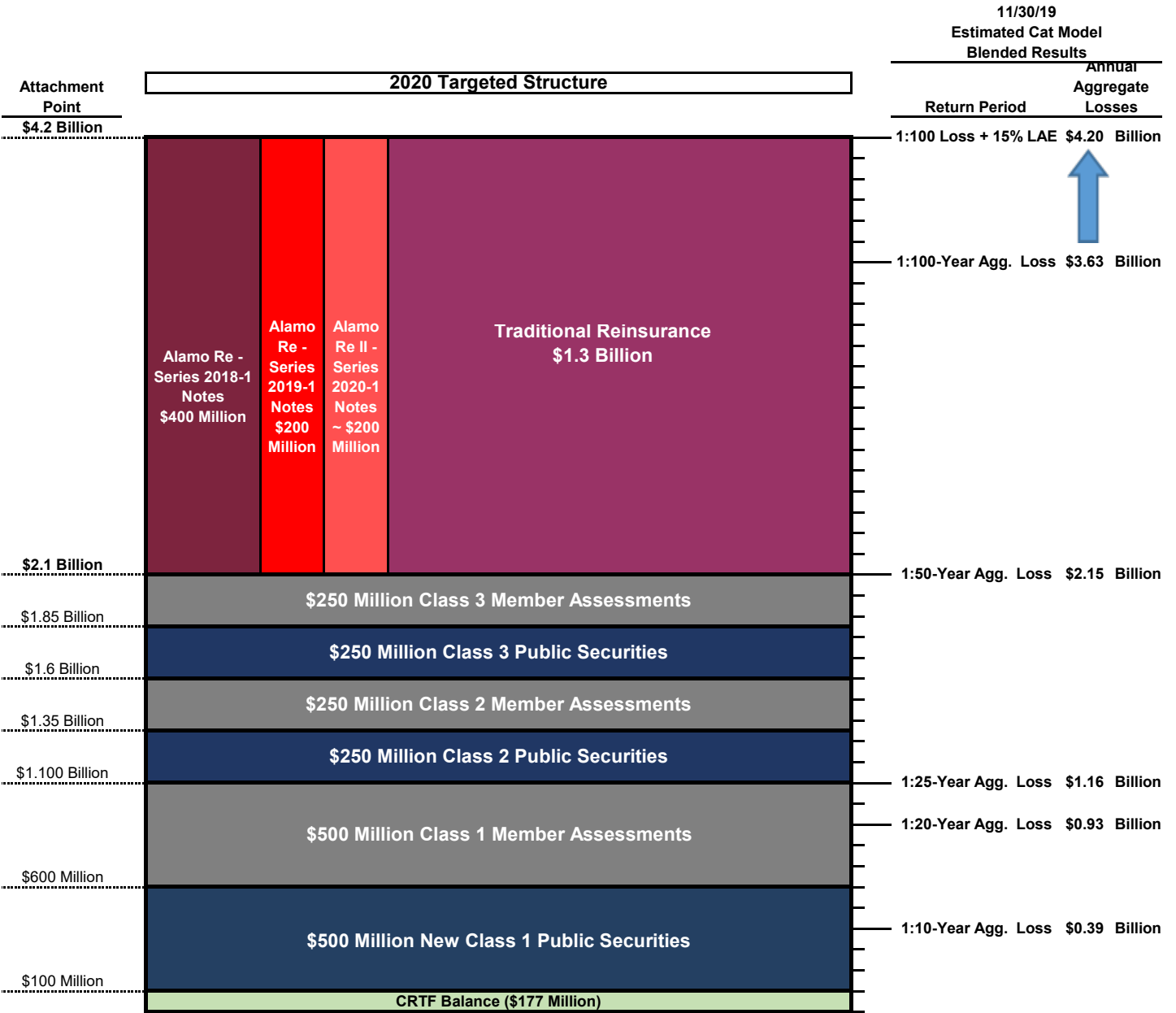
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## 6D2. Update Regarding Partial Redemption of 2014 Bonds

There is no exhibit for this topic

# 6D3. Review Status of 2020 Reinsurance Program Placement



Notes:

Storm frequencies based on an average of AIR and RMS modeled losses using TWIA exposures as of 11/30/19 for the 2020 season.  
 2020 Cat model return periods based average of AIR v7 and RMS v18.1 gross aggregate loss estimates, including hurricane and severe convection storms ("SCS"), including demand surge, but excluding storm surge. Hurricane losses are based on the near-term and Warm Sea Surface Temperature

6E. Financial Audit by  
Calhoun, Thomson + Matza  
6E1. Audit Wrap-Up Reports



## Audit Wrap Up



**Calhoun, Thomson+Matza, LLP**  
Certified Public Accountants

This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management, and is not intended and should not be used by anyone other than those specified parties.

April 23, 2020

Board of Directors  
Texas Windstorm Insurance Association  
Austin, Texas

Ladies and Gentlemen:

Professional standards require us to communicate with you regarding matters related to the statutory financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On October 18, 2019, we presented an overview of our plan for the audit of the statutory financial statements of Texas Windstorm Insurance Association (the "Association") as of and for the year ended December 31, 2019, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Association's accounting practices and policies, management's judgments and estimates, statutory financial statement disclosures, and other required matters.

We are pleased to be of service to the Association and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

*Calhoun, Thomson & Matza, LLP*

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# Discussion Outline

	Page
Status of Our Audit	1
Results of Our Audit	2
Internal Control Over Financial Reporting	3
Required Communications	4-5
Independence Communication	6



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# Status of Our Audit

## *Audit of Statutory Financial Statements*

We have completed our audit of the statutory financial statements as of and for the year ended December 31, 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the statutory financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the statutory financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our engagement letter.
- We issued an unmodified opinion on the statutory financial statements on April 23, 2020.
- Our responsibility for other information in documents containing the Association's audited statutory financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Association and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the statutory financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Calhoun, Thomson + Matza, LLP were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Association personnel throughout the course of our work.

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## Results of Our Audit

### ***Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures***

The following summarizes the more significant required communications related to our audit concerning the Association's accounting practices, policies, estimates, and statutory financial statement disclosures:

The Association's significant accounting practices and policies are those included within the statutory financial statements. These accounting practices and policies are appropriate, comply with accounting practices prescribed or permitted by the Texas Department of Insurance, and industry practice, were consistently applied, and are adequately described within the Summary of Significant Accounting Policies of the statutory financial statements.

- There were no changes in significant accounting policies and practices during 2019.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Association's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the Summary of Significant Accounting Policies of the statutory financial statements.

#### **Significant accounting estimates include:**

**Loss and Loss Adjustment Expense Reserves**

**Pension Benefit Obligation**

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2019.

### ***Corrected and Uncorrected Misstatements***

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

---

## Internal Control Over Financial Reporting

In planning and performing our audit of the statutory financial statements, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statutory financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Association's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
<b>Deficiency in Internal Control</b>	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
<b>Significant Deficiency</b>	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
<b>Material Weakness</b>	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's statutory financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the statutory financial statements, we noted no material weaknesses.

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# Required Communications

## *Matters Required To Be Reported to Those Charged with Governance*

Various professional guidance requires independent auditors to communicate with those charged with governance certain matters in relation to an audit. Following is a summary of those required items along with specific discussion points as they pertain to the Association.

<b>Requirement</b>	<b>Discussion Points</b>
<b>Significant changes to planned audit strategy or significant risks initially identified</b>	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our audit engagement letter.
<b>Obtain information from those charged with governance relevant to the audit</b>	There were no matters noted relevant to the audit, including, but not limited to: violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Association's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
<b>Auditor's judgment about the quality of the Association's accounting policies, estimates and statutory financial statement disclosures</b>	In accordance with applicable auditing standards, a discussion was held regarding the quality of financial reporting, which included the Association's significant accounting practices, estimates and statutory financial statement disclosures.
<b>Critical accounting policies and practices</b>	Refer to the Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures section on page 2 for all critical accounting policies and practices used by the Association.
<b>Adoption of a change in accounting principle</b>	There were no situations involving the adoption of or a change in accounting principles where the application of alternative statutory accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the Association's statutory financial statements.
<b>Material, corrected misstatements brought to the attention of management by the auditor</b>	There were no corrected misstatements brought to the attention of management by the auditor.
<b>Unrecorded misstatements, other than those the auditor believes to be trivial</b>	There were no unrecorded misstatements brought to the attention of management by the auditor.

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## Required Communications

<b>Disagreements with management</b>	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Association's statutory financial statements or to our auditor's report.
<b>Nature and extent of specialized skills or knowledge needed related to significant risks</b>	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
<b>Significant findings and issues arising during the audit in connection with the Association's related parties</b>	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the statutory financial statements from achieving fair presentation.
<b>Other matters significant to the oversight of the Association's financial reporting process, including complaints or concerns regarding accounting or auditing matters</b>	There are no other matters that we consider significant to the oversight of the Association's financial reporting process that have not been previously communicated.
<b>Consultations with other accountants</b>	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of statutory accounting principles.
<b>Major issues discussed with management prior to retention</b>	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.
<b>Significant difficulties encountered during the audit</b>	There were no significant difficulties encountered during the audit.
<b>Material alternative accounting treatments discussed with management</b>	There was no discussion with management concerning alternative accounting treatments.
<b>Representations requested from management</b>	Please refer to the management representation letter.

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## Independence Communication

Our engagement letter to you dated October 18, 2019 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Association with respect to independence as agreed to by the Association. Please refer to that letter for further information.



## Audit Wrap Up



**Calhoun, Thomson+Matza, LLP**  
Certified Public Accountants

This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management, and is not intended and should not be used by anyone other than those specified parties.

April 23, 2020

Board of Directors  
Texas Windstorm Insurance Association  
Austin, Texas

Ladies and Gentlemen:

Professional standards require us to communicate with you regarding matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On October 18, 2019, we presented an overview of our plan for the audit of the financial statements of Texas Windstorm Insurance Association (the "Association") as of and for the year ended December 31, 2019, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Association's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the Association and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

*Calhoun, Thomson & Matza, LLP*



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# Discussion Outline

	Page
Status of Our Audit	1
Results of Our Audit	2
Internal Control Over Financial Reporting	3
Required Communications	4-6
Independence Communication	7

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# Status of Our Audit

## *Audit of Financial Statements*

We have completed our audit of the financial statements as of and for the year ended December 31, 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our engagement letter
- We issued an unmodified opinion on the financial statements on April 23, 2020.
- Our responsibility for other information in documents containing the Association's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Association and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Calhoun, Thomson + Matza, LLP were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Association personnel throughout the course of our work.

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# Results of Our Audit

## ***Accounting Practices, Policies, Estimates, and Financial Statement Disclosures***

The following summarizes the more significant required communications related to our audit concerning the Association's accounting practices, policies, estimates, and financial statement disclosures:

The Association's significant accounting practices and policies are included within the financial statements. These accounting practices and policies are appropriate, comply with accounting principles generally accepted in the United States of America, were consistently applied, and are adequately described within the summary of significant accounting policies in the financial statements.

- A summary of recently issued accounting pronouncements is included in the summary of significant accounting policies in the financial statements.
- There were no changes in significant accounting policies and practices during 2019.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Association's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the summary of significant accounting policies in the financial statements.

### **Significant accounting estimates include:**

**Loss and Loss Adjustment Expense Reserves**

**Pension Benefit Obligation**

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2019.

## ***Corrected and Uncorrected Misstatements***

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

---

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Association's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
<b>Deficiency in Internal Control</b>	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
<b>Significant Deficiency</b>	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
<b>Material Weakness</b>	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

---

## Required Communications

### *Matters Required To Be Reported to Those Charged with Governance*

Various professional guidance requires independent auditors to communicate with those charged with governance certain matters in relation to an audit. Following is a summary of those required items along with specific discussion points as they pertain to the Association:

<b>Requirement</b>	<b>Discussion Points</b>
<b>Significant changes to planned audit strategy or significant risks initially identified</b>	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our audit engagement letter.
<b>Obtain information from those charged with governance relevant to the audit</b>	There were no matters noted relevant to the audit, including, but not limited to: violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Association's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
<b>Auditor's judgment about the quality of the Association's accounting policies, estimates and financial statement disclosures</b>	In accordance with applicable auditing standards, a discussion was held regarding the quality of financial reporting, which included the Association's significant accounting practices, estimates and financial statement disclosures.
<b>Critical accounting policies and practices</b>	Refer to the Accounting Practices, Policies, Estimates, and Financial Statement Disclosures section on page 2 for all critical accounting policies and practices used by the Association.
<b>Adoption of a change in accounting principle</b>	In January of 2020, the Governmental Accounting Standards Board ("GASB") issued Statement No. 92, Omnibus 2020. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3. The requirements related to the effective date of Statement No. 87 and Implementation Guide 2019-3 are effective for periods beginning after December 15, 2019. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

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## Required Communications

	<p>In April of 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.</p>
	<p>In June of 2017, the GASB issued Statement No. 87, Leases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.</p>
	<p>In March of 2017, the GASB issued Statement No. 85, Omnibus 2017. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.</p>
	<p>In June of 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.</p>
<b>Material, corrected misstatements brought to the attention of management by the auditor</b>	<p>There were no corrected misstatements brought to the attention of management by the auditor.</p>
<b>Unrecorded misstatements, other than those the auditor believes to be trivial</b>	<p>There were no unrecorded misstatements brought to the attention of management by the auditor.</p>

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## Required Communications

<b>Requirement</b>	<b>Discussion Points</b>
<b>Disagreements with management</b>	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Association's financial statements or to our auditor's report.
<b>Nature and extent of specialized skills or knowledge needed related to significant risks</b>	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
<b>Significant findings and issues arising during the audit in connection with the Association's related parties</b>	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
<b>Other matters significant to the oversight of the Association's financial reporting process, including complaints or concerns regarding accounting or auditing matters</b>	There are no other matters that we consider significant to the oversight of the Association's financial reporting process that have not been previously communicated.
<b>Consultations with other accountants</b>	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of accounting principles.
<b>Major issues discussed with management prior to retention</b>	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.
<b>Significant difficulties encountered during the audit</b>	There were no significant difficulties encountered during the audit.
<b>Material alternative accounting treatments discussed with management</b>	There was no discussion with management concerning alternative accounting treatments.
<b>Representations requested from management</b>	Please refer to the management representation letter.

---

## Independence Communication

Our engagement letter dated October 18, 2019 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Association with respect to independence as agreed to by the Association. Please refer to that letter for further information.



## 6E2. Statutory Report

# **Texas Windstorm Insurance Association**

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## **Statutory Financial Statements and Supplemental Information**

**Years Ended December 31, 2019 and 2018**



**Texas Windstorm Insurance  
Association**

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**Statutory Financial Statements and Supplemental  
Information**  
Years Ended December 31, 2019 and 2018

# Texas Windstorm Insurance Association

## Contents

<b>Accountants' letter of qualifications</b>	3-4
<b>Independent auditors' report</b>	5-7
<b>Statutory financial statements</b>	
Statements of admitted assets, liabilities, surplus and other funds	8
Statements of income	9
Statements of changes in surplus and other funds	10
Statements of cash flows	11
Summary of significant accounting policies	12-18
Notes to statutory financial statements	19-42
<b>Supplemental information</b>	
Summary investment schedule	43-44
Supplemental investment risk interrogatories	45
Reinsurance interrogatories	46-47

## Accountants' Letter of Qualifications

Board of Directors  
Texas Windstorm Insurance Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Texas Windstorm Insurance Association (the "Association") for the years ended December 31, 2019 and 2018, and have issued our report thereon dated April 23, 2020. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Association and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Texas State Board of Public Accountancy.
- b. The engagement partner, who is a certified public accountant, has 26 years of experience in public accounting and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and most of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Association intends to file its audited statutory financial statements and our report thereon with the Texas Department of Insurance and that the Insurance Commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Association.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Association and Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility

that material misstatements resulting from fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of the Association to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

- d. We will retain the workpapers prepared in the conduct of our audit until the Texas Department of Insurance has filed a Report of Examination covering 2019, but not longer than seven years. After notification to the Association, we will make the workpapers available for review by the Texas Department of Insurance at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Texas Department of Insurance, photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Texas Department of Insurance.
- e. The engagement partner has served in that capacity with respect to the Association since 2018, is licensed by the Texas State Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Texas Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

*Carl Thomas & Metzger, LLP*

April 23, 2020

## **Independent Auditors' Report**

Board of Directors  
Texas Windstorm Insurance Association  
Austin, Texas

We have audited the accompanying statutory statements of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the "Association") as of December 31, 2019 and 2018 and the related statutory statements of income and changes in surplus and other funds, and cash flows for the years then ended, and the related notes to the statutory financial statements.

### ***Management's Responsibility for the Statutory Financial Statements***

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis of Accounting***

As described more fully in the Summary of Significant Accounting Policies, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Texas Department of

Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the differences between statutory accounting principles and accounting principles generally accepted in the United States of America identified above, as of December 31, 2019 and 2018 total assets were lower by approximately \$8.3 million and \$8.9 million, respectively. The differences identified above reduced total net position as of December 31, 2019 and 2018 by approximately \$11.3 million and \$10.1 million, respectively. The effects on change in net position for the years ended December 31, 2019 and 2018 were immaterial.

### ***Adverse Opinion on Accounting Principles Generally Accepted in the United States of America***

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Texas Windstorm Insurance Association as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

### ***Opinion on Statutory Basis of Accounting***

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds of the Texas Windstorm Insurance Association as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in the Summary of Significant Accounting Policies – “Basis of Accounting”.

### ***Emphasis of Matters***

As of December 31, 2019, the Association had approximately \$61 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, the Association is prohibited from maintaining a surplus by virtue of its funding obligations to the Catastrophe Reserve Trust Fund (“CRTF”); any net gain from operations must be paid to the CRTF. As of December 31, 2019, the balance in the CRTF was approximately \$122.5 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association.

In accordance with Senate Bill 900 (“SB 900”) passed by the Texas Legislature during 2015, the Association is authorized to place \$1.0 billion in public securities and assess member insurance companies \$1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place all these public securities and the sufficiency of that amount to cover future losses will depend upon market conditions and the financial and operating results of the Association.

Ultimate loss projections for Hurricane Harvey were estimated to be \$1.7 billion by the Association’s appointed actuary as of December 31, 2019. If the ultimate loss projection changes in the future it could have a material adverse effect on the financial condition of the Association.



***Supplemental Information***

Our audits of the statutory financial statements were conducted for the purpose of forming an opinion on those statements as a whole. The accompanying supplementary information is presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and Texas state law. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

*Cahn, Therman & Matza, LLP*

April 23, 2020

# Texas Windstorm Insurance Association

## Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds (Amounts in Thousands)

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Admitted Assets</b>		
Cash and cash equivalents	\$ 514,611	\$ 656,127
Assessment receivable	90,000	-
Other assets	1,506	1,712
<b>Total admitted assets</b>	<b>\$ 606,117</b>	<b>\$ 657,839</b>
<b>Liabilities, Surplus and Other Funds</b>		
<b>Liabilities:</b>		
Loss and loss adjustment expenses	\$ 169,130	\$ 200,780
Borrowed money – bonds and interest payable	331,742	383,701
Underwriting expenses payable	9,962	9,822
Unearned premiums	185,495	195,050
Ceded reinsurance premiums payable, net of ceding commissions	22,381	20,172
Funds held by company under reinsurance treaties	179	400
Statutory fund payable	52,641	110,590
Other liabilities	18,379	15,188
<b>Total liabilities</b>	<b>789,909</b>	<b>935,703</b>
<b>Commitments and contingencies</b> (Notes 7, 8, 9, 12, 14 and 15)		
<b>Surplus and other funds:</b>		
Unassigned deficit	(183,792)	(277,864)
<b>Total liabilities and surplus and other funds</b>	<b>\$ 606,117</b>	<b>\$ 657,839</b>

*See accompanying summary of significant accounting policies and notes to statutory financial statements.*

# Texas Windstorm Insurance Association

## Statutory Statements of Income (Amounts in Thousands)

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Underwriting income:</b>		
Premiums earned	\$ 381,571	\$ 409,954
Premiums ceded	(94,094)	(108,439)
Net premiums earned	<b>287,477</b>	301,515
<b>Deductions:</b>		
Losses and loss expenses incurred	<b>113,398</b>	175,998
Underwriting expenses incurred	<b>92,415</b>	96,399
Total underwriting deductions	<b>205,813</b>	272,397
Net underwriting gain	<b>81,664</b>	29,118
<b>Investment loss:</b>		
Net investment loss	<b>(22,117)</b>	(27,331)
<b>Other income:</b>		
Assessment income	<b>90,000</b>	281,820
Other income	<b>43</b>	52
Total other income	<b>90,043</b>	281,872
Net income before statutory fund cost and federal income tax expense	<b>149,590</b>	283,659
Statutory fund cost	<b>52,641</b>	110,590
Net income before federal income tax expense	<b>96,949</b>	173,069
Federal income taxes incurred	-	-
Net income	<b>\$ 96,949</b>	\$ 173,069

*See accompanying summary of significant accounting policies and notes to statutory financial statements.*

# Texas Windstorm Insurance Association

## Statutory Statements of Changes In Surplus and Other Funds (Amounts in Thousands)

		Unassigned Deficit
Balance at January 1, 2018	\$	(461,390)
Net income		173,069
Change in nonadmitted assets		9,282
Other		1,175
Balance at December 31, 2018		(277,864)
Net income		96,949
Change in nonadmitted assets		135
Other		(3,012)
Balance at December 31, 2019	\$	(183,792)

*See accompanying summary of significant accounting policies and notes to statutory financial statements.*

# Texas Windstorm Insurance Association

## Statutory Statements of Cash Flows (Amounts in Thousands)

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Cash from operations:</b>		
Premiums collected, net of reinsurance	\$ 280,264	\$ 294,900
Net investment loss	(23,324)	(29,059)
Miscellaneous income	43	279,673
Benefit and loss related payments	(111,977)	(307,283)
Commissions, expenses paid and aggregate write-ins for deductions	(234,448)	(183,022)
Net cash from operations	(89,442)	55,209
<b>Cash from financing and miscellaneous sources:</b>		
Principal and interest paid	(51,958)	(48,002)
Other cash (applied) provided	(116)	2,846
Net cash from financing and miscellaneous sources	(52,074)	(45,156)
Net change in cash and cash equivalents	(141,516)	10,053
Cash and cash equivalents, beginning of year	656,127	646,074
Cash and cash equivalents, end of year	\$ 514,611	\$ 656,127

*See accompanying summary of significant accounting policies and notes to statutory financial statements.*

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

### **Nature of Business**

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the “Act”), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas (“seacoast territory”). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

### **Organization**

The Association was established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the Texas seacoast territory from the private market. The Legislature’s action was a response to market constrictions along the Texas coast after several hurricanes. The Association is governed by Chapter 2210 of the Texas Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association’s primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier counties and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan’s Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance, or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage, accompanied by the full annual premium, may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance (“TDI”). In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

- Applicants must have been denied coverage by at least one insurer in the private market.
- Properties must be located in the designated catastrophe area.
- Properties must be certified by the TDI as having been built to applicable building codes, with limited exceptions.
- Properties located in specified flood zones that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the National Flood Insurance Program must provide proof of flood insurance coverage.
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association's Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, the TDI inspectors or the TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

Properties must be in an insurable condition to be eligible for Association coverage, i.e. in good repair with no unrepaired damage or hazardous conditions. The Association regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Approximately \$4,200,000 in funding was secured for the 2019 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. \$4,200,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2019 hurricane season is, in order;

- \$100,000 in CRTF funds
- \$500,000 in Class 1 public securities
- \$500,000 in Class 1 member assessments
- \$250,000 in Class 2 public securities
- \$250,000 in Class 2 member assessments
- \$250,000 in Class 3 public securities
- \$250,000 in Class 3 member assessments
- \$2,100,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84<sup>th</sup> Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of the assumption process.

