

November 30, 2012

To All Coastal Task Force Members

- As we have developed the Coastal Task Force Plan there were two primary goals: availability through affordability and a solvent Texas Windstorm Insurance Association (TWIA). All of the recommendations included, except for Alternative Certification & Depopulation, address these issues.
- **Availability**
- To achieve affordability, all the major expense items of TWIA were examined. The largest expense claims and their associated expenses account for 69% of TWIA premiums. Homes built to IRC standards since 2003 had 39.9% of the loss per policy, as compared to homes built prior to adoption of the Wind Resistant Code in 1999. Similar results have been shown in Florida. While the Coastal Counties are becoming more wind resistant with every structure that is being built or renovated to current standards, the plan calls for broader enforcement of building standards, strengthen current standards in cost efficient areas, and granting credits and incentives to structures that are retrofitted or built to a higher standard than required. These recommendations do not have an immediate large impact on claim expense, but over the long term could result in reducing premiums 33%.
- The second largest expense is reinsurance. Under TWIA's current financing, the Board is compelled to buy reinsurance to take TWIA's ability to pay claims from a 40 year storm up to a 60 year storm. Thirty percent (30%) of current TWIA premium is needed to purchase reinsurance. Based on the 40 years of storm history, TWIA will recover an average of 7.1% of premiums paid for reinsurance from storm claims. This makes the net cost of reinsurance 22.9% of current premiums. The discontinuation of purchase of reinsurance decreases the TWIA cost structure by that amount.
- In Hurricane Ike, TWIA was inundated with lawsuits. TWIA has spent \$70 million in legal costs in defense and settlement of claims to date, and an estimated \$320 million has gone to cover legal costs and fees incurred by the plaintiffs. This amounts to 15.6% of Ike claim expense. The HB 3 legislation passed in 2011 streamlines this procedure and should substantially reduce the litigation cost of claims in the future. The current effectiveness of HB 3 could be 10% of TWIA premiums, with that number reducing to 4% as the coast continues to build wind resistant structures, lowering overall claims expense. The plan considers HB 3 a practical remedy and calls for the extension to all Tropical Cyclone wind claims written in the Coastal Counties.
- Other cost savings that TWIA can achieve are; (suggest are to automate and streamline)
- Automating and streamline their operations. This would allow both a reduction in TWIA's internal expenditures and also lower the cost of agents writing TWIA policies. This (perhaps use would permit TWIA to) TWIA reduce commissions to the level of other Coastal Windstorm Residual Companies. The total cost savings could be up to five percent of current premiums, Adding a surcharge on policies that are dropped in less than one year without cause. Some policy holders "game" the system by only carrying Windstorm for the few months of prime storm season. This surcharge could result in a 3% increase in premium income to TWIA without any increase in exposure.



- **Funding**

- Currently, TWIA has the theoretical ability to access two billion dollars in bonds and 500 million dollars in assessments. In 2012, TWIA was told that it could only place \$500 million of the first \$1 billion of authorized bonds, giving TWIA a practical capacity of two billion rather than the \$2.5 billion authorized. TWIA had another estimated \$350 million in reserves and cash. During the 2012, TWIA could pay \$2.35 billion from these sources and another \$850 million from high cost reinsurance. The estimated cost of a single 100 year storm is \$4.5 billion. The Coastal Task Force plan creates \$7 billion in funding capacity, giving TWIA the ability to handle a 250 year storm and also a system to rapidly rebuild reserves in the event of multiple storms. The plan was stress-tested for the last 120 years of hurricanes that have struck the Texas Coastline, if exposure and premiums were the same as exist in 2011. At no time did the plan exceed its financing capacity.



A family of four is standing on a green lawn in front of a light-colored house. The father, wearing a dark blue t-shirt and jeans, stands on the right. The mother, wearing a light-colored top and dark pants, stands on the left, holding a young girl in a green dress. Another young girl in a brown top and blue skirt stands in front of them. An American flag is on the left, and a banana tree is on the right.