The Association implemented the Assumption Reinsurance Depopulation Program ("Assumption Program") in 2016 and continued the Assumption Program through 2019. The Assumption Program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 1,866 and 3,967 policies were identified for assumption during 2019 and 2018, respectfully. Policyholders have until May 31, 2020 to opt out of the 2019 Assumption Program.

### Basis of Accounting

The accompanying financial statements have been prepared on a statutory basis in accordance with accounting practices prescribed or permitted by the TDI. Prescribed statutory accounting practices include state laws, regulations and general administrative rules applicable to all insurance companies domiciled in the State of Texas and the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual. Permitted statutory practices include practices not prescribed but allowed by the TDI.

Reconciliations of net income and policyholders' deficit between the amounts reported in the accompanying financial statements (Texas basis) and NAIC statutory accounting practices ("SAP") follow:

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
Net income, Texas basis	\$ <b>96,949</b>	\$ 173,069
Effect of Texas prescribed practices	-	-
Effect of Texas permitted practices	-	-
Net income, NAIC SAP basis	\$ <b>96,949</b>	\$ 173,069
<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Statutory deficit, Texas basis	\$ <b>(183,792)</b>	\$ (277,864)
Effect of Texas prescribed practices	-	-
Effect of Texas permitted practices	<b>(82,016)</b>	(92,574)
Policyholders' deficit, NAIC SAP basis	\$ <b>(265,808)</b>	\$ (370,438)



# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

The TDI has approved the permitted practice to allow the Association to admit the following restricted assets associated with the issuance of Series 2014 Pre-Event Class 1 Revenue Bonds (the “Bonds”) as of December 31, 2019 and 2018, respectively:

- \$82,016 and \$92,574 held in the obligation revenue fund for repayment of the Bonds.

The restrictions are primarily due to debt service reserves and use of proceeds only when a large hurricane event occurs. The permitted practice will last the life of the Bonds or until rescinded by the TDI at an earlier date.

Significant differences between statutory accounting practices and accounting principles generally accepted in the United States of America ("GAAP"), as they relate to the Association include the following:

- a) Certain assets designated as “non-admitted assets” are charged directly against surplus rather than capitalized and charged to income as used. These include certain past due member assessments, fixed assets, prepaid expenses and other assets.
- b) Unearned premiums and loss and loss adjustment expense (“LAE”) reserves are presented net of related reinsurance rather than on a gross basis as required under GAAP.
- c) The statements of cash flows represent cash balances and cash equivalents with initial maturities of one year or less rather than cash and cash equivalents with initial maturities of three months or less.

### **Use of Significant Estimates**

The preparation of financial statements in accordance with statutory accounting practices prescribed or permitted by the TDI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Reverse Repurchase Agreements**

Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

### **Furniture, Equipment and Depreciation**

Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years. Amounts have been non-admitted.

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

### **Income Taxes**

In 2010, the Association applied for and received a Private Letter Ruling (“PLR”) from the Internal Revenue Service (“IRS”). The PLR requested acknowledgement that the Association’s income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code (“IRC”). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2019, the statute of limitations remains open for the 2016 to 2019 tax years. No further federal income tax impact is expected in the future.

### **Premiums**

All policies issued by the Association have a maximum term of one year from date of issuance. Premiums earned are taken into income over the periods covered by the policies whereas the related acquisition costs are expensed when incurred. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. Unearned premiums, net of deductions for reinsurance, are computed on a pro-rata basis over the term of the policies.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statutory statements of admitted assets, liabilities, surplus and other funds.

Those premiums received for policies which are not effective and not issued as of year-end are included in other liabilities within the Association’s statutory statements of admitted assets, liabilities, surplus and other funds.

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

### **Loss and Loss Adjustment Expense Reserves**

Loss and LAE reserves are based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

### **Reinsurance**

In the normal course of business, the Association seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

### **Fair Value Measurements**

Statement of Statutory Accounting Principles ("SSAP") No. 100R, Fair Value, requires disclosures of the aggregate fair value of all financial instruments, summarized by type of financial instrument, for which it is practicable to estimate fair value. SSAP No. 100R excludes obligations for pension benefits, substantively extinguished debt, insurance contracts, lease contracts, warranty obligations and rights, investments accounted for under the equity method and equity instruments issued by the entity. Accordingly, the aggregate fair value amounts presented herein do not necessarily represent the underlying value of the Association; similarly, care should be exercised in deriving conclusions about the Association's business or financial condition based on the fair value information presented herein.

The Association is required to categorize its assets and liabilities that are measured at fair value into the three-level fair value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

- Level 1 – Fair values are based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access as of the measurement date.
- Level 2 – Fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

- Level 3 – Fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Association has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Association which may include the Association's own data.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 1. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

<i>December 31,</i>	<b>2019</b>		2018	
Cash	\$	<b>209,840</b>	\$	274,607
Cash equivalents:				
Reverse repurchase agreements		<b>82,016</b>		92,574
Money market mutual funds		<b>222,755</b>		288,946
Total cash equivalents		<b>304,771</b>		381,520
	\$	<b>514,611</b>	\$	656,127

#### *Money Market Mutual Funds*

The Association invests in money market mutual funds which are included in cash equivalents. The fair value of money market mutual funds was approximately \$222,755 and \$288,946 as of December 31, 2019 and 2018, respectively. The admitted value of money market mutual funds was \$222,755 and \$288,946 as of December 31, 2019 and 2018, respectively.

#### *Reverse Repurchase Agreements*

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company (“TTSTC”). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (See Note 12). The TTSTC’s minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately \$82,016 and \$92,574 as of December 31, 2019 and 2018, respectively. The admitted value of reverse repurchase agreements was approximately \$82,016 and \$92,574 as of December 31, 2019 and 2018, respectively, and is included in cash and cash equivalents in the statutory statements of admitted assets, liabilities, surplus and other funds.

Repurchase agreements were Tri-Party during the years ended 2019 and 2018.

Original (flow) & residual maturity

Fourth Quarter 2019			
	Maximum		Ending Balance
Overnight	\$	82,016	\$ 82,016

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

Fourth Quarter 2018			
	Maximum		Ending Balance
Overnight	\$	92,574	\$ 92,574

Securities acquired under repurchase agreements - sale

Fourth Quarter 2019			
	Maximum		Ending Balance
BACV	\$	82,016	\$ 82,016
Nonadmitted – subset of BACV		-	-
Fair value	\$	82,016	\$ 82,016

Book/Adjusting Carrying Value (“BACV”)

Fourth Quarter 2018			
	Maximum		Ending Balance
BACV	\$	92,574	\$ 92,574
Nonadmitted – subset of BACV		-	-
Fair value	\$	92,574	\$ 92,574

Securities acquired under repurchase agreements – sale by NAIC designation

<i>December 31, 2019</i>	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	\$ -	\$ 82,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other invested assets – FV	-	82,016	-	-	-	-	-	-
Total assets – BACV	-	82,016	-	-	-	-	-	-
Total assets - FV	\$ -	\$ 82,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<i>December 31, 2018</i>	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	\$ -	\$ 92,574	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other invested assets – FV	-	92,574	-	-	-	-	-	-
Total assets – BACV	-	92,574	-	-	-	-	-	-
Total assets - FV	\$ -	\$ 92,574	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### Proceeds Provided - Sale

Fourth Quarter 2019			
		Maximum	Ending Balance
Cash	\$	82,016	\$ 82,016
Securities (FV)		-	-
Securities (BACV)		-	-
Nonadmitted subset	\$	-	\$ -

Fourth Quarter 2018			
		Maximum	Ending Balance
Cash	\$	92,574	\$ 92,574
Securities (FV)		-	-
Securities (BACV)		-	-
Nonadmitted subset	\$	-	\$ -

### Recognized forward resale commitment

Fourth Quarter 2019			
		Maximum	Ending Balance
Recognized forward resale commitment	\$	82,016	\$ 82,016

Fourth Quarter 2018			
		Maximum	Ending Balance
Recognized forward resale commitment	\$	92,574	\$ 92,574

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 2. Restricted Assets

Restricted assets summarized by restricted asset category. Certain assets below included in the subject to reverse repurchase category are held by the TTSTC and are restricted for use for debt service reserves and for when a catastrophic event occurs (See Note 12). These assets are invested in overnight reverse repurchase agreements.

Restricted Asset Category	Gross (Admitted & Nonadmitted) Restricted							Current Year				
	Current Year							Percentage				
	1	2	3	4	5	6	7	8	9	10	11	
	Total General Account (G/A)	G/A Supporting Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Non-admitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Non-Admitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)	
Subject to reverse repurchase	\$ 82,016	\$ -	\$ -	\$ -	\$ 82,016	\$ 92,574	\$ (10,558)	\$ -	\$ 82,016	13.44%	13.53%	
Total restricted assets	\$ 82,016	\$ -	\$ -	\$ -	\$ 82,016	\$ 92,574	\$ (10,558)	\$ -	\$ 82,106	13.44%	13.53%	



# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 3. Furniture and Equipment

Furniture and equipment consist of the following:

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Furniture and equipment	\$ 541	\$ 470
Electronic data processing equipment and software	10,466	10,466
Leasehold improvements	1,858	1,858
	<b>12,865</b>	12,794
Less: accumulated depreciation	<b>(12,212)</b>	(12,016)
	<b>653</b>	778
Less: non-admitted furniture and equipment	<b>(653)</b>	(778)
	<b>\$ -</b>	<b>\$ -</b>

Depreciation and amortization expense was approximately \$196 and \$1,066 for the years ended December 31, 2019 and 2018, respectively.

### 4. Reinsurance

During 2019 and 2018, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement (“aggregate excess of loss”).

#### *Aggregate Excess of Loss*

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of \$2,100,000, subject to a limit of liability to the reinsurer of \$2,100,000.

Effective June 1, 2018, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of \$2,000,000, subject to a limit of liability to the reinsurer of \$2,600,000. In 2017, the Association purchased a second season cover for \$800,000 in excess of \$2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

CRTF was depleted, additional reinsurance coverage would be available for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. Reinsurance premiums related to the second season cover of \$12,805 were 100% earned during the year ended December 31, 2018 and is included in premiums ceded in the statutory statements of income.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (See Note 13).

The Association has unsecured reinsurance recoverables which exceed 3% of the Association's surplus with the following reinsurers as of December 31, 2019 and 2018 as a result of the Assumption Program:

Name of reinsurer	2019		2018	
Maison Insurance Company	\$	-	\$	2
Woodlands Insurance Company		-		5
United Property & Casualty Insurance Company		3		15
Weston Insurance Company		-		-
Total	\$	3	\$	22

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

The effect of reinsurance on premiums written and earned for the years ended December 31, 2019 and 2018 is as follows:

	2019		2018	
	Written	Earned	Written	Earned
Direct premium	\$ 372,017	\$ 381,571	\$ 395,552	\$ 409,954
Excess of loss ceded premium	(92,403)	(92,403)	(106,546)	(106,546)
Depopulation ceded premium	(1,691)	(1,691)	(1,893)	(1,893)
Net	\$ 277,923	\$ 287,477	\$ 287,113	\$ 301,515

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 13).

As of December 31, 2019 and 2018, the Association had reinsurance recoverables of \$7 and \$5, respectively, of paid losses and LAE as a result of the Assumption Program and is included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds.

### 5. Unearned Premiums

Unearned premiums are reported net of ceded unearned premiums as follows:

<i>December 31,</i>	2019	2018
Gross unearned premiums	\$ 185,495	\$ 195,050
Ceded unearned premiums	-	-
	\$ 185,495	\$ 195,050

The amount of return commission that would have been due to reinsurers if they or the Association had cancelled the Association's excess of loss reinsurance agreement would have been \$0 as of December 31, 2019 and 2018.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 6. Loss and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances, net of reinsurance recoverables, for losses and loss adjustment expenses:

<i>Years ended December 31,</i>	<b>2019</b>	2018
Beginning balance	\$ 200,858	\$ 415,213
Reinsurance recoverable	78	479
Beginning net balance	<b>200,780</b>	414,734
Incurred related to:		
Current loss year	26,454	19,442
Prior loss years	86,944	156,556
Losses and loss adjustment expense incurred	<b>113,398</b>	175,998
Paid related to:		
Current loss year	19,918	14,070
Prior loss years	125,130	375,882
Paid losses and loss adjustment expense	<b>145,048</b>	389,952
Ending net balance	<b>169,130</b>	200,780
Reinsurance recoverable	68	78
Ending balance	<b>\$ 169,198</b>	\$ 200,858

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statutory statements of income. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statutory statements of income of \$113,398 reflect approximately \$86,944 unfavorable development of prior year estimates, primarily due to unfavorable development of 2017 accident year claims for Hurricane Harvey caused by a greater number and severity of supplemental payments on reopened claims occurring in 2019. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. During August 2017, the Association was impacted by Hurricane Harvey. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately \$1,700,000 as of December 31, 2019, an increase of \$90,000 from December 31, 2018 due to the severity of claims development. Due to the inherently uncertain process involving loss and LAE reserve estimates, the final resolution of the ultimate liability may be different from that anticipated at the reporting date. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2019 and 2018 make a reasonable provision for the Association's claim liabilities.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 7. Statutory Fund

In 1993, the Texas legislature created the CRTF. At the end of each year and pursuant to administrative rules, the Association shall deposit the net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the CRTF and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the CRTF.

When an occurrence or series of occurrences in a catastrophe area occurs, the Association shall pay losses in excess of premium and other revenue of the Association from available reserves of the Association and available amounts in the CRTF. Administrative rules adopted by the Commissioner of Insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts (“comptroller”) administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in, the TDI until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association’s Plan of Operation.

The CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the state of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2019 and 2018, statutory fund costs were approximately \$52,641 and \$110,590, respectively, based on the direction of the TDI and based on its interpretation of the relevant statutes. The TDI’s directive required the Association to determine its net gain from operations based on catastrophe year losses, rather than calendar year reported losses. The Association is required to use the net gain from operations based on accident-year incurred losses of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although amounts held in the CRTF are not presented as assets in the statutory statements of admitted assets, liabilities, surplus and other funds, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law.

For the years ended December 31, 2019 and 2018, the CRTF held \$122,496 and \$5,986, respectively.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

In August 2017, Hurricane Harvey impacted the Texas coast and impacted the Association. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately \$1,700,000. The Act allows the Association to assess member companies relating to Class 1 member assessments up to \$500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for \$175,000, a second Class 1 member assessment was approved on August 20, 2018 for \$106,820, and a third Class 1 member assessment was approved on January 10, 2020 for \$90,000 for a combined total of \$371,820. As of December 31, 2019, \$279,621 has been collected from the first two assessments. The third assessment was billed on February 13, 2020 of which all was collected as of April 1, 2020. One insurance group has disputed their participation of a 2018 assessment in the amount of \$2,199, which has been non-admitted as of December 31, 2019 and 2018. In 2020, the Commissioner of Insurance overturned a ruling such that the insurance group is not subject to the 2018 assessment. The amount uncollected will be reallocated to other carriers and will be billed or returned to such carriers at a future date. Further assessments will be made as needed as Hurricane Harvey paid loss development matures. As of December 31, 2019 and 2018, the deficit of the Association is \$183,792 and \$277,864, respectively.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 8. Employee Benefit Plans

***Defined Benefit Plan.*** The Association has a defined benefit pension plan (the “Plan”), which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve-month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest 5 years from date of hire. The Association makes contributions to the Plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act. Such contributions are included in general expenses. As of December 31, 2019 and 2018, the Association accrued in accordance with actuarially determined amounts with an offset to the pension cost accrual for the incremental asset amortization.

The following sets forth a summary of projected benefit obligations, plan assets, funded status, benefit costs and assumptions of the defined benefit pension plan as follows:

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
<u>Change in Projected Benefit Obligations (PBO) (Underfunded):</u>		
Benefit obligation at beginning of year	\$ 22,937	\$ 23,457
Service cost	1,732	1,969
Interest cost	1,030	884
Actuarial loss (gain)	5,887	(2,795)
Benefits paid	(597)	(578)
Projected benefit obligation at end of year	<b>30,989</b>	22,937
<u>Change in Plan Assets:</u>		
Fair value of plan assets at beginning of year	16,171	15,598
Actual return on plan assets	3,614	(1,029)
Employer contributions	2,360	2,180
Benefits paid	(597)	(578)
Fair value of plan assets at end of year	<b>21,548</b>	16,171
Funded status	<b>\$ (9,441)</b>	<b>\$ (6,766)</b>

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

<i>December 31,</i>	<b>2019</b>		<b>2018</b>
<u>Funded Status:</u>			
Assets (non-admitted):			
Prepaid benefit costs	\$	-	\$ -
Total assets (non-admitted)		-	-
Liabilities recognized:			
Accrued benefit costs		<b>2,554</b>	2,890
Liability for pension benefits		<b>6,887</b>	3,876
Total liabilities recognized		<b>9,441</b>	6,766
Unrecognized liabilities as a component of net periodic benefit cost		-	-
Funded status	\$	<b>(9,441)</b>	\$ (6,766)
Accumulated benefit obligation	\$	<b>27,626</b>	\$ 20,319
<i>Years ended December 31,</i>	<b>2019</b>		<b>2018</b>
<u>Components of Net Periodic Benefit Costs:</u>			
Service costs	\$	<b>1,731</b>	\$ 1,969
Interest costs		<b>1,031</b>	884
Expected return on plan assets		<b>(933)</b>	(900)
Loss amortization		<b>151</b>	265
Prior service cost		<b>44</b>	44
Total net periodic benefit cost	\$	<b>2,024</b>	\$ 2,262



# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<u>Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:</u>		
Items not yet recognized as a component of net periodic cost – prior year	\$ 3,876	\$ 5,051
Net transition asset or obligation recognized	-	-
Net prior service cost or credit arising during the period	-	-
Net prior service cost recognized	(44)	(44)
Net loss (gain) arising during the period	3,206	(866)
Net gain recognized	(151)	(265)
Items not yet recognized as a component of net periodic cost – current year	\$ 6,887	\$ 3,876

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<u>Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:</u>		
Amortization of net transition asset or obligation	\$ -	\$ -
Amortization of net prior service cost	44	44
Amortization of net loss	\$ 346	\$ 120

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<u>Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:</u>		
Net transition asset or obligation	\$ -	\$ -
Net prior service cost	311	356
Net loss	\$ 6,576	\$ 3,520

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### Pension Assumptions:

<i>December 31,</i>	<b>2019</b>	2018
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	<b>4.50%</b>	3.75%
Rate of compensation increase	<b>2.50%</b>	2.50%
Expected long-term rate of return of plan assets	<b>5.50%</b>	5.50%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	<b>3.50%</b>	4.50%
Rate of compensation increase	<b>2.50%</b>	2.50%

The amount of accumulated benefit obligation for the defined benefit pension plan was approximately \$27,626 and \$20,319 as of December 31, 2019 and 2018, respectively.

### Measurement Date

A measurement date of December 31, 2019 was used to determine the above.

### Asset Allocation

The defined benefit pension plan asset allocation as of the measurement date presented as a percentage of total plan assets were as follows:

<i>December 31,</i>	<b>2019</b>	2018
Equity securities	<b>36.0%</b>	31.8%
Debt securities	<b>59.0%</b>	61.2%
Real estate	<b>4.8%</b>	5.1%
Other	<b>0.2%</b>	1.9%
	<b>100.0%</b>	100.0%

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

The investment policy of the Plan is to maximize the total return of the fund while maintaining a strong emphasis on preservation of capital. The total portfolio is expected to be less volatile than the market the vast majority of the time. The Plan assets are invested in a mix of equity and fixed income investments subject to target allocation ranges. The target allocation is to increase the percentage of fixed income investments depending on market conditions. Remaining funds not invested in the categories above are to be invested in short-term cash equivalents such as money market funds.

The long-term rate of return represents the expected average rate of return on the Plan assets based on the expected long-term asset allocation of the Plan. Several factors are considered, including historical market index returns, expectations of future returns in each asset classes, and the potential to outperform market index returns.

### Future Payments

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

<i>Years ending December 31,</i>	<i>Amount</i>
2020	\$ 695
2021	768
2022	861
2023	975
2024	1,085
2025 and thereafter	7,111

### Planned Contributions

The Association expects to make contributions of \$2,568 during 2020.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

Fair value measurements of Plan assets as of December 31, 2019 and 2018:

Fair Value Measurements at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	\$ -	\$ 81	\$ -	\$ 81
Large cap equity	4,793	-	-	4,793
Small cap equity	650	-	-	650
Mid cap equity	1,468	-	-	1,468
International equity	-	2,402	-	2,402
Realty fund	-	1,300	-	1,300
Fixed income	-	10,852	-	10,852
Limited partnerships	-	-	2	2
<b>Total plan assets</b>	<b>\$ 6,911</b>	<b>\$ 14,635</b>	<b>\$ 2</b>	<b>\$ 21,548</b>

Fair Value Measurements at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	\$ -	\$ 192	\$ -	\$ 192
Large cap equity	3,308	-	-	3,308
Small cap equity	478	-	-	478
Mid cap equity	1,054	-	-	1,054
International equity	-	1,464	-	1,464
Realty fund	-	1,059	-	1,059
Fixed income	-	8,614	-	8,614
Limited partnerships	-	-	2	2
<b>Total plan assets</b>	<b>\$ 4,840</b>	<b>\$ 11,329</b>	<b>\$ 2</b>	<b>\$ 16,171</b>

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

**Defined Contribution Plan.** The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. The Association contributed approximately \$949 and 819 for the years ended December 31, 2019 and 2018, respectively.

### 9. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2019:

<i>Years ending December 31,</i>	<i>Amount</i>
2020	\$ 1,036
2021	1,062
2022	1,088
2023	-
2024 and thereafter	-
	<hr/> \$ 3,186 <hr/>

Rental expense under the non-cancelable operating lease was approximately \$1,422 and \$1,453 for the years ended December 31, 2019 and 2018, respectively.

### 10. Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 11. Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2019 and 2018, the Association paid expenses for TFPA under its management contract and was reimbursed \$14,133 and \$13,787, respectively. As of December 31, 2019 and 2018, the Association incurred or paid expenses for which it has not been reimbursed of \$1,076 and \$1,029, respectively, on behalf of TFPA, and are included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

### 12. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued the Bonds on behalf of the Association for the purposes of financing future costs in the amount of \$500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for \$500,000 of which \$318,600 and \$368,500 principal balance was outstanding as of December 31, 2019 and 2018, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds. The bonds mature July 1, 2024 and can be called by the Issuer beginning July 1, 2019. The Bonds outstanding bear stated and effective interest of 8.25%. Interest is payable semi-annually on January 1 and July 1 with the first payment made January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the Debt Service and related accounts held by the TTSTC.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

There are various general and special covenants. The primary covenant, which exists as long as there are outstanding Class 1 Public Securities and Administrative Expenses are incurred, states that in the event the Association's Projected Net Coverage Revenues are less than 1.25 times the Obligations due in the next calendar year and 1.25 times the estimated amount of Administrative Expenses due in the next calendar year, the Association will undertake a plan of action or actions necessary to meet the required Projected Net Coverage Revenues. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the Operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the Net Premiums and Other Revenue held for the benefit of the Bondholders. The deposit account control agreement is activated upon default of certain debt covenants. As of December 31, 2019 and 2018, the Association is not in violation of these or any of the other various covenants.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption. The Association submitted a request to the Authority and the Commissioner of Insurance to make a partial redemption in the amount of \$45,000 with an anticipated redemption occurring in May 2020.

As of December 31, 2019, and 2018, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as an investment expense and was \$28,343 and \$32,303 for the years ended December 31, 2019 and 2018, respectively, and is included in net investment loss in the statutory statements of income. Interest expense of \$30,401 and \$34,205 was paid for the years ended December 31, 2019 and 2018, respectively. Interest payable was \$13,142 and \$15,201 as of December 31, 2019 and 2018, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2019 is as follows:

Description	Bonds Outstanding January 1, 2019	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2019
Bonds	\$ 368,500	\$ -	\$ 49,900	\$ 318,600

Changes in borrowed money - bonds payable for the year ended December 31, 2018 is as follows:

Description	Bonds Outstanding January 1, 2018	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2018
Bonds	\$ 414,600	\$ -	\$ 46,100	\$ 368,500

The aggregate maturities for the next five years and thereafter is as follows:

<i>Years ending December 31,</i>	Amount
2020	\$ 54,000
2021	58,500
2022	63,300
2023	68,600
2024	74,200
On Demand	-
	\$ 318,600



# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 13. Depopulation

Effective December 1, 2019, pursuant to measures introduced in the 84<sup>th</sup> Texas Legislature in 2015, the Association implemented year four of the Assumption Program. 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies will automatically transfer to participating companies on June 1, 2020. Policyholders may choose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 will be settled at the end of the treaty period, June 1, 2020.

Effective December 1, 2018, pursuant to measures introduced in the 84<sup>th</sup> Texas Legislature in 2015, the Association implemented year three of the Assumption Program. 3,967 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 3,552 policies remaining as of December 31, 2018. Policies transferred to participating companies on June 1, 2019. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2019. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2018. Funds held by the Association under the Assumption Program as of December 31, 2018 were settled at the end of the treaty period, June 1, 2019.

As of December 31, 2019 and 2018, funds held by company under reinsurance treaties was \$179 and \$400, respectively, and is included in the statutory statements of admitted assets, liabilities, surplus and other funds.

During 2019 and 2018, the Association recognized ceded written premiums of \$1,691 and \$1,893, respectively, as a result of the Assumption Program.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 14. Commitments and Contingencies

The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

The Association has obtained a \$500,000 committed line of credit with two of its primary financial institutions during 2019. The line of credit agreement was entered into July 1, 2019 subsequent to the Association's board of directors approval on May 7, 2019. No amounts were drawn against the line of credit. Issuance fees for the committed line of credit were \$500 and the Association pays the lenders a 0.4% commitment fee against the unused portion of the line of credit. The commitment originally matured May 27, 2020, however the line of credit was terminated by the Association as of December 26, 2019 without penalty.

### 15. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately \$61,000,000 and \$64,000,000 of insurance exposure as of December 31, 2019 and 2018, respectively.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 16. Nonadmitted Assets

Nonadmitted assets consisted of the following:

<i>December 31,</i>		<b>2019</b>		2018
Prepaid expenses and receivables	\$	<b>1,245</b>	\$	1,255
Member assessment receivable		<b>2,199</b>		2,199
Furniture and equipment		<b>653</b>		778
<b>Total nonadmitted assets</b>	<b>\$</b>	<b>4,097</b>	<b>\$</b>	<b>4,232</b>

### 17. Fair Value Measurements

The following table reflects the fair values and admitted assets and liabilities that are financial instruments. The fair values are also categorized into the three-level fair value hierarchy. Cash and cash equivalents are the only financial instruments held by the Association. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV.

#### Fair Value Measurements at December 31, 2019 Using:

	Aggregate Fair Value	Net Asset Value	Admitted Assets	Level 1	Level 2	Level 3
Cash	\$ 209,840	\$ -	\$ 209,840	\$ 209,840	\$ -	\$ -
Cash equivalents*	82,016	222,755	304,771	82,016	-	-
	<b>\$ 291,856</b>	<b>\$ 222,755</b>	<b>\$ 514,611</b>	<b>\$ 291,856</b>	<b>\$ -</b>	<b>\$ -</b>

#### Fair Value Measurements at December 31, 2018 Using:

	Aggregate Fair Value	Net Asset Value	Admitted Assets	Level 1	Level 2	Level 3
Cash	\$ 274,607	\$ -	\$ 274,607	\$ 274,607	\$ -	\$ -
Cash equivalents*	92,574	288,946	381,520	92,574	-	-
	<b>\$ 367,181</b>	<b>\$ 288,946</b>	<b>\$ 656,127</b>	<b>\$ 367,181</b>	<b>\$ -</b>	<b>\$ -</b>

\* In accordance with SSAP 100R, certain investments that were measured at NAV have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the line items presented in the statutory statements of admitted assets, liabilities, surplus and other funds.

# Texas Windstorm Insurance Association

## Notes to Statutory Financial Statements (Amounts in Thousands)

### 18. Reconciliation with Annual Statement

There were no differences between the 2019 annual statement and 2018 annual statement as filed with the TDI and the 2019 and 2018 audited statutory financial statements.

### 19. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2019, the date of the most recent statutory statements of admitted assets, liabilities, surplus, and other funds through April 23, 2020, the date the statutory financial statements were issued.

In June of 2019, the Association increased loss and loss adjustment expense reserves related to Hurricane Harvey in the amount of \$90,000. In accordance with the Texas Insurance Code Chapter 2210, the Association is permitted to assess member companies to fund these additional loss amounts with the approval of the Commissioner of the TDI (“the Texas Commissioner”). The Association recorded the member assessment revenue of \$90,000 and the related assessment receivable as of December 31, 2019 and received approval from the Texas Commissioner on January 10, 2020. The amounts from the assessment have been collected as of April 1, 2020 (See Note 7).

As discussed in Note 12 (Borrowed Money – Bonds Payable), the outstanding Texas Public Finance Authority Class 1 Revenue Bonds issued on behalf of the Association, are subject to optional redemption prior to maturity on or after July 1, 2019 at a redemption price equal to the principal amount of bonds to be redeemed plus accrued interest to the date of redemption. On February 18, 2020, the Association Board of Directors approved an early redemption in the amount of \$45,000 and directed Association staff to request approval from the Texas Commissioner. On February 24, 2020, the Association received approval from the Texas Commissioner to redeem the requested \$45,000 of bond principal. The redemption is anticipated to be completed during the second quarter of 2020.

The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the statutory financial statements.

# Texas Windstorm Insurance Association

## Summary Investment Schedule

December 31, 2019  
(Amounts in Thousands)

Investment categories	Gross Investment Holdings *		Admitted Assets as Reported in the Annual Statement **	
	Amount	%	Amount	%
Long- Term Bonds (Schedule D, Part 1):				
U.S. Governments	\$ -	-	\$ -	-
All other governments	-	-	-	-
U.S. states, territories and possessions, etc. guaranteed	-	-	-	-
U.S. political subdivisions of states, territories, and possessions, guaranteed	-	-	-	-
U.S. special revenue and special assessment obligations, etc. non-guaranteed	-	-	-	-
Industrial and miscellaneous	-	-	-	-
Hybrid securities	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
SVO identified funds	-	-	-	-
Unaffiliated bank loans	-	-	-	-
Total long-term bonds	-	-	-	-
Preferred stocks (Schedule D, Part 2, Section 1):				
Industrial and miscellaneous (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
Total preferred stocks	-	-	-	-
Common stocks (Schedule D, Part 2, Section 2):				
Industrial and miscellaneous Publicly traded (Unaffiliated)	-	-	-	-
Industrial and miscellaneous Other (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
Parent, subsidiaries and affiliates Other	-	-	-	-
Mutual funds	-	-	-	-
Unit investments trusts	-	-	-	-
Closed-end funds	-	-	-	-
Total common stocks	-	-	-	-
Mortgage loans (Schedule B):				
Farm mortgages	-	-	-	-
Residential mortgages	-	-	-	-
Commercial mortgages	-	-	-	-
Mezzanine real estate loans	-	-	-	-
Total mortgage loans	-	-	-	-
Real Estate (Schedule A):				
Properties occupied by company	-	-	-	-
Properties held for production of income	-	-	-	-
Properties held for sale	-	-	-	-
Total real estate	-	-	-	-

See accompanying independent auditors' report on supplemental information.

# Texas Windstorm Insurance Association

## Summary Investment Schedule December 31, 2019 (Amounts in Thousands)

Investment categories	Gross Investment Holdings *		Admitted Assets as Reported in the Annual Statement **	
	Amount	%	Amount	%
Cash, cash equivalents and short-term investments:				
Cash (Schedule E, Part 1)	209,840	40.78	209,840	40.78
Cash equivalents (Schedule E, Part 2)	304,771	59.22	304,771	59.22
Short-term investments (Schedule DA)	-	-	-	-
Total cash, cash equivalents and short-term investments	514,611	100.00	514,611	100.00
Contract loans	-	-	-	-
Derivatives (Schedule DB)	-	-	-	-
Other invested assets (Schedule BA)	-	-	-	-
Receivables for securities	-	-	-	-
Securities Lending (Schedule DL, Part 1)	-	-	-	-
Other invested assets (Page 2, Line 11)	-	-	-	-
Total invested assets	\$ 514,611	100.00	\$ 514,611	100.00

\*Gross investment holdings as valued in compliance with the NAIC Accounting Procedures Manual.

\*\* The Association has no securities lending reinvested collateral at December 31, 2019.

See accompanying independent auditors' report on supplemental information.

# Texas Windstorm Insurance Association

## Supplemental Investment Risk Interrogatories December 31, 2019 (Amounts in Thousands)

- 1) Reporting entity's total admitted assets as reported in the accompanying financial statements. \$ 606,117

Questions 2 through 19 are not applicable.

- 20) Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
	Amount	Percentage of Total Admitted Assets	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr
Reverse repurchase agreements	\$ 82,016	13.53%	\$ 97,958	\$ 106,359	\$ 61,591

Questions 21 through 23 are not applicable.

*See accompanying independent auditors' report on supplemental information.*

# Texas Windstorm Insurance Association

## Reinsurance Interrogatories

December 31, 2019

(Amounts in Thousands)

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES[ ] NO [X]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions. N/A

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? YES[ ] N/A [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity; or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

YES[ ] NO [X]

*See accompanying independent auditors' report on supplemental information.*



# Texas Windstorm Insurance Association

## Reinsurance Interrogatories

December 31, 2019

(Amounts in Thousands)

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract?

YES [ ] NO [X]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

N/A

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (“SAP”) and as a deposit under generally accepted accounting principles (“GAAP”); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

YES [ ] NO [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.

N/A

*See accompanying independent auditors' report on supplemental information.*

6E3. GASB

# **Texas Windstorm Insurance Association**

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## **Financial Statements and Required Supplementary Information**

**For the Years Ended December 31, 2019 and 2018**

# **Texas Windstorm Insurance Association**



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## **Financial Statements and Required Supplementary Information**

**For the Years Ended December 31, 2019 and 2018**

# Texas Windstorm Insurance Association

## Table of Contents

<b>Independent auditors' report</b>	3-5
<b>Required supplementary information</b>	
Management's discussion and analysis	6-15
<b>Financial statements</b>	
Statements of net position	16-17
Statements of revenues, expenses, and changes in net position	18
Statements of cash flows	19-20
Summary of significant accounting policies	21-26
Notes to financial statements	27-44
<b>Required supplementary information</b>	
Schedules of changes in net pension liability and related ratios	45
Schedules of employer contributions	46

## **Independent Auditors' Report**

Board of Directors  
Texas Windstorm Insurance Association  
Austin, Texas

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Texas Windstorm Insurance Association (the "Association"), a component unit of the State of Texas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Windstorm Insurance Association as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

As discussed in the Summary of Significant Accounting Policies, the financial statements present only the Association and do not purport to, and do not, fairly present the financial position of the State of Texas, the changes in its financial position, or, where applicable, its cash flows for the years ended 2019 and 2018, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to these matters.

As discussed in Note 14, as of December 31, 2019, the Association had approximately \$61 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. As discussed in Note 9, by state statute, any net gain from operations must be paid to the Catastrophe Reserve Trust Fund (“CRTF”). As of December 31, 2019, the balance in the CRTF was approximately \$122.5 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

As discussed in the summary of significant accounting policies, in accordance with Senate Bill 900 (“SB 900”) passed by the Texas Legislature during 2015, the Association is authorized to place \$1.0 billion in public securities and assess member insurance companies \$1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place these public securities and the sufficiency of that amount to cover future losses will depend on market conditions and the financial and operating results of the Association. Our opinion is not modified with respect to these matters.

As discussed in Note 5, ultimate loss projections for Hurricane Harvey were estimated to be \$1.7 billion by the Association’s appointed actuary as of December 31, 2019. If the ultimate loss projection changes in the future it could have a material adverse impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, on pages 6 to 15, schedules of changes in net pension liability and related ratios, on page 45, and schedules of employer contributions on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which

consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Cohn, Therman & Metzger, LLP*  
April 23, 2020



# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

Our discussion and analysis of the financial performance of Texas Windstorm Insurance Association (the "Association") provides an overview of the Association's financial activities for the years ended December 31, 2019 and 2018. The information should be read in conjunction with the Association's financial statements.

### **Nature of Business**

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Association is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

### Financial Summary

A summary of the statements of net position for the Association is presented below:

<i>December 31,</i>	<b>2019</b>		<b>2018</b>	
Cash and cash equivalents	\$	<b>514,611</b>	\$	656,127
Assessment receivable		<b>92,199</b>		2,199
Capital assets		<b>1,161</b>		2,834
Other assets		<b>2,819</b>		3,045
<b>Total assets</b>		<b>610,790</b>		664,205
Deferred outflows of resources		<b>3,639</b>		2,557
	\$	<b>614,429</b>	\$	666,762
Other liabilities	\$	<b>453,298</b>	\$	550,471
Borrowed money – bonds and interest payable		<b>331,742</b>		383,701
<b>Total liabilities</b>		<b>785,040</b>		934,172
Deferred inflows of resources		<b>1,840</b>		336
<b>Total liabilities and deferred inflows of resources</b>		<b>786,880</b>		934,508
Net position:				
Investment in capital assets		<b>1,161</b>		2,834
Unrestricted		<b>(173,612)</b>		(270,580)
<b>Total net position</b>		<b>(172,451)</b>		(267,746)
	\$	<b>614,429</b>	\$	666,762

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

A summary of the statements of revenues, expenses, and changes in net position for the Association is presented below:

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Operating revenues:</b>		
Net premiums earned	\$ <b>287,477</b>	\$ 301,515
<b>Operating expenses:</b>		
Losses and loss adjustment expenses	<b>113,398</b>	175,998
Underwriting expenses	<b>94,068</b>	96,982
Total expenses	<b>207,466</b>	272,980
Operating income	<b>80,011</b>	28,535
Nonoperating revenue	<b>15,284</b>	143,951
Increase in net position before federal income tax expense	<b>95,295</b>	172,486
Federal income tax expense	-	-
Change in net position	<b>95,295</b>	172,486
Net position at beginning of year	<b>(267,746)</b>	(440,232)
Net position at end of year	\$ <b>(172,451)</b>	\$ (267,746)

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

### ANALYSIS OF FINANCIAL POSITION

#### Assets

The Association maintains cash and cash equivalents at banks consisting of cash, certificates of deposit, reverse repurchase agreements, and money market mutual funds. Money market mutual funds are recorded at net asset value, which approximates fair value. Reverse repurchase agreements are recorded at fair value. As of December 31, 2019 cash and cash equivalents decreased \$141,516 from December 31, 2018. The decrease was primarily attributable to the March 2019 contribution to the CRTF of \$110,590 which was accrued as of December 31, 2018 and a decrease in written premium year over year. As of December 31, 2018 cash and cash equivalents increased \$10,053 from December 31, 2017. The increase was primarily attributable to moderate positive cash flow during 2018.

The assessment receivable was \$92,199 and \$2,199 as of December 31, 2019 and 2018, respectively. The increase was related to the \$90,000 member assessment approved by the Commissioner of Insurance on January 10, 2020 (see Note 9). The assessment receivable was \$2,199 and \$0 as of December 31, 2018 and 2017, respectively. The increase is related to one insurance group disputing the assessment but is recoverable from other member companies at a future date (see Note 9).

#### Liabilities

The statutory fund payable account was \$52,641 and \$110,590 as of December 31, 2019 and 2018, respectively. These funds are payable to the CRTF, and under control of the Texas Department of Insurance ("TDI"). The decrease is related to lower premium volume and the designation of \$45,000 for an anticipated partial bond redemption in May 2020 (see Note 8). The statutory fund payable account was \$110,590 and \$0 as of December 31, 2018 and 2017, respectively. These funds are payable to the CRTF, and under control of the TDI. The increase is related to favorable financial results during 2018 (see Note 8).

Loss and loss adjustment expense ("LAE") reserves are based on past loss experience and consideration of current claim trends as well as prevailing social, economic and legal conditions. Loss and LAE reserves are not discounted. A review of the reserves is conducted quarterly by management to evaluate the accuracy of the determination of the loss and LAE reserves and to observe adherence to corporate policy.

The reserve for losses and LAE is based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims.

The December 31, 2019 direct loss and LAE reserves decreased \$31,660 from 2018. This decrease in reserves was the result of favorable storm activity during 2019 and continued settlement of prior year

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

claims from 2017 storm activity. The ultimate estimate for losses and LAE related to Hurricane Harvey was increased by \$90,000 during the second quarter of 2019 due to a greater number and severity of supplemental payments on reopened claims. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2019 and 2018 make a reasonable provision for the Association's claim liabilities.

The December 31, 2018 direct loss and LAE reserves decreased \$214,355 from 2017. This decrease in reserves was the result of no significant storm activity during 2018 and continued settlement of prior year claims from 2017 storm activity.

### **Borrowed money – bonds and interest payable**

Bonds consist of \$500,000 in Texas Public Finance Authority Class 1 Revenue Bonds (Texas Windstorm Insurance Association Program), Taxable Series 2014 (the "Bonds"), as permitted by Texas Statute. The Bonds fully mature by 2024. The principal balance of Bonds outstanding as of December 31, 2019 and 2018 was \$318,600 and \$368,500, respectively. The decrease is attributable to scheduled principal payments during the year. Total interest payable as of December 31, 2019 and 2018 was \$13,142 and \$15,201, respectively. The principal balance of Bonds outstanding as of December 31, 2018 and 2017 was \$368,500 and \$414,600, respectively. The decrease is attributable to scheduled principal payments during the year. Total interest payable as of December 31, 2018 and 2017 was \$15,201 and \$17,102, respectively.

### **Capital and Surplus**

The net statutory gain from operations of the Association must be transferred to the CRTF following the close of each business year. Under the statutory agreement with the TDI, monies in the CRTF are to be used for purposes directly related to funding the payment of insured losses from windstorm and hail catastrophe losses in excess of premium and other revenue of the Association in a catastrophe year.

During 2019 and 2018, the Association paid \$110,590 and \$0 to the CRTF representing the 2018 and 2017 net gain from operations. The Association accrued \$52,641 and \$110,590 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2019 and 2018, respectively. During 2018 and 2017, the Association paid \$0 and \$147,015 to the CRTF representing the 2017 and 2016 net gain from operations. The Association accrued \$110,590 and \$0 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2018 and 2017, respectively.

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

### Reinsurance

During 2019 and 2018, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of \$2,100,000, subject to a limit of liability to the reinsurer of \$2,100,000.

Effective June 1, 2018, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of \$2,000,000, subject to a limit of liability to the reinsurer of \$2,600,000. In 2017, the Association purchased a second season cover of \$800,000 in excess of \$2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, adequate reinsurance coverage was secured for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018. Reinsurance premiums related to the second season cover of \$12,805 were 100% earned during the year ended December 31, 2018 and is included in premiums ceded in the statements of revenues, expenses and changes in net position.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Reinsurance Depopulation Program ("Assumption Program") (see Note 10).

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

The effect on premiums written and earned for the years ended December 31, 2019 and 2018 is as follows:

	2019		2018	
	Written	Earned	Written	Earned
Direct premium	\$ 372,017	\$ 381,571	\$ 395,552	\$ 409,954
Excess of loss ceded premium	(92,403)	(92,403)	(106,546)	(106,546)
Depopulation ceded premium	(1,691)	(1,691)	(1,893)	(1,893)
Net	\$ 277,923	\$ 287,477	\$ 287,113	\$ 301,515

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

Unearned premiums are reported as follows:

<i>December 31,</i>	2019		2018	
Gross unearned premiums	\$	185,495	\$	195,050
Ceded unearned premiums		-		-
	\$	185,495	\$	195,050

### Commitments and Contingencies

The Association leases office space under a non-cancelable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancelable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2019.

The minimum aggregate rental commitments are as follows:

<i>Years Ending December 31,</i>	Amount	
2020	\$	1,036
2021		1,062
2022		1,088
2023		-
2024 and thereafter		-
	\$	3,186

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

Rental expense under the non-cancelable operating lease was approximately \$1,422 and \$1,453 for the years ended December 31, 2019 and 2018, respectively.

### **Governance**

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

### **Depopulation**

Effective December 1, 2019, pursuant to measures introduced in the 84<sup>th</sup> Texas Legislature in 2015, the Association implemented year four of the Assumption Program. 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies will automatically transfer to participating companies on June 1, 2020. Policyholders may choose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with this Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 will be settled at the end of the treaty period, June 1, 2020.

Effective December 1, 2018, pursuant to measures introduced in the 84<sup>th</sup> Texas Legislature in 2015, the Association implemented year three of the Assumption Program. 3,967 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 3,552 policies remaining as of December 31, 2018. Policies transferred to participating companies on June 1, 2019. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2019. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2018. Funds held by the Association under the Assumption Program as of December 31, 2018 were settled at the end of the treaty period, June 1, 2019.

As of December 31, 2019 and 2018, funds held by company under reinsurance treaties was \$179 and \$400, respectively, and is included in the statements of net position.

During 2019 and 2018, the Association recognized ceded written premiums of \$1,691 and \$1,893, respectively, as a result of the Assumption Program.



# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

### Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2019 and 2018, the Association paid expenses for TFPA under its management contract and was reimbursed \$14,133 and \$13,787, respectively. As of December 31, 2019 and 2018, the Association incurred or paid expenses for which it has not been reimbursed of \$1,076 and \$1,029, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days. During 2018 and 2017 the Association paid expenses for TFPA under its management contract and was reimbursed \$13,787 and \$14,034, respectively. As of December 31, 2018 and 2017, the Association incurred or paid expenses for which it has not been reimbursed of \$1,029 and \$1,427, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

### RESULTS OF OPERATIONS

#### Revenues

Direct written premium was \$372,017 and \$395,552 for the years ended December 31, 2019 and 2018 respectively. The 6% decrease from 2018 to 2019 was the result of a decrease in policy count and depopulation efforts during 2019 and 2018. Direct written premium was \$395,552 and \$423,074 for the years ended December 31, 2018 and 2017 respectively. The 7% decrease from 2017 to 2018 was the result of a decrease in policy count and depopulation efforts during 2018 and 2017.

Net earned premium was \$287,477 and \$301,515 for the years ended December 31, 2019 and 2018, respectively. The 5% decrease from 2018 to 2019 was a result of a decrease in policy count and depopulation efforts during 2019 and 2018. Net earned premium was \$301,515 and \$347,354 for the years ended December 31, 2018 and 2017, respectively. The 13% decrease from 2017 to 2018 was a result of a decrease in policy count and depopulation efforts during 2018 and 2017.

Net investment income was \$6,226 and \$5,014 for the years ended December 31, 2019 and 2018, respectively. In 2019, the increase in net investment income reflects an improved rate environment. Net investment income was \$7,429 and \$6,639 for the years ended December 31, 2018 and 2017, respectively. In 2018, the increase in net investment income reflects an improved rate environment.

In August 2017, Hurricane Harvey impacted the Texas coast and impacted the Association. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately \$1,700,000. The Act allows the Association to assess member companies relating to Class 1 member assessments up to \$500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for

# Texas Windstorm Insurance Association

## Management's Discussion and Analysis (Amounts in Thousands)

\$175,000, a second Class 1 member assessment was approved on August 20, 2018 for \$106,820, and a third Class 1 member assessment was approved on January 10, 2020 for \$90,000 for a combined total of \$371,820. As of December 31, 2019, \$279,621 has been collected from the first two assessments. The third assessment was billed on February 13, 2020 of which all was collected as of April 1, 2020. One insurance group has disputed their participation of a 2018 assessment in the amount of \$2,199. In 2020, the Commissioner of Insurance overturned a ruling such that the insurance group is not subject to the 2018 assessment. The amount uncollected will be reallocated to other carriers and will be billed or returned to such carriers at a future date. Further assessments will be made as needed as Hurricane Harvey paid loss development matures. As of December 31, 2019 and 2018, the net negative position of the Association is \$172,451 and \$267,746, respectively.

### Net Loss and Loss Adjustment Expenses

Net loss and LAE was \$113,398 and \$175,998 for the years ended December 31, 2019 and 2018, respectively. The decrease in net loss and LAE is primarily due to a relatively quiet storm season in 2019 and lower levels of unfavorable development associated with Hurricane Harvey in 2019 compared to 2018. Unfavorable development of losses and LAE related to Hurricane Harvey resulted in the Association recording an increase in the ultimate loss estimate for Hurricane Harvey of \$90,000 and \$164,000 in 2019 and 2018, respectively. Net loss and LAE was \$175,998 and \$1,475,302 for the years ended December 31, 2018 and 2017, respectively. In 2018, the decrease in net loss and LAE was due to the absence of a hurricane event whereas 2017 was impacted by Hurricane Harvey.

### Underwriting Expenses

Underwriting expenses were \$94,068 and \$96,982 for the years ended December 31, 2019 and 2018, respectively. Underwriting expenses decreased in 2019 approximately 3% while direct written premium decreased approximately 6%. Reductions in commission and premium were offset by costs associated with system implementations. Underwriting expenses were \$96,982 and \$96,492 for the years ended December 31, 2018 and 2017, respectively. Underwriting expenses increased in 2018 approximately 1% while direct written premium decreased approximately 7%. Reductions in commission and premium were offset by costs associated with system implementations.

# Texas Windstorm Insurance Association

## Statements of Net Position (Amounts in Thousands)

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Assets and deferred outflows of resources</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 514,611	\$ 656,127
Assessment receivable	92,199	2,199
Capital assets, net	1,161	2,834
Other assets	2,819	3,045
Total assets	610,790	664,205
<b>Deferred outflows of resources related to pensions</b>		
Net difference between projected and actual earnings on plan investments	-	904
Differences between expected and actual experience	468	235
Changes in assumptions	3,171	1,418
Total deferred outflows of resources	3,639	2,557
	\$ 614,429	\$ 666,762

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Statements of Net Position (Amounts in Thousands) (Continued)

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Liabilities, deferred inflows of resources and net position</b>		
<b>Liabilities</b>		
Losses and loss adjustment expense reserves	\$ 169,198	\$ 200,858
Unearned premiums	185,495	195,050
Ceded reinsurance premiums payable, net of ceding commissions	22,381	20,172
Funds held by company under reinsurance treaties	179	400
Borrowed money – bonds and interest payable	331,742	383,701
Statutory fund payable	52,641	110,590
Other liabilities	23,404	23,401
<b>Total liabilities</b>	<b>785,040</b>	<b>934,172</b>
<b>Deferred inflows of resources related to pensions</b>		
Net difference between projected and actual earnings on plan investments	1,588	-
Differences between expected and actual experience	183	252
Changes in assumptions	69	84
<b>Total deferred inflows of resources</b>	<b>1,840</b>	<b>336</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>786,880</b>	<b>934,508</b>
<b>Net position</b>		
Investment in capital assets	1,161	2,834
Unrestricted	(173,612)	(270,580)
<b>Total net position</b>	<b>(172,451)</b>	<b>(267,746)</b>
	<b>\$ 614,429</b>	<b>\$ 666,762</b>

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Statements of Revenues, Expenses and Changes in Net Position (Amounts in Thousands)

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Premiums earned	\$ 381,571	\$ 409,954
Premiums ceded	(94,094)	(108,439)
Total operating revenues	<b>287,477</b>	301,515
<b>Operating expenses</b>		
Losses and loss adjustment expenses	<b>113,398</b>	175,998
Underwriting expenses	<b>94,068</b>	96,982
Total operating expenses	<b>207,466</b>	272,980
Operating income	<b>80,011</b>	28,535
<b>Nonoperating revenues and (expenses)</b>		
Net investment income earned	<b>6,226</b>	5,014
Interest expense	<b>(28,343)</b>	(32,303)
Bond issuance and maintenance costs	-	(42)
Assessment income	<b>90,000</b>	281,820
Statutory fund costs	<b>(52,641)</b>	(110,590)
Other income	<b>42</b>	52
Total nonoperating revenues	<b>15,284</b>	143,951
Increase in net position before federal income tax expense	<b>95,295</b>	172,486
Federal income tax expense	-	-
Change in net position	<b>95,295</b>	172,486
<b>Net position:</b>		
Net position, beginning of year	<b>(267,746)</b>	(440,232)
Change in net position	<b>95,295</b>	172,486
Net position, end of year	<b>\$ (172,451)</b>	\$ (267,746)

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Statements of Cash Flows (Amounts in Thousands)

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Premiums collected, net of reinsurance	\$ 280,281	\$ 283,815
Losses and loss adjustment expense paid	(145,048)	(389,952)
Underwriting expenses paid	(92,383)	(90,349)
Receivable from affiliate	(47)	398
Net cash provided by (used in) operating activities	<b>42,803</b>	(196,088)
<b>Cash flows from noncapital financing activities:</b>		
Bond principal paid	(49,900)	(46,100)
Financing costs paid	(2,296)	(2,548)
Bond interest paid	(30,401)	(34,204)
Statutory fund paid	(110,590)	-
Assessment income received	-	281,820
Other	42	52
Net cash (used in) provided by noncapital financing activities	<b>(193,145)</b>	199,020
<b>Cash flows from capital and related financing activities:</b>		
Capital assets	(70)	(70)
Net cash used in capital and related financing activities	<b>(70)</b>	(70)
<b>Cash flows from investing activities:</b>		
Net investment income	8,896	7,191
Net cash provided by investing activities	<b>8,896</b>	7,191
Net (decrease) increase in cash and cash equivalents	<b>(141,516)</b>	10,053
Cash and cash equivalents, beginning of year	<b>656,127</b>	646,074
Cash and cash equivalents, end of year	<b>\$ 514,611</b>	\$ 656,127

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Statements of Cash Flows (Amounts in Thousands) (Continued)

<i>Years ended December 31,</i>	<b>2019</b>		<b>2018</b>	
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	\$	<b>80,011</b>	\$	28,535
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization		<b>1,743</b>		1,753
Changes in assets and liabilities:				
Losses and loss adjustment expense reserves		<b>(31,660)</b>		(214,355)
Unearned premiums		<b>(9,555)</b>		(14,403)
Ceded reinsurance premiums payable		<b>2,209</b>		(431)
Other liabilities		<b>1,193</b>		(5,357)
Other assets		<b>(1,138)</b>		8,170
Net cash provided by (used in) operating activities	\$	<b>42,803</b>	\$	(196,088)

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

### **Nature of Business**

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the “Act”), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas (“seacoast territory”). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

### **Organization**

The Association was established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the Texas seacoast territory from the private market. The Legislature’s action was a response to market constrictions along the Texas coast after several hurricanes. The Association is governed by Chapter 2210 of the Texas Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association’s primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier counties and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan’s Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance, or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.



# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage, accompanied by the full annual premium, may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance (“TDI”). In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

- Applicants must have been denied coverage by at least one insurer in the private market.
- Properties must be located in the designated catastrophe area.
- Properties must be certified by the TDI as having been built to applicable building codes, with limited exceptions.
- Properties located in specified flood zones that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the National Flood Insurance Program must provide proof of flood insurance coverage.
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association’s Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, the TDI inspectors or the TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

Properties must be in an insurable condition to be eligible for Association coverage, i.e. in good repair with no unrepaired damage or hazardous conditions. The Association regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Approximately \$4,200,000 in funding was secured for the 2019 hurricane season. SB 900, passed by the 84<sup>th</sup> Texas Legislature, took effect during 2015, and changed the Association’s funding structure. \$4,200,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

The Association's funding structure for the 2019 hurricane season is, in order:

- \$100,000 in CRTF funds
- \$500,000 in Class 1 public securities
- \$500,000 in Class 1 member assessments
- \$250,000 in Class 2 public securities
- \$250,000 in Class 2 member assessments
- \$250,000 in Class 3 public securities
- \$250,000 in Class 3 member assessments
- \$2,100,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84<sup>th</sup> Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of the assumption process.

The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2019. The Assumption Program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 1,866 and 3,967 policies were identified for assumption during 2019 and 2018, respectively. Policyholders have until May 31, 2020 to opt out of the 2019 Assumption Program.

### **Basis of Accounting**

While the Association is an instrumentality of the State of Texas, the State of Texas General Fund is not liable for the Association's claims, losses, or other liabilities. However, the Association meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

The Association is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Association uses the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

In January of 2020, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 92, Omnibus 2020. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3. The requirements related to the effective date of Statement No. 87 and Implementation Guide 2019-3 are effective for periods beginning after December 15, 2019. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

In April of 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.

In June of 2017, the GASB issued Statement No. 87, Leases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

In March of 2017, the GASB issued Statement No. 85, Omnibus 2017. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.

In June of 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early application is encouraged. The Association evaluated the impact of this standard and concluded the standard had no material impact on the financial statements.

### **Use of Significant Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The reserves for unpaid losses and loss adjustment expense are significant estimates made by management.

### **Cash Equivalents**

For the purposes of the statements of cash flows, the Association considers all highly liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents, which include money market mutual funds, are recorded at Net Asset Value (“NAV”), which approximates fair value.

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

### **Reverse Repurchase Agreements**

Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

### **Capital Assets**

The Association has invested funds in electronic data processing equipment and software, in addition to furniture and equipment and is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years.

### **Income Taxes**

In 2010, the Association applied for and received a Private Letter Ruling (“PLR”) from the Internal Revenue Service (“IRS”). The PLR requested acknowledgement that the Association’s income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code (“IRC”). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2019, the statute of limitations remains open for the 2016 to 2019 tax years. No further federal income tax impact is expected in the future.

### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Association. For the Association, these revenues are primarily the premiums charged to policyholders. Operating expenses include incurred losses and necessary costs incurred to provide and administer claims.

All revenue not meeting the definition of operating revenue and expenses are reported as nonoperating revenues and expenses. Significant or major components of nonoperating revenues and expenses include interest expense, assessment income, statutory fund costs, and statutory fund income and are included in the statements of revenues, expenses and changes in net position.

# Texas Windstorm Insurance Association

## Summary of Significant Accounting Policies (Amounts in Thousands)

### **Premiums**

All policies issued by the Association have a maximum term of one year from date of issuance. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. The liability for unearned premiums as of the end of the Association's year is computed on a pro-rata basis over the term of the policies. All premium rates charged by the Association must be approved by the TDI Commissioner.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statements of net position.

Those premiums received for policies which are not effective and not issued as of year-end are included in other liabilities within the Association's statements of net position.

### **Policy Acquisition Costs**

Acquisition costs consisting of commissions and premium taxes, vary with and are primarily related to the issuance of new and renewal insurance policies. Acquisition costs are expensed as incurred.

### **Losses and Loss Adjustment Expenses**

Loss and LAE reserves are based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

### **Reinsurance**

In the normal course of business, the Association seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

### **Long-Lived Assets – Impairment and Disposal**

The Association reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

### **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### 1. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

<i>December 31,</i>	<b>2019</b>		2018	
Cash	\$	<b>209,840</b>	\$	274,607
Cash equivalents:				
Reverse repurchase agreements		<b>82,016</b>		92,574
Money market mutual funds		<b>222,755</b>		288,946
Cash equivalents		<b>304,771</b>		381,520
	\$	<b>514,611</b>	\$	656,127

#### *Money Market Mutual Funds*

The Association invests in money market mutual funds which are included in cash equivalents. The fair value of money market mutual funds was approximately \$222,755 and \$288,946 as of December 31, 2019 and 2018, respectively.

#### *Reverse Repurchase Agreements*

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (see Note 8). The TTSTC's minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S. Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately \$82,016 and \$92,574 as of December 31, 2019 and 2018, respectively, and is included in cash and cash equivalents in the statements of net position.

#### **Reverse Repurchase Agreement**

<i>Fair Value as of December 31,</i>	<b>2019</b>		2018	
Open	\$	-	\$	-
30 days or less		<b>82,016</b>		92,574
31 to 60 days		-		-
61 to 90 days		-		-
Greater than 90 days		-		-
Securities received		-		-
	\$	<b>82,016</b>	\$	92,574

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### 2. Capital assets

Capital assets consist of the following:

<i>December 31,</i>	<b>2019</b>	2018
Furniture and fixtures	\$ 540	\$ 470
Electronic data processing equipment and software	<b>10,466</b>	10,466
Leasehold improvements	<b>1,858</b>	1,858
	<b>12,864</b>	12,794
Less: accumulated depreciation	<b>(11,703)</b>	(9,960)
	<b>\$ 1,161</b>	\$ 2,834

Depreciation and amortization expense was \$1,743 and \$1,753 for the years ended December 31, 2019 and 2018, respectively.

### 3. Reinsurance

During 2019 and 2018, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement (“aggregate excess of loss”).

#### *Aggregate Excess of Loss*

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of \$2,100,000, subject to a limit of liability to the reinsurer of \$2,100,000.

Effective June 1, 2018, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of \$2,000,000, subject to a limit of liability to the reinsurer of \$2,600,000. In 2017, the Association purchased a second season cover of \$800,000 in excess of \$2,000,000 of which 50% was placed. This cover was purchased to ensure that if an event occurred in 2017 and the CRTF was depleted, adequate reinsurance coverage was secured for the 2018 storm season. Due to the impact of Hurricane Harvey in 2017, the coverage became effective June 1, 2018.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

Reinsurance premiums related to the second season cover of \$12,805 were 100% earned during the year ended December 31, 2018 and are included in premiums ceded in the statements of revenues, expenses and changes in net position.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (see Note 10).

The effect of reinsurance on premiums written and earned for the years ended December 31, 2019 and 2018 is as follows:

	2019		2018	
	Written	Earned	Written	Earned
Direct premium	\$ 372,017	\$ 381,571	\$ 395,552	\$ 409,954
Excess of loss ceded premium	(92,403)	(92,403)	(106,546)	(106,546)
Depopulation ceded premium	(1,691)	(1,691)	(1,893)	(1,893)
Net	\$ 277,923	\$ 287,477	\$ 287,113	\$ 301,515

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

As of December 31, 2019 and 2018, the Association had reinsurance recoverables of \$7 and \$5, respectively, of paid losses and LAE as a result of the Assumption Program and are included in other assets in the statements of net position.

#### 4. Unearned Premiums

Unearned premiums are reported as follows:

<i>December 31,</i>	2019	2018
Gross unearned premiums	\$ 185,495	\$ 195,050
Ceded unearned premiums	-	-
	\$ 185,495	\$ 195,050



# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### 5. Losses and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending reserve balances, net of reinsurance recoverables, for losses and loss adjustment expenses:

<i>Years ended December 31,</i>	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 200,858	\$ 415,213
Reinsurance recoverable	78	479
<b>Beginning net balance</b>	<b>200,780</b>	<b>414,734</b>
Incurred related to:		
Current loss year	26,454	19,442
Prior loss years	86,944	156,556
<b>Losses and loss adjustment expense incurred</b>	<b>113,398</b>	<b>175,998</b>
Paid related to:		
Current loss year	19,918	14,070
Prior loss years	125,130	375,882
<b>Paid losses and loss adjustment expense</b>	<b>145,048</b>	<b>389,952</b>
Ending net balance	169,130	200,780
Reinsurance recoverable	68	78
<b>Ending balance</b>	<b>\$ 169,198</b>	<b>\$ 200,858</b>

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statements of revenues, expenses and changes in net position. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statements of revenues, expenses and changes in net position of \$113,398 reflect approximately \$86,944 unfavorable development of prior year estimates, primarily due to unfavorable development of 2017 accident year claims for Hurricane Harvey caused by a greater number and severity of supplemental payments on reopened claims occurring in 2019. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. During August 2017, the Association was impacted by Hurricane Harvey. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately \$1,700,000 as of December 31, 2019, an increase of \$90,000 from December 31, 2018 due to the severity of claims development. Due to the inherently uncertain process involving loss and LAE reserve estimates, the final resolution of the ultimate liability may be different from that anticipated at the reporting date. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2019 and 2018 make a reasonable provision for the Association's claim liabilities.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### 6. Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

### 7. Service Contract with Texas FAIR Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2019 and 2018 the Association paid expenses for TFPA under its management contract and was reimbursed \$14,133 and \$13,787, respectively. As of December 31, 2019 and 2018, the Association incurred or paid expenses for which it has not been reimbursed of \$1,076 and \$1,029, respectively, on behalf of TFPA, and are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

### 8. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued Bonds on behalf of the Association for the purposes of financing future costs in the amount of \$500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for \$500,000 of which \$318,600 and \$368,500 principal balance was outstanding as of December 31, 2019 and 2018, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position. The bonds mature July 1, 2024 and can be called by the Issuer beginning July 1, 2019. The Bonds outstanding bear a stated and effective interest rate of 8.25%. Interest is payable semi-annually on January 1 and July 1 with the first payment made on January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the Debt Service and related accounts held by the TTSTC.

There are various general and special covenants. The primary covenant, which exists as long as there

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

are outstanding Class 1 Public Securities and Administrative Expenses are incurred, states that in the event the Association's Projected Net Coverage Revenues are less than 1.25 times the Obligations due in the next calendar year and 1.25 times the estimated amount of Administrative Expenses due in the next calendar year the Association will undertake a plan of action or actions necessary to meet the required Projected Net Coverage Revenues. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the Operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the Net Premiums and Other Revenue held for the benefit of the Bondholders. The deposit account control agreement is activated upon default of certain debt covenants. As of December 31, 2019 and 2018, the Association is not in violation of these or any of the other various covenants.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption. The Association submitted a request to the Authority and the Commissioner of Insurance to make a partial redemption in the amount of \$45,000 with an anticipated redemption occurring in May 2020.

As of December 31, 2019 and 2018, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as a nonoperating expense and was \$28,343 and \$32,303 for the years ended December 31, 2019 and 2018, respectively, and is included in the statements of revenues, expenses and changes in net position. Interest expense of \$30,401 and \$34,204 was paid for the years ended December 31, 2019 and 2018, respectively. Interest payable was \$13,142 and \$15,201 as of December 31, 2019 and 2018, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2019 is as follows:

Description	Bonds Outstanding January 1, 2019	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2019
Taxable Series 2014	\$ 368,500	\$ -	\$ 49,900	\$ 318,600

Changes in borrowed money - bonds payable for the year ended December 31, 2018 is as follows:

Description	Bonds Outstanding January 1, 2018	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2018
Taxable Series 2014	\$ 414,600	\$ -	\$ 46,100	\$ 368,500

The aggregate maturities for the next five years and thereafter is as follows:

<i>Years ending December 31,</i>	Amount
2020	\$ 54,000
2021	58,500
2022	63,300
2023	68,600
2024	74,200
On Demand	-
	\$ 318,600

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### 9. Statutory Fund

In 1993, the Texas legislature created the CRTF. At the end of each year and pursuant to administrative rules, the Association shall deposit the statutory net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the CRTF and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the CRTF.

When an occurrence or series of occurrences in a catastrophe area occurs, the Association shall pay losses in excess of premium and other revenue of the Association from available reserves of the Association and available amounts in the CRTF. Administrative rules adopted by the commissioner of insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts (“comptroller”) administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in the TDI until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association’s Plan of Operation.

The CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the State of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2019 and 2018, statutory fund costs were \$52,641 and \$110,590, respectively, based on the direction of the TDI and based on its interpretation of the relevant statutes. The TDI’s directive required the Association to determine its net gain from operations based on catastrophe year losses, rather than calendar year reported losses. The Association is required to use the net gain from operations based on catastrophe-year incurred losses of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although amounts held in the CRTF are not presented as assets in the statutory statements of admitted assets, liabilities, surplus and other funds, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law.

For the years ended December 31, 2019 and 2018, the CRTF held \$122,496 and \$5,986, respectively.

In August 2017, Hurricane Harvey impacted the Texas coast and impacted the Association. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately \$1,700,000. The Act allows the Association to assess member companies relating to Class 1 member assessments up to \$500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

May 25, 2018 for \$175,000, a second Class 1 member assessment was approved on August 20, 2018 for \$106,820, and a third Class 1 member assessment was approved on January 10, 2020 for \$90,000 for a combined total of \$371,820. As of December 31, 2019, \$279,621 has been collected from the first two assessments. The third assessment was billed on February 13, 2020 of which all was collected as of April 1, 2020. One insurance group has disputed their participation of a 2018 assessment in the amount of \$2,199 as of December 31, 2019 and 2018. In 2020, the Commissioner of Insurance overturned a ruling such that the insurance group is not subject to the 2018 assessment. The amount uncollected will be reallocated to other carriers and will be billed or returned to such carriers at a future date. Further assessments will be made as needed as Hurricane Harvey paid loss development matures. As of December 31, 2019 and 2018, the negative net position of the Association is \$172,451 and \$267,746, respectively.

### 10. Depopulation

Effective December 1, 2019, pursuant to measures introduced in the 84<sup>th</sup> Texas Legislature in 2015, the Association implemented year four of the Assumption Program. 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies will automatically transfer to participating companies on June 1, 2020. Policyholders may choose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with this Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 will be settled at the end of the treaty period, June 1, 2020.

Effective December 1, 2018, pursuant to measures introduced in the 84<sup>th</sup> Texas Legislature in 2015, the Association implemented year three of the Assumption Program. 3,967 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 3,552 policies remaining as of December 31, 2018. Policies transferred to participating companies on June 1, 2019. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2019. In connection with this Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2018. Funds held by the Association under the Assumption Program as of December 31, 2018 were settled at the end of the treaty period, June 1, 2019.

As of December 31, 2019 and 2018, funds held by company under reinsurance treaties was \$179 and \$400, respectively, and is included in the statements of net position.

During 2019 and 2018, the Association recognized ceded written premiums of \$1,691 and \$1,893, respectively, as a result of the Assumption Program.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### 11. Employee Benefit Plans

#### Defined Benefit Plan

Plan Description. The Association is a participating employer in The Pension Plan for Insurance Organizations (PPIO) (the “Plan”) which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The PPIO is an agent multi-employer defined benefit pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations (c/o Greenberg Traurig, LLP). The authority to establish and amend the benefit provisions of the plans that participate in the multiple-employer pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations is assigned to the respective employer entities. For the Association, that authority rests with the Association’s Board of Directors. The Named Fiduciaries of The Pension Plan for Insurance Organizations issue publicly available information about the Plan that is prepared to comply with the Employee Retirement Income Security Act of 1974 (ERISA). That information may be obtained from the plan administrator, The Named Fiduciaries of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP, 200 Park Avenue, 20<sup>th</sup> Floor, New York, NY 10166.

Covered employees are the only class of employees covered under the pension plan and are employees who have completed 1,000 hours of service within a 12-month consecutive period. The benefits are paid based on specific events and in the form of a monthly benefit payment. A lump sum benefit is payable if its present value of the monthly benefit is less than \$20,000. The key elements of the pension formula consist of a percentage of average earnings multiplied by years and months of service. There are no automatic post-employment benefit changes or automatic cost of living adjustments affecting benefit payments.

Employees covered by benefit terms: As of December 31, 2019 and 2018, the following employees were covered by the benefit terms:

<i>December 31,</i>	<b>2019</b>	<b>2018</b>
Inactive employees or beneficiaries currently receiving benefits	<b>50</b>	46
Inactive employees entitled to but not yet receiving benefits	<b>62</b>	53
Active employees	<b>220</b>	223
<b>Total</b>	<b>332</b>	322

Contributions. PPIO members are not required to contribute to the Plan. The Association is required to contribute at an actuarially determined rate: the current rate is 15.34 percent and 14.45 percent of annual covered payroll for the years 2019 and 2018, respectively. The contribution requirements of plan members and the Association are established and may be amended by The Named Fiduciaries of the PPIO.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### Net Pension Liability

The Association's net pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

Actuarial assumptions. The total pension liability in the December 31, 2019 and 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

<i>December 31,</i>	<b>2019</b>	2018
Inflation	<b>3.00%</b>	3.00%
Salary increases	<b>2.50%</b>	2.50%
Investment rate of return	<b>5.50%</b>	5.50%

As of December 31, 2019, mortality rates were based on the Pri-2012 white collar mortality tables with separate employee, retiree and contingent annuitant rates, and the MP-2019 mortality improvement scale. As of December 31, 2018, the mortality rates were based on the RP-2014 mortality tables with the MP-2018 mortality improvement scale applied on a generational basis.

Long-term expected rate of return: The long-term expected rate of return on pension plan investments was determined using an expected geometric mean return and portfolio weighting method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The overall 20-year geometric mean portfolio real return is 2.8% and 2.5% during 2019 and 2018, respectively. The overall 20-year geometric median portfolio real return is 2.7% and 2.4% during 2019 and 2018, respectively. The overall 20-year geometric 75<sup>th</sup> percentile portfolio real return is 3.7% and 3.4% during 2019 and 2018, respectively. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension valuation assumes an annual inflation rate of 3.0%. The expected returns above assume passive investing and do not include any premium for active management.



# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2019 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	16.5%	4.41%
Mid cap U.S. equity	5.2%	4.41%
Small cap U.S. equity	2.6%	4.04%
Real estate	5.1%	3.12%
International equity	7.5%	4.41%
Fixed income	61.3%	1.35%
Cash	1.8%	0.64%
<b>Total</b>	<b>100.0%</b>	

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2018 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	19.1%	4.36%
Mid cap U.S. equity	6.3%	4.36%
Small cap U.S. equity	3.3%	3.97%
Real estate	4.9%	2.99%
International equity	8.6%	4.36%
Fixed income	57.0%	0.41%
Cash	0.8%	0.36%
<b>Total</b>	<b>100.0%</b>	

Discount Rate: The discount rate used to measure the total pension liability was 5.50 percent during 2019 and 2018. Willis Towers Watson used their firm's proprietary capital market assumptions as of January 2019 for the various asset classes, and applied those to the asset allocation of the PPIO as of January 1, 2019 to develop an overall average rate. As the Plan is a Qualified Plan under ERISA, the assumption has been made that the Plan will be sufficiently funded to pay benefits at all times. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There are no non-employer contributing entities and there are no employee contributions.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

*Changes in Net Pension Liability.* The Association's changes in net pension liability for the years ended December 31, 2019 and 2018 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, January 1, 2019	\$ 21,328	\$ 16,171	\$ 5,157
Changes for the year:			
Service cost	1,396	-	1,396
Interest	1,233	-	1,233
Demographic losses	317	-	317
Contributions - employer	-	2,360	(2,360)
Net investment income	-	3,702	(3,702)
Assumption changes	2,377	-	2,377
Benefit payments	(597)	(597)	-
Administrative expenses	-	(88)	88
Balance, December 31, 2019	\$ 26,054	\$ 21,548	\$ 4,506

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, January 1, 2018	\$ 19,065	\$ 15,597	\$ 3,468
Changes for the year:			
Service cost	1,378	-	1,378
Interest	1,109	-	1,109
Demographic losses	133	-	133
Contributions - employer	-	2,180	(2,180)
Net investment loss	-	(959)	959
Assumption changes	221	-	221
Benefit payments	(578)	(578)	-
Administrative expenses	-	(69)	69
Balance, December 31, 2018	\$ 21,328	\$ 16,171	\$ 5,157

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Association as of December 31, 2019 and 2018 calculated using the discount rate of 5.50 percent as well as what the Association's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.50 percent) or 1-percentage-point higher (6.50 percent) than the current rate:

	1% Increase (6.50%)	Current Discount Rate (5.50%)	1% Decrease (4.50%)
<i>December 31, 2019</i>			
Net pension liability	\$ 935	\$ 4,506	\$ 8,963

	1% Increase (6.50%)	Current Discount Rate (5.50%)	1% Decrease (4.50%)
<i>December 31, 2018</i>			
Net pension liability	\$ 2,337	\$ 5,157	\$ 8,659

Pension Plan Fiduciary Net Position: The pension plan's basic financial statements can be obtained from the Plan Administrator located at: The Managing Fiduciary of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP; 200 Park Avenue, 20<sup>th</sup> Floor; New York, NY 10166.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

*Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension:* For the years ended December 31, 2019 and 2018, the Association recognized pension expense of \$2,131 and \$2,157, respectively. During December 31, 2019 and 2018, the Association allocated pension expense of \$699 and \$870, respectively, to TFPA. Net pension expense included in underwriting expenses in the statements of revenues, expenses and changes in net position was \$1,432 and \$1,287 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>December 31, 2019</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 468	\$ 183
Changes in assumptions	3,171	69
Net difference between projected and actual earnings on plan investments	-	1,588
<b>Total</b>	<b>\$ 3,639</b>	<b>\$ 1,840</b>

<i>December 31, 2018</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 235	\$ 252
Changes in assumptions	1,418	84
Net difference between projected and actual earnings on plan investments	904	-
<b>Total</b>	<b>\$ 2,557</b>	<b>\$ 336</b>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<i>Years ending December 31,</i>	Amount
2020	\$ 181
2021	215
2022	413
2023	38
2024	475
Thereafter	477
	<b>\$ 1,799</b>

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### Defined Contribution Plan:

The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. The Association contributed \$949 and \$819 for the years ended December 31, 2019 and 2018, respectively.

### 12. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2019.

<i>Years ending December 31,</i>		<i>Amount</i>
2020	\$	1,036
2021		1,062
2022		1,088
2023		-
2024 and thereafter		-
	\$	3,186

Rental expense under the non-cancelable operating lease was approximately \$1,422 and \$1,453 for the years ended December 31, 2019 and 2018, respectively.

### 13. Commitments and Contingencies

The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

The Association has obtained a \$500,000 committed line of credit with two of its primary financial institutions during 2019. The line of credit agreement was entered into July 1, 2019 subsequent to the Association's board of directors approval on May 7, 2019. No amounts were drawn against the line of credit. Issuance fees for the committed line of credit were \$500 and the Association pays the lenders a 0.4% commitment fee against the unused portion of the line of credit. The commitment originally matured May 27, 2020, however the line of credit was terminated by the Association as of December 26, 2019 without penalty.

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

### 14. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately \$61,000,000 and \$64,000,000 of insurance exposure as of December 31, 2019 and 2018, respectively.

### 15. Fair Value Measurements

GASB Statement No. 72, Fair Value Measurement and Application, (“GASB Statement No. 72”) requires the Association to make estimates of the fair value for financial assets and financial liabilities based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Association’s significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Fair values are based on inputs using quoted prices (unadjusted) for identical assets or liabilities in active markets that can be accessed on the measurement date.
- Level 2 – Fair values are based on inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Fair values are based on unobservable inputs for an asset or liability.

The Association’s financial assets measured at estimated fair value on a recurring basis included cash as of December 31, 2019 and 2018 as follows:

- Cash of \$209,840 and \$274,607, respectively, is valued using quoted market prices (Level 1 inputs).
- Reverse repurchase agreements of \$82,016 and \$92,574, respectively, are valued using quoted market prices (Level 1 inputs).

# Texas Windstorm Insurance Association

## Notes to Financial Statements (Amounts in Thousands)

In accordance with GASB Statement No. 72, cash equivalents that were measured at NAV have not been classified in the fair value hierarchy. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV. The Association's financial assets measured at NAV included in cash equivalents as of December 31, 2019 and 2018 are as follows:

- Money market mutual funds of \$222,755 and \$288,946, respectively, are valued using NAV per share of \$1.

The Association has no financial liabilities measured at estimated fair value on a recurring basis.

### 16. Subsequent Events

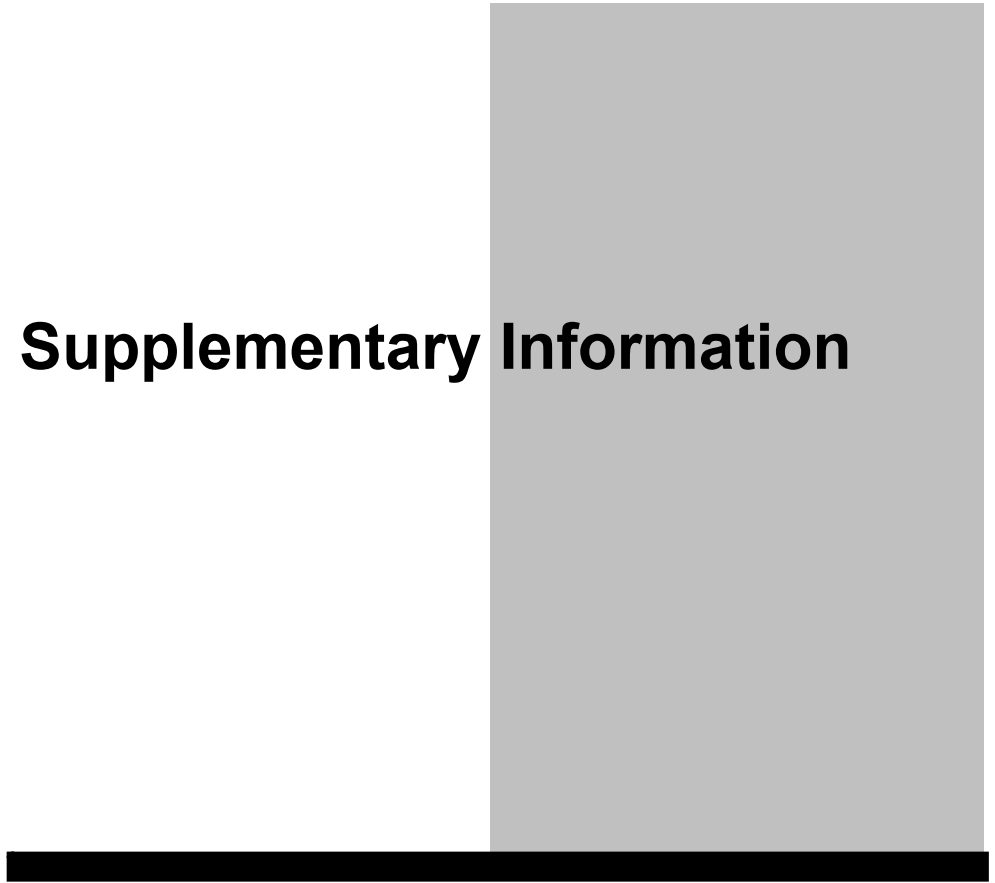
The Association has evaluated subsequent events occurring after December 31, 2019, the date of the most recent statements of net position through April 23, 2020, the date the financial statements were issued.

In June of 2019, the Association increased loss and loss adjustment expense reserves related to Hurricane Harvey in the amount of \$90,000. In accordance with the Texas Insurance Code Chapter 2210, the Association is permitted to assess member companies to fund these additional loss amounts with the approval of the Commissioner of the TDI ("the Texas Commissioner"). The Association recorded the member assessment revenue of \$90,000 and the related assessment receivable as of December 31, 2019 and received approval from the Texas Commissioner on January 10, 2020. The amounts from the assessment have been collected as of April 1, 2020 (see Note 9).

As discussed in Note 8 (Borrowed Money – Bonds Payable), the outstanding Texas Public Finance Authority Class 1 Revenue Bonds issued on behalf of the Association, are subject to optional redemption prior to maturity on or after July 1, 2019 at a redemption price equal to the principal amount of bonds to be redeemed plus accrued interest to the date of redemption. On February 18, 2020, the Association Board of Directors approved an early redemption in the amount of \$45,000 and directed Association staff to request approval from the Texas Commissioner. On February 24, 2020, the Association received approval from the Texas Commissioner to redeem the requested \$45,000 of bond principal. The redemption is anticipated to be completed during the second quarter of 2020.

The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the financial statements.

# **Required Supplementary Information**





# Texas Windstorm Insurance Association

## Schedules of Changes in Net Pension Liability and Related Ratios (Amounts in Thousands)

<i>December 31,</i>	2019	2018	2017	2016	2015	2014	2013
<b>Total pension liability:</b>							
Service cost	\$ 1,396	\$ 1,378	\$ 1,116	\$ 1,043	\$ 880	\$ 812	\$ 867
Interest	1,233	1,109	1,018	951	848	716	673
Plan amendments	-	-	-	-	398	-	-
Demographic losses (gains)	317	133	(105)	58	146	(455)	1
Assumption changes	2,377	221	(113)	1,046	481	728	-
Benefit payments	(597)	(578)	(506)	(511)	(428)	(360)	(276)
Net change in total pension liability	4,726	2,263	1,410	2,587	2,325	1,441	1,265
Total pension liability – beginning	21,328	19,065	17,655	15,068	12,743	11,302	10,037
Total pension liability – ending	\$ 26,054	\$ 21,328	\$ 19,065	\$ 17,655	\$ 15,068	\$ 12,743	\$ 11,302
<b>Plan fiduciary net position:</b>							
Contributions – employer	\$ 2,360	\$ 2,180	\$ 1,594	\$ 1,024	\$ 931	\$ 1,034	\$ 1,034
Net investment income (loss)	3,702	(959)	1,870	869	(134)	759	1,076
Benefit payments	(597)	(578)	(506)	(511)	(428)	(360)	(276)
Administrative expenses	(88)	(69)	(72)	(75)	(53)	(55)	(49)
Net change in plan fiduciary net position	5,377	574	2,886	1,307	316	1,378	1,785
Plan fiduciary net position – beginning	16,171	15,597	12,711	11,404	11,088	9,710	7,925
Plan fiduciary net position – ending	\$ 21,548	\$ 16,171	\$ 15,597	\$ 12,711	\$ 11,404	\$ 11,088	\$ 9,710
Net pension liability - ending	\$ 4,506	\$ 5,157	\$ 3,468	\$ 4,944	\$ 3,664	\$ 1,655	\$ 1,592
Plan fiduciary net position as a percentage of the total pension liability	82.71%	75.82%	81.81%	72.00%	75.68%	87.01%	85.91%
Covered payroll	\$ 15,388	\$ 15,086	\$ 12,747	\$ 13,214	\$ 13,847	\$ 13,365	\$ 12,359
Net pension liability as a percentage of covered payroll	29.28%	34.18%	27.21%	37.41%	26.46%	12.38%	12.88%

*See accompanying independent auditors' report.*

# Texas Windstorm Insurance Association

## Schedules of Employer Contributions (Amounts in Thousands)

Date	Actuarial Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 2,360	\$ 2,360	\$ -	\$ 15,388	15.34%
2018	\$ 2,180	\$ 2,180	\$ -	\$ 15,086	14.45%
2017	\$ 1,594	\$ 1,594	\$ -	\$ 12,747	12.50%
2016	\$ 1,024	\$ 1,024	\$ -	\$ 13,214	7.75%
2015	\$ 931	\$ 931	\$ -	\$ 13,847	6.72%
2014	\$ 1,034	\$ 1,034	\$ -	\$ 13,365	7.74%
2013	\$ 1,034	\$ 1,034	\$ -	\$ 12,359	8.37%

*See accompanying independent auditors' report.*

## 6E4. Internal Control Letter

April 23, 2020

Board of Directors  
Texas Windstorm Insurance Association  
Austin, Texas

In planning and performing our audit of the financial statements of Texas Windstorm Insurance Association, (the "Association") as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the board of directors, and for filing with the Texas Department of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

*Calhoun, Thomson & Matza, LLP*

## 7. Actuarial

### 7A. Reserve Adequacy



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## MEMORANDUM

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REVIEW DATE: April 10, 2020

TO: Jerry Fadden, Chief Financial Officer

FROM: Xiuyu Li, Senior Actuary

RE: Reserve Adequacy as of March 31, 2020

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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 March 31, 2020.

The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of \$1.66 billion to \$1.77 billion. TWIA has selected to continue to record the Hurricane Harvey ultimate loss and loss adjustment expense at \$1.7 billion. The actual ultimate costs of Harvey may differ substantially from the selected \$1.7 billion. This variability arises from the assumptions we made regarding the adequacy of case reserves for 916 open claims, the potential impact of future re-openings of closed claims as of March 31, 2020 and the outcome of disputed claims. Even though TWIA has recorded the Hurricane Harvey estimate of ultimate loss and loss adjustment expenses at a level which I consider reasonable, there remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. The Actuarial team will continue to monitor current case reserve adequacy, current & future litigation/disputes and future re-openings to ensure all outstanding obligations are properly reserved.

As of March 31, 2020, TWIA carried \$154 million in total gross loss and loss adjustment expense reserves with \$62K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

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.

The complete actuarial analysis is available on request.

**MEMORANDUM**

DATE: April 15, 2020

TO: Jerry Fadden, Chief Financial Officer

RE: **Estimate of Ultimate Losses for Hurricane Harvey**

As of March 31, 2020, ultimate loss and loss adjustment expenses related to Hurricane Harvey were estimated to be in the range of \$1.67 to \$1.76 billion.

The following table outlines the details:

<b>Estimated Ultimate Loss &amp; LAE from Harvey</b>	<b>Low Estimate</b>	<b>High Estimate</b>
Paid Losses and Allocated Loss Adjustment Expenses	1,469,632,374	1,469,632,374
Paid Unallocated Loss Adjustment Expenses	105,504,599	105,504,599
Loss and Allocated Loss Adjustment Expense Case Reserves	57,451,789	57,451,789
Incurred But Not Reported Reserve	33,303,398	126,552,911
Estimated Ultimate Loss & LAE from Hurricane	1,665,892,159	1,759,141,672
<b>Selected Ultimate Loss &amp; LAE from Hurricane</b>	<b>1,700,000,000</b>	

The determination of an estimate of ultimate liabilities for Hurricane Harvey is unusually difficult due to the hurricane's unique nature. Consequently, such an estimate is subject to significantly greater than normal variation and uncertainty. The actual ultimate costs of Hurricane Harvey may differ substantially from the selected \$1.7 billion estimate due to variability arising from the assumptions we made regarding the adequacy of case reserves for 916 open claims, the potential impact of future re-openings of closed claims as of March 31, 2020 and the outcome of disputed claims. There remains a material risk of adverse development due to the large variability associated with outstanding and future disputed claims, including those claims subject to litigation. The selected estimate of ultimate loss and loss adjustment expenses is \$1.7B which is our best estimate of the expected cost of Harvey based on all the information known as of March 31, 2020.

XL

## 7B. Policy Count/Exposures



**Texas Windstorm Insurance Association**  
**Statistical Report**  
As of March 31, 2020



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	3/31/19	3/31/20	Actual	Percentage	3/31/19	3/31/20	Actual	Percentage	3/31/19	3/31/20	Actual	Percentage
Aransas	5,222	5,045	-177	-3.40%	1,748,886,980	1,673,829,131	-\$75,057,849	-4.30%	2,284,081	2,361,456	\$77,375	3.40%
Brazoria	33,344	30,270	-3,074	-9.20%	9,690,335,161	8,862,779,034	-\$827,556,127	-8.50%	12,321,352	11,451,555	-\$869,797	-7.10%
Calhoun	3,543	3,538	-5	-0.10%	924,392,768	940,927,245	\$16,534,477	1.80%	1,320,825	1,363,415	\$42,590	3.20%
Cameron	12,275	10,598	-1,677	-13.70%	3,230,803,373	2,959,991,586	-\$270,811,787	-8.40%	5,341,693	5,539,206	\$197,513	3.70%
Chambers	4,204	3,951	-253	-6.00%	1,354,059,364	1,297,613,910	-\$56,445,454	-4.20%	1,727,546	1,650,268	-\$77,278	-4.50%
Galveston	58,284	57,173	-1,111	-1.90%	19,104,058,762	19,148,756,718	\$44,697,956	0.20%	25,413,996	26,621,384	\$1,207,388	4.80%
Harris	3,349	3,366	17	0.50%	996,111,642	1,020,826,149	\$24,714,507	2.50%	856,147	888,625	\$32,478	3.80%
Jefferson	26,135	24,398	-1,737	-6.60%	6,069,373,842	5,701,145,878	-\$368,227,964	-6.10%	7,977,836	7,476,807	-\$501,029	-6.30%
Kenedy	15	16	1	6.70%	6,234,341	6,305,341	\$71,000	1.10%	18,072	18,936	\$864	4.80%
Kleberg	889	798	-91	-10.20%	192,611,506	179,517,372	-\$13,094,134	-6.80%	243,987	216,751	-\$27,236	-11.20%
Matagorda	4,518	4,253	-265	-5.90%	1,123,673,835	1,078,819,296	-\$44,854,539	-4.00%	1,475,981	1,456,086	-\$19,895	-1.30%
Nueces	38,997	37,309	-1,688	-4.30%	10,763,940,776	10,539,943,072	-\$223,997,704	-2.10%	13,320,671	13,101,359	-\$219,312	-1.60%
Refugio	339	335	-4	-1.20%	90,568,874	91,483,710	\$914,836	1.00%	122,996	123,613	\$617	0.50%
San Patricio	6,217	5,796	-421	-6.80%	1,675,149,035	1,560,188,183	-\$114,960,852	-6.90%	2,260,640	2,248,774	-\$11,866	-0.50%
Willacy	389	343	-46	-11.80%	91,929,768	84,673,038	-\$7,256,730	-7.90%	91,831	72,962	-\$18,869	-20.50%
<b>Total</b>	<b>197,720</b>	<b>187,189</b>	<b>-10,531</b>	<b>-5.30%</b>	<b>57,062,130,027</b>	<b>55,146,799,663</b>	<b>-\$1,915,330,364</b>	<b>-3.40%</b>	<b>74,777,654</b>	<b>74,591,197</b>	<b>-\$186,457</b>	<b>-0.20%</b>

**Texas Windstorm Insurance Association**  
 Quarterly Liability Report  
 As of March 31, 2020



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	107	107	129	129	288,061	288,061	213,508,094	5,116,105	332	616
Manufactured Home	25	25	27	27	37,263	37,263	5,183,978	0	100	102
Residential	990	990	1,032	1,032	2,036,132	2,036,132	1,455,137,059	120,146,455	4,613	4,868
<b>Total</b>	<b>1,122</b>	<b>1,122</b>	<b>1,188</b>	<b>1,188</b>	<b>2,361,456</b>	<b>2,361,456</b>	<b>1,673,829,131</b>	<b>125,262,560</b>	<b>5,045</b>	<b>5,586</b>
<b>Brazoria</b>										
Commercial	189	189	315	315	1,244,692	1,244,692	395,908,357	7,954,065	774	1,208
Manufactured Home	34	34	34	34	54,405	54,405	9,391,327	0	145	146
Residential	6,106	6,106	6,252	6,252	10,152,458	10,152,458	8,457,479,350	1,088,034,361	29,351	30,157
<b>SUM:</b>	<b>6,329</b>	<b>6,329</b>	<b>6,601</b>	<b>6,601</b>	<b>11,451,555</b>	<b>11,451,555</b>	<b>8,862,779,034</b>	<b>1,095,988,426</b>	<b>30,270</b>	<b>31,511</b>
<b>Calhoun</b>										
Commercial	37	37	87	87	238,556	238,556	102,119,237	1,888,035	190	391
Manufactured Home	11	11	11	11	17,217	17,217	3,883,134	0	67	68
Residential	614	614	746	746	1,107,642	1,107,642	834,924,874	69,086,169	3,281	3,638
<b>SUM:</b>	<b>662</b>	<b>662</b>	<b>844</b>	<b>844</b>	<b>1,363,415</b>	<b>1,363,415</b>	<b>940,927,245</b>	<b>70,974,204</b>	<b>3,538</b>	<b>4,097</b>
<b>Cameron</b>										
Commercial	162	162	318	318	3,363,356	3,363,356	1,028,702,735	5,575,250	586	1,198
Manufactured Home	7	7	7	7	9,425	9,425	2,166,444	0	50	50
Residential	1,953	1,953	1,980	1,980	2,166,425	2,166,425	1,929,122,407	204,389,674	9,962	10,183
<b>SUM:</b>	<b>2,122</b>	<b>2,122</b>	<b>2,305</b>	<b>2,305</b>	<b>5,539,206</b>	<b>5,539,206</b>	<b>2,959,991,586</b>	<b>209,964,924</b>	<b>10,598</b>	<b>11,431</b>

**Texas Windstorm Insurance Association**

Quarterly Liability Report

As of March 31, 2020



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	17	17	22	22	115,945	115,945	50,591,755	670,550	98	157
Manufactured Home	5	5	5	5	4,455	4,455	1,822,295	0	46	46
Residential	838	838	868	868	1,529,868	1,529,868	1,245,199,860	164,389,579	3,807	3,995
SUM:	860	860	895	895	1,650,268	1,650,268	1,297,613,910	165,060,129	3,951	4,198
<b>Galveston</b>										
Commercial	426	426	750	750	5,363,791	5,363,791	2,275,463,277	44,343,439	1,851	3,375
Manufactured Home	31	31	32	32	42,812	42,812	8,729,729	0	155	157
Residential	11,493	11,493	11,999	11,999	21,214,781	21,214,781	16,864,563,712	1,883,514,130	55,167	57,234
SUM:	11,950	11,950	12,781	12,781	26,621,384	26,621,384	19,148,756,718	1,927,857,569	57,173	60,766
<b>Harris</b>										
Commercial	8	8	8	8	68,769	68,769	34,348,825	476,130	55	97
Manufactured Home	0	0	0	0	0	0	135,300	0	4	4
Residential	631	631	647	647	819,856	819,856	986,342,024	126,742,527	3,307	3,383
SUM:	639	639	655	655	888,625	888,625	1,020,826,149	127,218,657	3,366	3,484
<b>Jefferson</b>										
Commercial	153	153	209	209	660,239	660,239	298,162,822	9,925,220	678	1,041
Manufactured Home	6	6	6	6	11,908	11,908	1,721,000	0	24	24
Residential	4,608	4,608	4,722	4,722	6,804,660	6,804,660	5,401,262,056	680,893,894	23,696	24,296
SUM:	4,767	4,767	4,937	4,937	7,476,807	7,476,807	5,701,145,878	690,819,114	24,398	25,361

**Texas Windstorm Insurance Association**  
 Quarterly Liability Report  
 As of March 31, 2020



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	1	1	5	5	13,292	13,292	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	1	1	4	4	5,644	5,644	5,610,900	35,400	15	29
SUM:	2	2	9	9	18,936	18,936	6,305,341	35,400	16	34
<b>Kleberg</b>										
Commercial	6	6	8	8	8,371	8,371	12,401,236	460,800	34	56
Manufactured Home	0	0	0	0	0	0	144,500	0	2	2
Residential	144	144	146	146	208,380	208,380	166,971,636	17,824,454	762	802
SUM:	150	150	154	154	216,751	216,751	179,517,372	18,285,254	798	860
<b>Matagorda</b>										
Commercial	38	38	53	53	114,900	114,900	82,092,706	2,001,585	180	281
Manufactured Home	4	4	4	4	6,816	6,816	1,238,907	0	19	19
Residential	851	851	887	887	1,334,370	1,334,370	995,487,683	101,281,632	4,054	4,206
SUM:	893	893	944	944	1,456,086	1,456,086	1,078,819,296	103,283,217	4,253	4,506
<b>Nueces</b>										
Commercial	403	403	669	669	2,249,237	2,249,237	1,373,131,103	36,752,504	1,792	3,282
Manufactured Home	1	1	1	1	1,500	1,500	824,000	0	18	18
Residential	7,239	7,239	7,520	7,520	10,850,622	10,850,622	9,165,987,969	1,026,480,077	35,499	36,746
SUM:	7,643	7,643	8,190	8,190	13,101,359	13,101,359	10,539,943,072	1,063,232,581	37,309	40,046

**Texas Windstorm Insurance Association**  
 Quarterly Liability Report  
 As of March 31, 2020



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	5	5	13	13	455	455	19,435,996	0	31	59
Manufactured Home	3	3	3	3	5,440	5,440	869,300	0	12	15
Residential	68	68	73	73	117,718	117,718	71,178,414	7,226,451	292	319
SUM:	76	76	89	89	123,613	123,613	91,483,710	7,226,451	335	393
<b>San Patricio</b>										
Commercial	66	66	121	121	326,856	326,856	102,796,701	3,867,281	240	421
Manufactured Home	5	5	5	5	8,294	8,294	1,512,606	0	23	23
Residential	1,171	1,171	1,248	1,248	1,913,624	1,913,624	1,455,878,876	169,806,508	5,533	5,753
SUM:	1,242	1,242	1,374	1,374	2,248,774	2,248,774	1,560,188,183	173,673,789	5,796	6,197
<b>Willacy</b>										
Commercial	5	5	14	14	14,242	14,242	12,915,063	98,550	29	57
Manufactured Home	1	1	1	1	1,000	1,000	208,000	0	4	4
Residential	46	46	51	51	57,720	57,720	71,549,975	5,158,073	310	340
SUM:	52	52	66	66	72,962	72,962	84,673,038	5,256,623	343	401
<b>Total All Counties</b>										
Commercial	1,623	1,623	2,721	2,721	14,070,762	14,070,762	6,002,272,348	119,129,513	6,871	12,244
Manufactured Home	133	133	136	136	200,535	200,535	37,830,520	0	669	678
Residential	36,753	36,753	38,175	38,175	60,319,900	60,319,900	49,106,696,795	5,665,009,383	179,649	185,949
SUM:	38,509	38,509	41,032	41,032	74,591,197	74,591,197	55,146,799,663	5,784,138,897	187,189	198,871

## 7C. Status of RFP for Actuarial Services

There is no exhibit for this topic

## 8. Internal Audit

### 8A. Internal Audit Status & Update



# MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association  
FROM: Bruce Zaret, Weaver - Internal Audit  
DATE: May 12, 2020  
SUBJECT: Status of Internal Audit Activities

---

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

➤ **Current Activities:**

Activity Description	Status
Vendor Management Analytics Audit	Report issued
Business Continuity/Continuity of Operations	Report issued
Accounts Receivable Audit	Report in final review
Underwriting Audit	Fieldwork complete
Reinsurance Audit	Fieldwork in progress
Database and Application Administration Audit	Fieldwork in progress

➤ **Upcoming Audits:**

Activity Description	Timing
Depopulation	Fieldwork to start May 2020
Financial Close and Reporting	Fieldwork to start May 2020
Information Security Audit	Confirmation of scope and fieldwork pending
Claims Processing	Fieldwork to start June 2020
Disaster Recovery	Fieldwork to start July 2020
Model Audit Rule	Fieldwork to start July 2020

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

## Texas Windstorm Insurance Association Rolling Three-Year Internal Audit Plan (2019-2021)

2019	
Process Area	Risk Rating
Risk Assessment	N/A
Model Audit Rule (light)	N/A
Claims Processing	High
Database and Application Administration	High
Vendor Management	High
BCP/Continuity of Operations (COOP)	Moderate
Accounts Payable and Expense Processing	Moderate
Human Resources Administration	Low
Accounts Receivable <i>Including Agent Commissions</i>	Low
Payroll	Low

2020	
Process Area	Risk Rating
Model Audit Rule (light)	N/A
Information Security	High
Reinsurance	High
Disaster Recovery	High
Communications	High
Legislative Action Implementation	High
Legal & Compliance	Moderate
Underwriting	Moderate
Depopulation	Moderate
Financial Close and Reporting	Moderate
Facilities and Services	Low

2021	
Process Area	Risk Rating
Model Audit Rule (light)	N/A
Risk Assessment	N/A
Application Development	Moderate
Information Technology Services	Moderate
Actuarial	Moderate
Executive Management, Management Planning & Reporting	Moderate
Taxes	Low
Cash Management	Low

## 9. Underwriting

### 9A. Operational Review Update



## MEMORANDUM

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DATE: April 22, 2020  
TO: John Polak, General Manager  
FROM: Denise Larzalere, Vice President Underwriting  
RE: Update on Underwriting Operational Highlights

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### First Quarter 2020 Highlights

- I. Service Results:
  - a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 98% processed within 10 days. Over 80% of new business and renewals are processed within 1 day. See Attachment A containing monthly detail.
  - b. Quality Assurance results on underwriting decisions continue to exceed established goals.
  - c. Telephone service response times continue to meet and exceed expectations. Service quality scores have also been in the meet's expectations category. Service observation (listening to phone calls and scoring them) is standard procedure. As an Association, the departments calibrate calls and have agreed upon service standards for telephone service.
  - d. Underwriting is operating below budget, largely due to managing headcount and maintaining a reduced number of physical inspections.
  
- II. Underwriting Activities of Note:
  - a. Legislative Implementation Program:
    - i. Underwriting continues to support implementation of required legislative updates. Last quarter saw the implementation of the new TWIA renewal process, which impacted policies effective beginning March 1, 2020. Early numbers indicate a substantial percentage of paid renewals were paid from the policyholder or mortgage company directly to TWIA (44% in March), with a lower lapse rate and earlier payment than through the standard process via agents.
  - b. TWIA Certificates of Compliance on Completed Improvements (WPI-8-Cs) status:



- i. See Attachment B containing the numbers (totals and by quarter) since program inception;
- ii. For the period of January 1, 2020 to March 31, 2020, we received 2,084 applications (WPI-3s);
- iii. Average turnaround time for the quarter is under six days;
- iv. Reroof is the number one reason (54% of certificates);
- v. Two engineer firms represent approximately one quarter (25%) of all applications;
- vi. Underwriting continues to assist with telephone calls regarding WPI-8-C status and to upload certificates into Policy Center.

III. Agency Compliance Audits:

- a. Audits were performed on 20 agents (200 policies) in the first quarter to verify compliance with the declination of coverage and flood insurance requirements. Two of the agents did not respond, and this has been escalated to management.
  - i. All 18 responsive agents (and 180 policies) were compliant with the requirement for proof of declination of coverage.
  - ii. Eight of the policies/properties selected for review required flood insurance and were compliant with this requirement.
  - iii. All 20 agents have an active property and casualty insurance license.



## Attachment A

### Monthly transaction detail

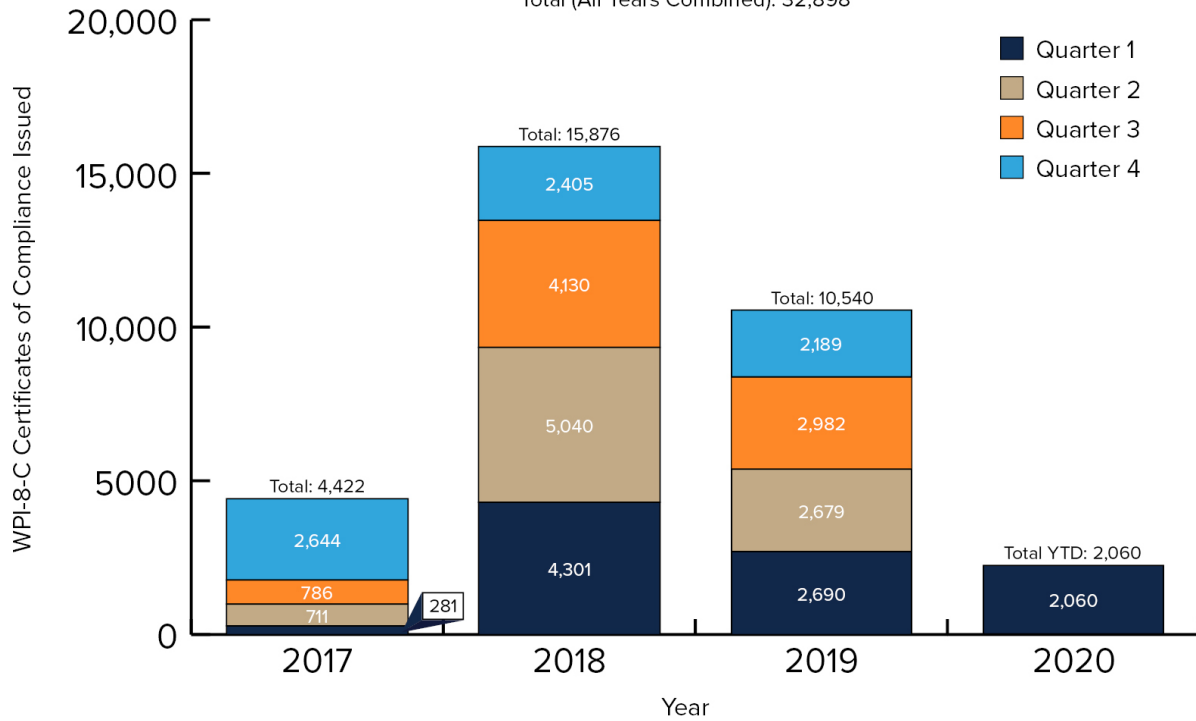
Processing Times	2020												Year to Date	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
<i>TWIA Res New Business</i>	100.0%	99.8%	99.3%	-	-	-	-	-	-	-	-	-	-	99.7%
		99.7%			-			-			-			
<i>TWIA Res Renewals (&lt;= 10 days)</i>	100.0%	100.0%	99.9%	-	-	-	-	-	-	-	-	-	-	100.0%
		100.0%			-			-			-			
<i>TWIA Res Endorsements (&lt;= 10)</i>	100.0%	100.0%	100.0%	-	-	-	-	-	-	-	-	-	-	100.0%
		100.0%			-			-			-			
<i>TWIA Res Cancellations (&lt;= 5 days)</i>	99.9%	99.4%	99.5%	-	-	-	-	-	-	-	-	-	-	99.6%
		99.6%			-			-			-			
<i>TWIA Com New Business</i>	96.3%	100.0%	95.3%	-	-	-	-	-	-	-	-	-	-	97.1%
		97.1%			-			-			-			
<i>TWIA Com Renewals (&lt;= 10 days)</i>	99.1%	100.0%	99.3%	-	-	-	-	-	-	-	-	-	-	99.4%
		99.4%			-			-			-			
<i>TWIA Com Endorsements (&lt;= 10)</i>	99.5%	100.0%	97.8%	-	-	-	-	-	-	-	-	-	-	99.2%
		99.2%			-			-			-			
<i>TWIA Com Cancellations (&lt;= 5 days)</i>	99.1%	98.8%	96.7%	-	-	-	-	-	-	-	-	-	-	98.2%
		98.2%			-			-			-			



## Attachment B

### Windstorm Certificates of Compliance on Completed Improvements

Total (All Years Combined): 32,898





## MEMORANDUM

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DATE: April 20, 2020  
TO: John Polak, General Manager  
FROM: Denise Larzalere, Vice President Underwriting  
RE: Recommendation regarding approved mailing methods for payments

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During a recent Agency Advisory Group (AAG) meeting the agents asked that TWIA investigate changing the approved mailing methods for payments. The current Plan of Operation states that the application is effective on the date the payment is received by TWIA unless the payment was sent:

- Registered or certified mail
- USPS Express mail
- Regular mail hand-canceled by USPS
- Other similar procedure approved by the Board

The concern of the agents is that with the new renewal process policyholders may not fully understand the mailing methods are very limited and specific. The staff is recommending updating the approved methods to include *any traceable method*. If the Board agrees to update the approved methods for mailing payments below is a resolution that the Board can adopt to implement the procedure.

“Based on staff recommendation, the TWIA board takes the following action and adopts the following resolutions:

Resolved, in accordance with statute and the association’s plan of operation, new, increased, or renewal coverage is generally effective on the date the application and payment are received by the association (or a later date if specified or logically applied due to an impending renewal date).





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TEXAS WINDSTORM  
INSURANCE ASSOCIATION

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Further Resolved, in the event the applicant/policyholder/agent wishes coverage (or an increase in coverage) to be effective on the date of mailing, then the mailing date will be used if the application and payment are: (i) actually received by the association; and (ii) sent using a traceable process that enables the association to verify the actual date of delivery of the application and payment to the common carrier or US Postal Service.

Further Resolved, the foregoing resolutions are subject to the limitation in the plan of operation of the association that no new or increased coverage applications will be accepted on the day (beginning at 12:01 a.m.) or after a windstorm designated as a hurricane by the United States Weather Bureau is in the Gulf of Mexico or within the boundaries of 80 degrees west and 20 degrees north latitude, as provided more fully in the association's plan of operation. In that event, the proof of mailing must demonstrate that the delivery was made to the common carrier or US Postal Service before such date for coverage to be effective at time of mailing."

## 10. Claims

### 10A. Claims Operations

# TWIA Claims Operations

Harvey Claims Storm	TWIA				
	082517 Harvey				
	TWIA Total	Commercial	Residential	Mobile Home	No Policy & Unverified
New Claims	76,698	2,671	68,523	342	5,162
Closed Claims	75,795	2,537	67,758	340	5,160
Open Inventory	903	134	765	2	2
RCC	0	-	-	-	-
% Closed	98.8%	95.0%	98.9%	99.4%	99.9%
Closed With Payment	47,541	1,573	45,708	260	-
% Closed With Payment	62.0%	58.9%	66.7%	76.0%	-
Closed Without Payment	28,254	964	22,050	80	5,160
Closed Without Payment	36.8%	36.1%	32.2%	23.4%	99.9%
Open With Payment	826	116	708	2	-
% Open With Payment	1.1%	4.3%	1.0%	0.6%	-
Open Without Payment	77	18	57	-	2
% Open Without Payment	0.1%	0.7%	0.1%	-	0.04%
Paid Indemnity	\$ 1,326,712,699	\$ 390,109,450	\$ 932,710,977	\$ 3,892,271	\$ -
Paid Expense	\$ 143,702,660	\$ 25,162,796	\$ 117,975,579	\$ 561,599	\$ 2,685
Average Paid	\$ 27,447	\$ 230,971	\$ 20,108	\$ 14,856	-
TDI Claims Complaints	293	12	281	0	0
Complaints as a % of All Claims	0.382%	0.449%	0.410%	-	-

(1) Data current as of: 03/31/2020

(2) Data from daily claims system extracts

(3) Does not include IBNR

(4) Dates of Loss for Harvey: 08/25 - 09/01/2017

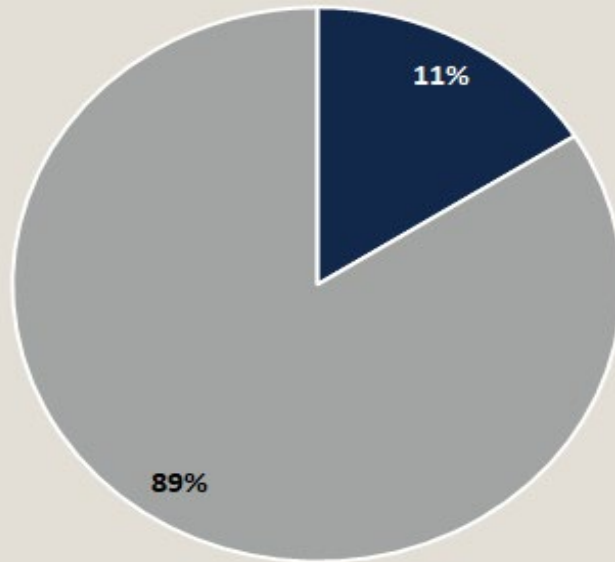
<b>TWIA - Harvey Disputed Claims</b>					
Dispute Frequency			Type of Dispute		
Total Claims	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
76,698	4,290	5.59%	4,084	1,118	470

<b>TWIA - Harvey Claims With Appraisal Invoked</b>						
Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped			
Appraisals	Active Appraisals	Appraisal Award	Suspended by Policyholder	Settled with Supplement	Withdrawn	Ineligible
4,084	99	812	233	1,966	561	413
	2%	20%	6%	48%	14%	10%

<b>TWIA - Harvey Claims With Notice of Intent or Lawsuit</b>				
Total Nol / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
1,588	1,118	525	470	41

\*Data as of 3/31/20. Appraisal in process includes anything wherein an appraiser is named, whether has been suspended by policyholder or not. Notice of Intent to Sue (NOIS) – at Claim Level. Suits – at Matter Level

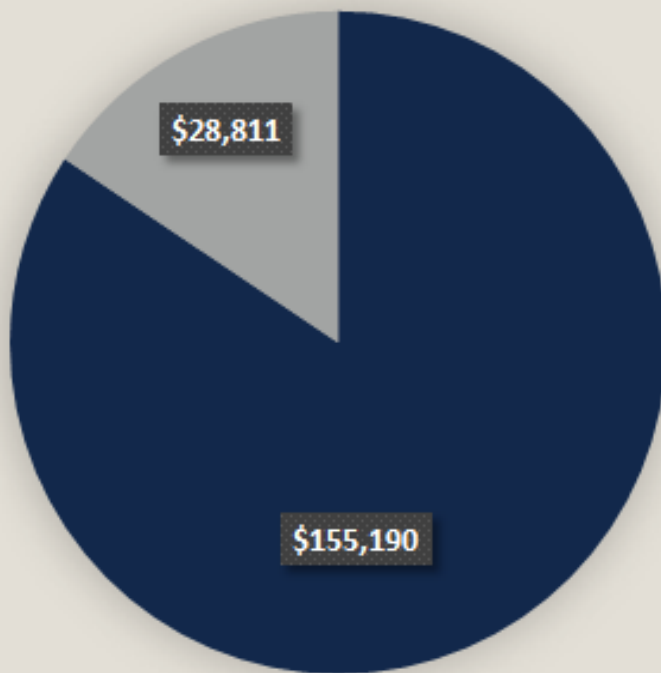
### Distribution of Harvey Appraisal Outcomes Represents 1.2% of All Harvey Claims



■ Active

■ Awarded

### TWIA Harvey Residential Claim Appraisal Data



■ Avg. Demand

■ Avg. Net Award

# 2020 TWIA Claims Operations

## TWIA Claims - 2020 Results (through Q1)

Key Cycle Times (In days)	Industry Average, TX	TWIA	TWIA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	4.4	2.8	<3	-0.2	-7%
Inspect Property to Receipt by TWIA	3.7	2.0	<8	-6.0	-75%
Total Cycle Time FNOL to Payment	N/A	8.3	<12	-3.7	-23%
<b>TDI Complaint Ratio</b>					
2019	0.60% - 40 complaints from 6,704 new claims				
2020	0.14% - 1 complaint from 714 new claims				

Year	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Actual Volume	520	468	517	416	1,366	589	358	357	1,223	707	289	191	312	197	205
Actuarial Projected	390	316	502	2,493	2,564	266	274	272	262	270	261	269	599	418	418
Median Staffing	273	273	273	273	273	273	273	273	273	273	273	273	417	417	417
Open Inventory	2,182	1,999	2,034	1,962	2,250	2,004	1,806	1,791	2,405	1,833	1,654	1,580	1,656	1,596	1,526

## 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	714

## TWIA Hurricane Events

Hurricane	TWIA Claims
Rita - 2005	11,583
Dolly - 2008	8,374
Ike - 2008	93,046
Harvey 2017	76,698

### TWIA - 2020 Claims

Total Claims	Claims With No Supplemental Payments	% Claims With No Supplemental Payments	Claims With Supplemental Payments	% Claims With Supplemental Payments
714	712	99.7%	2	0.3%

### TWIA - 2020 Disputed Claims

Total Claims	Dispute Frequency		Type of Dispute		
	Disputed Claims	% of Disputed Claims	Appraisals	Notice of Intent	Suits
714	7	0.98%	1	6	0

### TWIA - 2020 Disputed Claims With Appraisal Invoked

Total	Open/Pending	Appraisal Complete	Appraisal Process Stopped	
Appraisals	Active	Awarded	Withdrawn	Ineligible**
1	1	0	0	0
	100%	0%	0%	

### TWIA - 2020 Claims With Notice of Intent or Lawsuit Served

Total Nol / Suit	Notices of Intent Received	Notices of Intent Resolved	Lawsuits Received	Lawsuits Resolved
6	6	0	0	0

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

## 10B. Claims Litigation





## TWIA Litigation Tracking Activity

---

### Litigation Quarter Summary First Quarter 2020

1st Quarter 2020	Summary of TWIA Claims in Suit			
		New	Settled	Closed
	Jan	7	0	1
	Feb	3	0	12
	Mar	16	0	8
	26	0	21	

1st Quarter 2020	Summary of TWIA Claims with LORs			
		New	Settled	Closed
	Jan	14	0	2
	Feb	23	0	55
	Mar	15	0	22
	52	0	79	



## TWIA Claims Litigation March 2020

Mar-20	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	10	0	(2)	8
	HB3	460	16	(8)	468
<b>TOTAL</b>	<b>470</b>	<b>16</b>	<b>(10)</b>	<b>476</b>	

Mar-20	TWIA Claims with LORs				
	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	355	15	(22)	(12)	336
<b>355</b>	<b>15</b>	<b>(22)</b>	<b>(12)</b>	<b>336</b>	

Mar-20	TWIA Claims with Suits/LORs: Detail of Ending Inventory											
	Category	Active Unsettled Claims					Settled & Funded (Awaiting closing documents and final invoices)					GRAND TOTAL
		Suits		LORs		Total	Suits		LORs		Total	
		Res	Comm	Res	Comm		Res	Comm	Res	Comm		
Pre-HB3	2	6	0	0	8	0	0	0	0	0	8	
HB3	407	54	230	46	737	3	4	50	10	67	804	
<b>TOTAL</b>	<b>409</b>	<b>60</b>	<b>230</b>	<b>46</b>	<b>745</b>	<b>3</b>	<b>4</b>	<b>50</b>	<b>10</b>	<b>67</b>	<b>812</b>	



Mar-20	TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County				
	Firm	Chambers	Galveston	Jefferson	Total
	Buzbee	2	4	0	6
	Hodge Law Firm	0	1	0	1
	Mostyn	0	0	1	1
TOTAL	2	5	1	8	

Mar-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by County													
	Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Matagorda	Nueces	Refugio	San Patricio	Willacy	Grand Total
	98	21	10	18	2	98	11	195	4	215	9	55	1	737

Mar-20	TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	#
	Daly & Black	302
	Scott Law	58
	Carrigan & Anderson	43
	Furlow Law Firm	41
	Baker Law	35
	Brent Coon & Associates	18
	Omar Ochoa Law Firm	13
	Lundquist Law Firm	10
	Lindsay, Lindsay & Parsons	10
	Hodge Law Firm	9
	Crowell & Kucera	8
	Remaining 93 firms	190
	TOTAL	737

# 11. TWIA Operations

## 11A. IT Systems Updates

# Brief history of TWIA Program (Elevate)

- **December 2017**
  - Moved program out to mid-2020 on roadmap due to organizational focus on Harvey
- **December 2018**
  - Presented TWIA program benefits and initial estimates (without Inception when requirements are identified)
- **February 2019**
  - Board updated on progress. Inception scheduled to start February 2019
- **May 2019**
  - Board updated on progress and major capabilities to be supported
    - Installment billing
    - Credit Card support
    - New self-service portal for Agents
    - New self-service portal for Policyholders
- **August 2019**
  - Board updated on progress. Concluded Inception. Set to start Elaboration phase. Program named **Elevate**
  - Impact of Legislatively mandated changes to organization assessed and Elevate put on hold
- **December 2019**
  - Board update on plans and inception-based sizing
- **February 2020**
  - Start development on February 24<sup>th</sup>
- **May 2020**
  - PolicyCenter and Portals in Construction phase and development is underway
  - BillingCenter and Enterprise Data Warehouse development set to start in June

# Benefits of TWIA Program (Elevate)

- **Reduced Operational Expenses**
  - Conservatively ~28% compared to 2018 IT budget considering people, consulting
  - Potentially allows more to be contributed to the CRTF
- **New self-service portal for policyholders**
  - Improved service for policyholders, including installments (>2-pay), self-pay
- **New portal for agents**
  - Improved service for agents, including renewals and legacy portal must be retired
- **Reduced training overhead**
  - Single interface to applications, similar workflows
- **Better service to policyholders and agents**
  - Process efficiency within business. e.g. single/similar processes
  - E.g. Eliminate customer IT issues with rendering documents
- **Reduced recurring upgrade costs**
  - Single upgrade covers both associations
  - TWIA Policy Center, Billing Center now in extended support period with additional costs.
- **Easier and more efficient move to the cloud (additional savings in future)**
  - Guidewire intends future capabilities to be available only in the cloud

# Elevate Estimated IT Project Costs\*

Projects	Estimated Costs
Portals - CE	\$288,449
Portals - PE	\$1,847,400
Claims Center	\$676,732
Data Migration	\$1,197,652
Policy Center	\$5,237,145
Billing Center	\$2,528,491
EDW	\$2,366,462
<b>Project Total</b>	<b>\$14,142,330</b>
<b>Program Costs</b>	<b>\$1,150,000</b>
<b>TOTAL</b>	<b>\$15,292,330</b>

\*Assuming time bounded and feature bounded program to contain costs

# Elevate IT Operational Cost Savings Projection

	2018 Actual Expenses	Expenses after Elevate	Difference
IT Expenses	\$18,439,522	\$13,198,522	<b>(\$5,241,000)</b>
Headcount	66	54	<b>(12)</b>

IT expense savings from headcount reduction (contractors), services, misc licenses and consulting savings

Based on the 2018 actual of \$18,439,522 it would conservatively be a ~28% savings (\$5,241,000) and equates to a yearly budget of ~\$13,198,522.

Considering hardware, 2X upgrades (TWIA, TFPA) and other expenses there are opportunities for more long-term savings

Hardware – Reduced size and number of stacks, future hardware upgrades, etc. due to single instance

IT Ops – Reduced maintenance effort

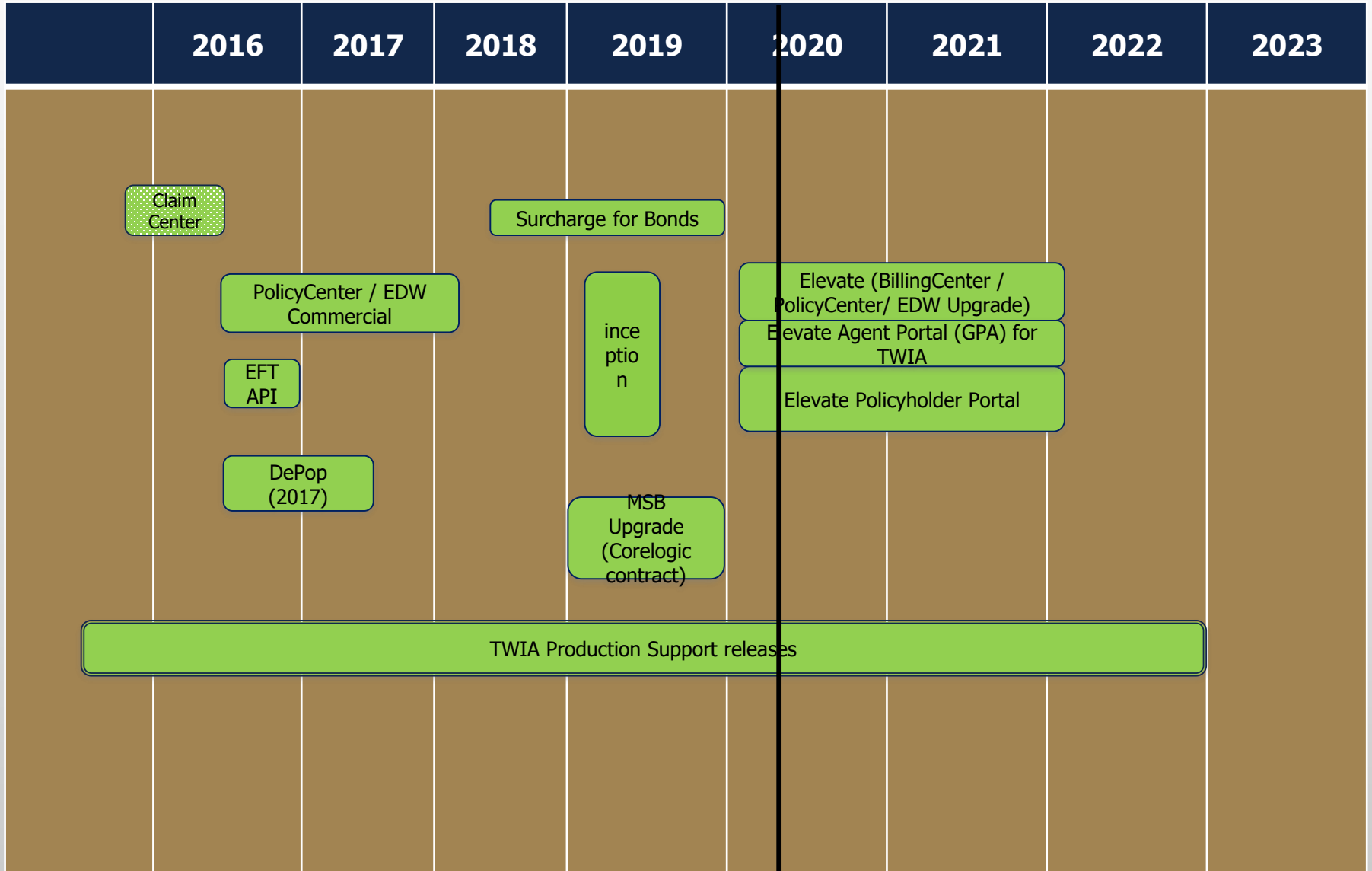
Consulting – additional savings from single change for 2 systems



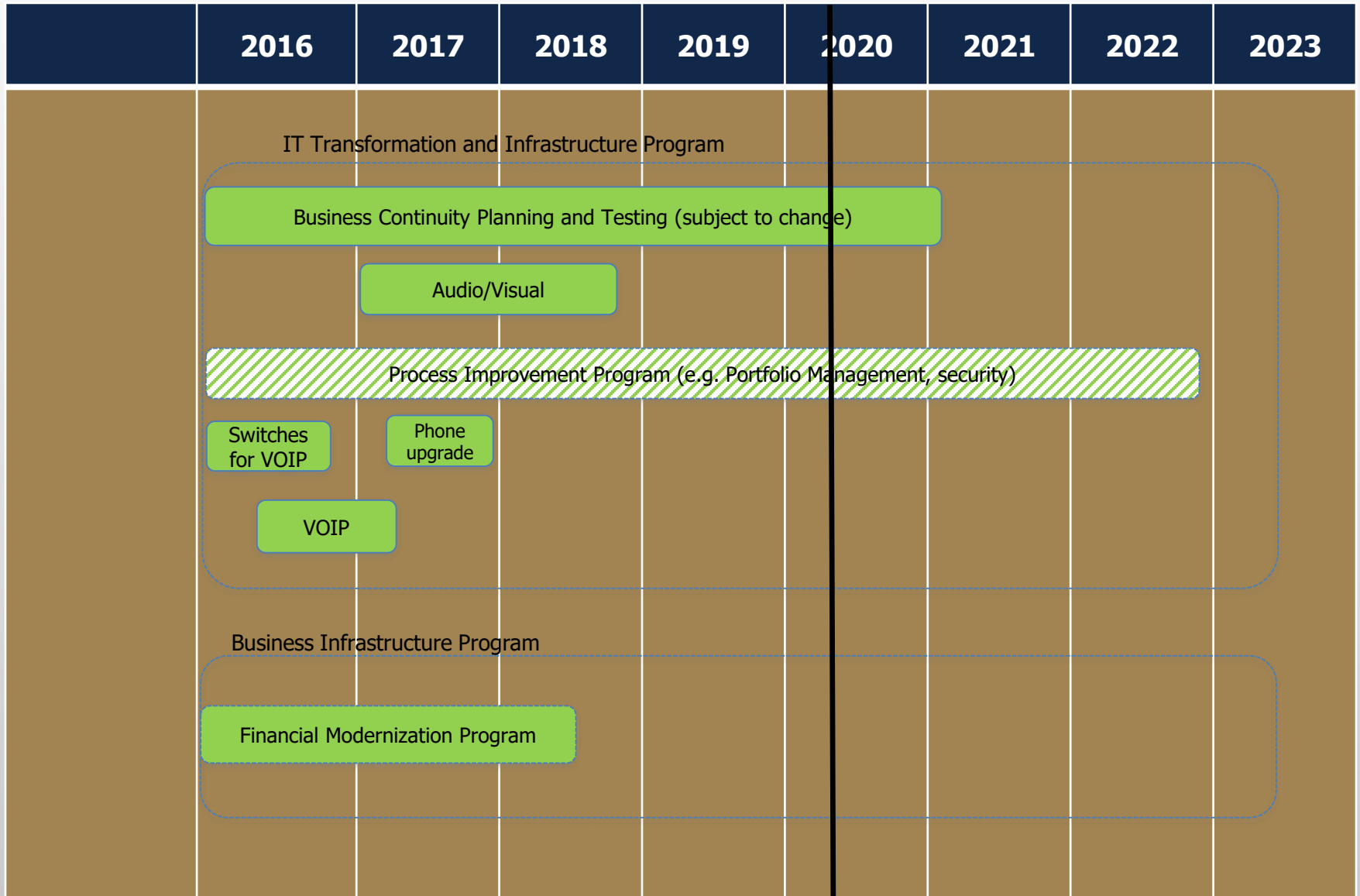
# Elevate IT Cost – Benefit Analysis

	Year 0 and 1 (Cost)/Benefit	Year 2 (Cost)/Benefit	Year 3 (Cost)/Benefit	Year 4 (Cost)/Benefit	Year 5 (Cost)/Benefit	Total Project (Cost)/Benefit
<b>Costs</b>						
IT implementation Costs	(\$15,292,330)	0	0	0	0	(\$15,292,330)
<b>Totals</b>	<b>(\$15,292,330)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(\$15,292,330)</b>
<b>Benefits</b>						
IT Expense reduction		\$5,241,000	\$5,241,000	\$5,241,000	\$5,241,000	
<b>Totals</b>		<b>\$5,241,000</b>	<b>\$5,241,000</b>	<b>\$5,241,000</b>	<b>\$5,241,000</b>	<b>\$20,964,000</b>
Annual (Cost) / Benefit	<b>(\$15,292,330)</b>	<b>\$5,241,000</b>	<b>\$5,241,000</b>	<b>\$5,241,000</b>	<b>\$5,241,000</b>	<b>\$5,671,670</b>
Total Project (Cost)/Benefit	<b>(\$15,292,330)</b>	<b>(\$10,051,330)</b>	<b>(\$4,810,330)</b>	<b>\$430,670</b>	<b>\$5,671,670</b>	

# TWIA IT Roadmap Projects



# TWIA IT Infrastructure Projects



## 11B. Depopulation

There is no exhibit for this topic

# 11C. Communications Update



## MEMORANDUM

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DATE: April 22, 2020  
TO: TWIA Board of Directors  
FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs  
RE: Communications & Legislative Affairs Operational Highlights

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State government and other Association stakeholders have largely focused on the pandemic situation, requiring the Communications & Legislative Affairs team to adapt some of our outreach activities in the last quarter. COVID-19 has also created a need for increased stakeholder communications (internal and external) to ensure Association employees have the information they need to work safely and effectively from home and key external stakeholders of the Association are aware of the measures we are taking to respond to and remain operational in response to the situation.

### I. COVID-19 Coronavirus Communications

- a) With the evolving COVID-19 crisis, much of our work in March focused on keeping legislators, agents, and other external stakeholders informed about our response. This ranged from updates about how the Association is transitioning to remote operations while remaining open for business, our temporary suspension of coastal outreach and business-related travel, and the temporary payment options available for policyholders financially impacted by COVID-19.
- b) CLA also partnered with Human Resources in developing communications to employees related to COVID-19 and the Association's response.
- c) CLA developed and hosted the Association's first-ever Virtual Town Hall with 224 Association staff in attendance. The event provided an opportunity for the Executive Leadership Team to share updates and connect with staff. We received positive feedback about the event and held a second virtual meeting in April, which was also well received. We plan to hold similar virtual meetings regularly during this period of remote work.

### II. Legislative & Regulatory Affairs

- a) In Q1 2020, we maintained contact with key legislative offices to act as a resource on Association operational questions, the TWIA Board and Committee meetings held during the quarter, and the Association's progress in implementing and complying with the new laws passed by the 86<sup>th</sup> Legislature. Beginning in March, we decreased legislative engagement efforts as legislative offices shifted their focus to responding to the public health and economic impacts of COVID-19 on their constituencies. *An exhibit listing the legislative and regulatory meetings attended in Q1 2020 is enclosed with this summary.*



- i. In January, the House Committee on Insurance met for a field hearing in Rockport to provide oversight on TWIA's implementation of House Bill (HB) 1900, enacted last year. We met with Committee staff prior to the hearing to ensure that the topics covered by our testimony were aligned with the Committees' expectations. TWIA was the only invited testimony and John Polak, David Durden and I registered to testify. John Polak provided a general overview of our planned testimony. I testified on TWIA's Hurricane Harvey response and the Association's compliance with the effective provisions of HB 1900, outlining our progress in implementing those provisions with upcoming effective dates. We also responded to questions from committee members and other coastal legislators present. Public comment was also facilitated at the hearing and consisted largely of negative comments on the Association's response to Hurricane Harvey. We obtained the list of those who made public comment and took notes during the hearing to evaluate any cases in need of follow-up.
- ii. We also held separate meetings in January with staff of the Governor's office, the House Insurance Committee Chair Rep. Eddie Lucio, III's office, the Senate Business and Commerce Committee, and inland member Rep. John Smithee's office to provide information about the status of our legislative implementation efforts and respond to questions about our operational activities.
- iii. We held our quarterly Board meeting materials briefing for interested legislative staff in advance of the February 18 TWIA Board meeting. The briefing was well attended by the offices of coastal legislators and key stakeholders of TWIA, including staff from TDI and House Speaker Dennis Bonnen's office. We focused our presentation on the major financial topics of interest, such as the potential early redemption of the Series 2014 bonds, the status of the Harvey member company assessments, and the Board's upcoming decision on reinsurance funding for the 2020 hurricane season. We also provided updates on the status of our legislative implementation program and TWIA claims from Hurricane Harvey. *Attendees at the briefing are listed in the exhibit of legislative and regulatory meetings for Q1 2020 enclosed with this summary.*
- iv. Following the Board meeting materials briefing, we met with Sen. Larry Taylor's Chief of Staff to follow-up on a constituent's claim inquiry and discuss conflict of interest concerns related to the Association's reinsurance modeling and purchase for our annual hurricane season funding.
- v. At their request, we provided the Office of Public Insurance Counsel (OPIC), for their review and feedback, copies of the recently filed policy form changes and policy change notices developed as required by last session's legislative changes. OPIC provided their feedback on the policy change documents at an in-person meeting in early March. At the meeting we also talked about the rate discussion that took place in 2019. OPIC expressed concerns about TWIA's use of hurricane modeling data and the Association's remaining





interest and principal payment on the Series 2014 bonds as well as their general questions about the accuracy of the rate adequacy analysis.

- vi. At the request of members of the coastal legislative delegation, TWIA postponed the planned meetings in March of the Legislative & External Affairs Committee and the Actuarial & Underwriting Committee. The legislators' requested the postponement of the meetings to later in the year as they focused their attention on the public health and economic impact of COVID-19. We plan to hold the rescheduled Legislative & External Affairs Committee meeting in May 2020; the rescheduled date of the Actuarial & Underwriting Committee has not been set.
- b) From January 1 through March 31, 2020, we received and responded to 16 legislative, three regulatory (TDI and OPIC), and three coastal/industry stakeholder inquiries (two from a State Farm agent and one from the Insurance Council of Texas (ICT)).
- c) We continue to provide recurring operational email updates to the Board, TDI, legislative staff, and coastal elected officials and stakeholders.

### III. Legislative Implementation Program

- a) Communications & Legislative Affairs continues to manage the Legislative Implementation Program by coordinating with Association project teams to ensure the deadlines of the legislative changes are met and providing change management support for the program's initiatives. The following program developments occurred in Q1 2020:
  - i. TWIA staff, including representatives from CLA, met with TDI to workshop language for a conspicuous notice in the policy form on the availability of supplemental payments. These changes are required to comply with provisions of Senate Bill (SB) 615.
  - ii. As required by SB 615, we conducted a Board training webinar in January for a Board member unable to attend the in-person training session at the December Board meeting. In April, we conducted a training for the two new Board members appointed in March.
  - iii. Final appointments to the two Legislative Oversight Boards mandated to conduct studies on TWIA during the interim were announced by the Lieutenant Governor in early March.
    - 1. The *Windstorm Legislative Funding and Funding Structure Oversight Board* will complete a study on making TWIA's funding structure more efficient and sustainable and produce recommendations for legislative action necessary to address problems with the current funding and funding structure of the association.
      - This Legislative Oversight Board may request testimony, reports, and other information to complete its study from TDI, TWIA, and experts, stakeholders, and other interested parties.



- Appointees to the Board are Sen. Kelly Hancock (Tarrant County); Sen. Juan “Chuy” Hinojosa (Nueces County); Sen. Larry Taylor (Galveston County); Sen. Charles Schwertner (Williamson County); Rep. Greg Bonnen, MD (Galveston County); Rep. Alex Dominguez (Cameron County); Rep. Todd Hunter (Nueces County); Rep. Eddie Lucio, III (Cameron County).
2. The *Windstorm Legislative Oversight Board* will conduct a study to evaluate a merger between TWIA and TFPA. Appointees to the Board are Sen. Kelly Hancock (Tarrant County); Sen. Lois Kolkhorst (Aransas County); Sen. Larry Taylor (Galveston County); Sen. Eddie Lucio, Jr. (Cameron County); Rep. Abel Herrero (Nueces County); Rep. Geanie Morrison (Aransas County); and Rep. Ed Thompson (Brazoria County).
  3. There has been no action from these Boards to date. We continue to monitor the situation and are prepared to work with these legislators when they begin their oversight activities. Based on our conversations with key staff, we understand that legislators are currently prioritizing issues related to the COVID-19 pandemic and have not formulated next steps forward for these Legislative Oversight Boards.
    - iv. We remain on track to comply with the deadlines of the seven remaining legislative provisions related to the Association, which will go into effect this year or in early 2021.
- b) TWIA sent five Agent Bulletins in Q1 2020 to TWIA agents advising them of various changes to our processes taking place due to the Legislative Implementation Program including windstorm certifications, the new policy renewal process, and policy form changes for conspicuous notice of the supplemental payments process. *Updated exhibits on the implementation of the specific provisions of HB 1900 and SB 615 enclosed.*

#### IV. Media Relations

- a) The volume of media coverage of TWIA declined significantly from the previous quarter, which had been dominated by the Board’s rate consideration process.
  - i. About half of media mentions were related to appointments to the two Legislative Oversight Boards. Other topics garnering a significant level of coverage were the Board’s deliberations on 2020 catastrophe funding and the RFP for actuarial services being considered by the Actuarial & Underwriting Committee.
  - ii. 80% of coverage in the quarter was positive or neutral, returning from the more negative coverage of the previous quarter, which had largely been focused on Association rates.
- b) CLA sent media alerts on appointments to the Legislative Oversight Boards and announcing information about the meetings of the Board and the Actuarial & Underwriting Committee.

## V. Agent Advisory Group

a) The Q2 2020 Agent Advisory Group meeting was held virtually on April 14 and focused on the status of our legislative implementation program, the Association's response to COVID-19, and operational updates on the 2020 hurricane season funding, Underwriting activities, and the depopulation program. All nine members of the AAG were present.

- i. **Temporary Payment Option:** Staff briefed the AAG on the temporary payment option implemented in response to the COVID-19 crisis. AAG members were agreeable with this approach to providing payment leniency to policyholders impacted by COVID-19. The group asked questions about operational details associated with the new payment process, including if policyholders receive an invoice for the remaining balance due after paying the initial 25% down payment and if policyholders could have their agent pay by EFT/ACH instead of check.

TWIA staff provided an email to the group after the meeting explaining that we implemented a solution that leveraged existing software code in order to quickly respond to policyholder needs during this crisis. The time constraints and use of existing code did not allow us to update our systems to produce an invoice with the remaining balance due or accommodate payments of the remaining balance of the initial 25% down payment by EFT/ACH. Because the installment project is due to be implemented no later than January 1, 2021, it is unlikely these items will be added prior to implementation of the legislatively mandated installment program.

The AAG suggested that policyholders be specifically notified that if they let their policy lapse due to nonpayment of the balance, if they want to get a policy through TWIA at a later date, it would be considered new business and would be underwritten as such.

- ii. **New Policy Renewal Process:** Staff briefed the AAG on the implementation of the new policy renewal process mandated by SB 615. Underwriting provided preliminary data for the first quarter of 2020 showing that policyholders who renewed directly with TWIA through the new process lapsed at a lower rate than those who renewed through their agent. However, staff explained that it is still too early in the process to know if that trend will continue and if the number of policyholders who choose to renew through their agent will increase or decrease. AAG members and staff discussed the timing of invoices, and agents suggested that sending reminders to policyholders about 35 days before lapse would be most effective. Staff discussed the applicability of this advice to the upcoming implementation of the Elevate program.
- iii. **Installments and Credit Card Payments:** Staff briefed the AAG on the ongoing implementation of installments and credit card payments for premiums as mandated by SB 615. Both legislative changes are due January 1, 2021. On installments, AAG members agreed with staff that a 50/50 two-pay installment plan was appropriate. The AAG expressed concern that some policyholders might be incentivized to avoid paying the



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TEXAS WINDSTORM  
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second premium installment if they believed they had avoided a potential claim from that year's hurricane season. The group discussed whether the requirement to have a policy re-underwritten might disincentivize this behavior.

b) The Q3 AAG meeting will be held in July.



## Q1 2020 Legislative & Regulatory Meetings

Legislative/Regulatory Office	Staff Member	TWIA Staff	Purpose
<b>January 2020</b>			
Governor's Office	Charles Miller	David Durden, Jennifer Armstrong & Anna Stafford	Met with Governor's policy staff to discuss December TWIA Board meeting, public comments, and the status of legislative implementation.
Rep. Eddie Lucio, III	Sergio Cavazos	David Durden, Jennifer Armstrong & Anna Stafford	Met with staff to discuss the outcome of the House Insurance Committee field hearing in Rockport the previous week.
Rep. John Smithee	Andrea Stingley	David Durden, Jennifer Armstrong & Anna Stafford	Met with staff to provide an overview of the major legislative changes and the status of legislative implementation.
Senate Business & Commerce Committee	Jarrett Hill	David Durden, Jennifer Armstrong & Anna Stafford	Met with staff to discuss December TWIA Board meeting, public comments, and appointments to the Legislative Oversight Boards.
<b>February 2020</b>			
Sen. Larry Taylor	Cari Christman	David Durden & Jennifer Armstrong	Discussed reinsurance and reinsurance modeling, conflicts of interest disclosures
<b>Attending Staff:</b> <ul style="list-style-type: none"> <li>Jesse Sifuentez, Speaker Dennis Bonnen</li> <li>Kenisha Schuster, TDI</li> <li>Bobby Joe Dale, Rep. Sarah Davis</li> <li>Molly Wilson, Rep. Ed Thompson</li> <li>Noah Fox, Rep. Alex Dominguez</li> <li>Miguel Liscano, Rep. Abel Herrero</li> <li>Tara Garcia, Sen. Brandon Creighton</li> <li>Cari Christman, Sen. Larry Taylor</li> </ul>		David Durden, Jennifer Armstrong, Jerry Fadden, Denise Larzalere, Dave Williams & Anna Stafford	Invited legislative staff from the Governor's, Lt. Governor's, and Speaker's offices and coastal and committee offices to the Q1 2020 TWIA Board Meeting Materials Briefing, focusing on the agenda items for which the Board was expected to take action: potential early redemption of the Series 2014 bonds, the status of the Harvey member company assessments, the Board's upcoming decision on reinsurance funding for the 2020 hurricane season. Also provided updates on the status of our legislative implementation program and TWIA claims from Hurricane Harvey.
<b>March 2019</b>			
Office of Public Insurance Counsel	Melissa Hamilton & Staff	David Durden, Jennifer Armstrong & Anna Stafford	Met with staff to discuss policy forms feedback, rates issues, and outreach.



# Legislative Implementation Program

## Provision Status as of April 22, 2020

Senate Bill 615			
Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Sunset Review</b>	2031	N/A	N/A
<p><i>Sec. 1. TWIA is subject to review under the Texas Sunset Act and shall be next reviewed during the period in which state agencies abolished in 2031 are reviewed.</i></p>			
<b>Proposal of Rules</b>	September 1, 2019	In Compliance	In Compliance
<p><i>Sec. 2. Authorizes TWIA to propose to the Texas Department of Insurance rules that govern TWIA's core operations and requires TDI to begin its review process within 30 days.</i></p> <ul style="list-style-type: none"> <li>• TWIA has not proposed any rules to TDI to date.</li> </ul>			
<b>Board of Directors Eligibility Requirements</b>	September 1, 2019	In Compliance	In Compliance
<p><i>Sec. 3. Restricts individuals (or their spouses) with certain interests in the property and casualty insurance business or certain relationships with TWIA from serving on the TWIA Board of Directors.</i></p> <ul style="list-style-type: none"> <li>• Board members are appointed by the Commissioner of Insurance.</li> <li>• A member serving on the Board immediately before the effective date of this bill may continue to serve on the Board for the remainder of the term to which the member was appointed.</li> </ul>			
<b>Board Training</b>	January 1, 2020	In Compliance	N/A
<p><i>Sec. 4. Requires TWIA to develop a formal training program for the Board of Directors. Board members cannot vote, deliberate, or be counted as a member in attendance at meetings until they have completed the required training and annually acknowledge receipt of a training manual provided by the Association.</i></p> <ul style="list-style-type: none"> <li>• All current TWIA Board members will have completed training prior to the May 12, 2020 quarterly meeting.</li> </ul>			
<b>Board Disclosures</b>	September 1, 2019	In Compliance	N/A
<p><i>Sec. 5. Requires TWIA Board and Actuarial &amp; Underwriting Committee members to disclose any potential conflicts of interest related to a vote or discussion prior to a vote.</i></p> <ul style="list-style-type: none"> <li>• TWIA has implemented a procedure by which TWIA Board and Committee members report potential conflicts to TWIA's legal counsel and those conflicts are disclosed at the beginning of each meeting.</li> </ul>			
<b>Policy Renewals</b>	January 1, 2020	In Compliance	N/A
<p><i>Sec. 6, 8. Streamlines the policy renewal process, allowing TWIA to offer policy renewals to and accept premium payment directly from policyholders.</i></p> <ul style="list-style-type: none"> <li>• The first renewal offer packages were mailed to TWIA policyholders beginning January 1, 2020 for policies effective March 1, 2020.</li> </ul>			

## Senate Bill 615

Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Policy Payments</b> <i>Sec. 8. Requires TWIA accept payment of premiums by credit card and provide policyholders the option to pay premiums in installments.</i> <ul style="list-style-type: none"> <li>TWIA will begin accepting premium payments from policyholders by credit card and in installments as required on or before January 1, 2021.</li> </ul>	January 1, 2021	On Schedule	N/A
<b>Supplemental Payments</b> <i>Sec. 9, 14, 15. Formalizes TWIA's supplemental payments process and requires TWIA policies to contain a conspicuous notice about the availability of supplemental payments, the supplemental payment process, and associated deadlines.</i> <ul style="list-style-type: none"> <li>TDI approved the required policy form changes on April 9, 2020; revisions to TWIA's claim notices have been completed and will be put into use as required by the law on or before July 1, 2020.</li> </ul>	July 1, 2020	In Compliance	TDI Rules Approved
<b>ITV Determination</b> <i>Sec. 10. Changes TWIA's determination of whether a claim will be paid at replacement cost value or actual cash value to the time of policy issuance rather than at the claim is filed.</i> <ul style="list-style-type: none"> <li>TWIA's new policy contracts reflecting this change have been approved by TDI and went into use on January 1, 2020.</li> </ul>	January 1, 2020	In Compliance	Policy Form/Endorsement Changes Approved
<b>Certificates of Compliance for Completed Improvements</b> <i>Sec. 11, 12. Transfers TWIA's program for the issuance of Certificates of Compliance for completed improvements to TDI with some modifications to the oversight and requirements of the program.</i> <ul style="list-style-type: none"> <li>TWIA is working closely with TDI to transfer administration of the program as required on June 1, 2020.</li> </ul>	June 1, 2020	On Schedule	Pending Rule Changes
<b>Rate Adequacy Analysis</b> <i>Sec. 13. Requires TWIA to make a rate adequacy analysis publicly available on TWIA.org 14 days before its Board of Directors votes on a proposed rate filing submission and requires public comment on the rate adequacy analysis be received at a public meeting of the Board of Directors prior to their vote on a proposed rate filing submission.</i> <ul style="list-style-type: none"> <li>TWIA posted its 2019 rate adequacy analysis on July 22, 2019 ahead of the August 6 Board meeting at which its required annual rate filing was considered.</li> <li>Public comments on the Association's rate adequacy analysis have been accepted in writing and in person at all applicable meetings of the Board of Directors and its Actuarial and Underwriting Committee since the law passed.</li> </ul>	June 10, 2019	In Compliance	N/A
<b>Assumption Reinsurance Depopulation Program</b> <i>Sec. 16. Requires TDI to change the rules for TWIA's assumption reinsurance depopulation program to eliminate any requirement for agents or policyholders to make depopulation decisions during hurricane season and reduces the policyholder opt-out period to no more than 60 days.</i> <ul style="list-style-type: none"> <li>TDI adopted the rules to implement this change on January 22, 2020. The new rules will apply to the fifth round of the program which is expected to occur at the end of 2020.</li> <li>TWIA plans to file amendments to the program with TDI in Q2 2020.</li> </ul>	March 31, 2020	On Schedule	TDI Rules Approved



TEXAS WINDSTORM  
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## Legislative Implementation Program

### Provision Status as of April 22, 2020

House Bill 1900			
Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Use of Premiums</b> <i>Sec. 1, 2. Requires TWIA pay for excess losses from funding sources, including the Catastrophe Reserve Trust Fund (CRTF), available before or accrued during the catastrophe year in which the losses occurred.</i> <ul style="list-style-type: none"> <li>Since this provision went into effect, the Texas coast has not experienced a storm requiring any expenditures on claims beyond that which TWIA can cover with current-year premiums.</li> <li>Losses and loss adjustment expense from Hurricane Harvey were paid from premiums earned in 2017 and before, the CRTF, Class 1 public securities, and member company assessments.</li> </ul>	June 10, 2019	In Compliance	N/A
<b>Emergency Board Meeting for Planned Member Company Assessment</b> <i>Sec. 3. Requires the TWIA Board of Directors to call an emergency meeting for the purpose of notifying member insurers if TWIA estimates its ultimate financial losses arising from a storm may require a member insurer assessment.</i> <ul style="list-style-type: none"> <li>TWIA announced a third potential member insurer assessment at its August meeting and approved submitting a request to the Commissioner of Insurance for a \$90 million member insurer assessment for losses from Hurricane Harvey at its December meeting.</li> <li>The Commissioner of Insurance approved the member insurer assessment on January 10, 2020, and TWIA is in the process of completing collection of the member insurers' assessment payments.</li> </ul>	June 10, 2019	In Compliance	N/A
<b>ITV Determination</b> <i>Sec. 4, 15. Changes TWIA's determination of whether a claim will be paid at replacement cost value or actual cash value to the time of policy issuance rather than at the time a claim is filed.</i> <ul style="list-style-type: none"> <li>TWIA's new policy contracts reflecting this change have been approved by TDI and went into use on January 1, 2020.</li> </ul>	January 1, 2020	In Compliance	Policy Form/Endorsement Changes Approved
<b>Certificates of Compliance for Completed Improvements</b> <i>Sec. 5, 6, 12, 13, 14. Transfers TWIA's program for the issuance of Certificates of Compliance for completed improvements to TDI with some modifications to the oversight and requirements of the program.</i> <ul style="list-style-type: none"> <li>TWIA is working closely with TDI to transfer administration of the program as required on June 1, 2020.</li> </ul>	June 1, 2020	On Schedule	Pending Rule Changes



## House Bill 1900

Legislative Change	Effective Date	TWIA Status	TDI Status
<b>Rate Adequacy Analysis</b> <i>Sec. 7. Requires TWIA to make a rate adequacy analysis publicly available on TWIA.org 14 days before its Board of Directors votes on a proposed rate filing submission and requires public comment on the rate adequacy analysis be received at a public meeting of the Board of Directors prior to their vote on a proposed rate filing submission.</i> <ul style="list-style-type: none"> <li>• TWIA posted its 2019 rate adequacy analysis on July 22, 2019 ahead of the August 6 Board meeting at which its required annual rate filing was considered.</li> <li>• Public comments on the Association’s rate adequacy analysis have been accepted in writing and at all applicable meetings of the Board of Directors and its Committees since the law passed.</li> </ul>	June 10, 2019	In Compliance	N/A
<b>Member Company Purchase of Reinsurance</b> <i>Sec. 8. Requires that TWIA’s purchase of reinsurance above its minimum required funding level (1-in-100 probable maximum loss) be paid for by an assessment on member insurers of the Association.</i> <ul style="list-style-type: none"> <li>• TWIA is awaiting TDI’s adoption of the rules related to this law change. Based on the Board’s setting of the 1-in-100 probable maximum loss for the 2020 hurricane season, we do not expect to assess member insurers for the Association’s purchase of reinsurance coverage this season.</li> </ul>	June 10, 2019	In Compliance	Informal Draft Rules Published
<b>Replacement Cost Coverage Claims</b> <i>Sec. 9. Formalizes the handling of replacement cost coverage claims, allowing 545 days for a policyholder to provide proof of repairs to recoup the recoverable depreciation on their claim while preserving the policyholder’s ability to request appraisal on the claim.</i> <ul style="list-style-type: none"> <li>• TWIA's claim notices include language as required to comply with this provision and policy forms are updated to reflect the law changes.</li> </ul>	January 1, 2020	In Compliance	Policy Forms Approved; TDI Rules Adopted
<b>Claim Deadline Extensions</b> <i>Sec. 10. Authorizes the Commissioner of Insurance, with good cause, to extend policyholder deadlines related to TWIA claims by any amount of time at his discretion and to extend claim deadlines applicable to TWIA by up to an additional 120 days.</i> <ul style="list-style-type: none"> <li>• TWIA has established an internal process to determine when to request that the Commissioner of Insurance extend deadlines under this provision.</li> </ul>	September 1, 2019	In Compliance	TDI Rules Adopted
<b>Funding Study</b> <i>Sec. 11. Creates the Legislative Funding and Funding Structure Oversight Board to submit a report by November 15, 2020.</i> <ul style="list-style-type: none"> <li>• TWIA is prepared to assist the Legislative Oversight Board in its deliberations.</li> </ul>	November 15, 2020	N/A	N/A
<b>Merger Study</b> <i>Sec. 14. Requires the Windstorm Legislative Oversight Board to evaluate a merger of TWIA and TFPA and submit a report by January 1, 2020.</i> <ul style="list-style-type: none"> <li>• TWIA is prepared to assist the Legislative Oversight Board in its deliberations.</li> </ul>	January 1, 2021	N/A	N/A

## 15. Future Meetings

August 4, 2020 – Tremont House –  
Galveston

December 8, 2020 – Omni Hotel –  
Corpus Christi