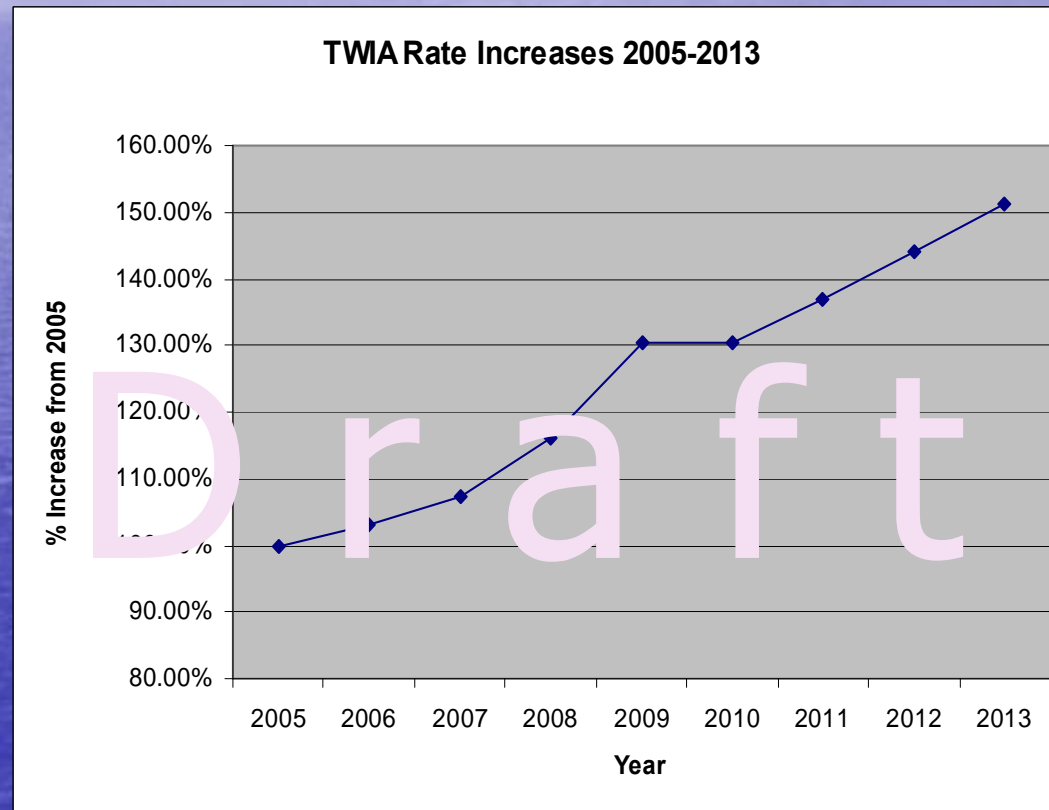
Coastal Task Force

Texas Windstorm Insurance Recommendations

Charlie Zahn, Chairman

12/11/2012

Windstorm Rates Raised 48% Since 2005



Coastal Task Force

- Funding Plan
- Windstorm Resistant Standards
- Claim Resolution
- Depopulation
- Board Composition
- Administrative Oversight
- Alternative Certification
- Wind Resistance Improvement Grants
- Other

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Coastal Task Force

Funding Plan

Goals

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- Long Term TWIA Solvency
 - Cover 250 Year Storm
 - Resilient CRTF
 - Cover 10 year storm 2 years after 250 year storm strike
 - Cover 20 year storm 4 years after 250 year storm strike
- Current Funding Level - 42 Year Storm



Funding Plan

CRTF* Funding

When the CRTF fund is less than 1.5% of TWIA Exposure

(\$1.1 Billion at current exposure level)

- CRTF Paid directly from TWIA Premium \$208 Million
- 14 Coastal County All Policy 3.9% Surcharge \$ 90 Million
\$3.90 additional per \$100 in Premium
- Insurance Industry Assessment \$100 Million
30 cents per \$100 in Premium
- TWIA Annual Surplus varies 0 - \$60 M

*Catastrophic Relief Trust Fund, Administrated by State of Texas



Funding Plan

CRTF Funding*

If CRTF greater than 1.5% of TWIA Exposure
(\$1.1 Billion)

20 year Storm cost \$1.2 Billion

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- CRTF Direct Payment formula:
 - TWIA assessment of 0.3% of exposure X
(10% of exposure – CRTF)/10% of exposure

*Catastrophic Relief Trust Fund, Administred by State of Texas



Funding Plan

Class A Level

\$1.5 Billion Total

Pro Rata Allocation if less than \$1.5 B

Issued after CRTF depleted (\$600 M – \$1400 M in 2015)

50 year storm cost \$2.7 Billion

- \$1 Billion Bonding
 - Paid out of CRTF Income Stream
 - CRTF Premium Surcharge
 - Industry Assessment
 - 14 Coastal County Assessment
 - TWIA Annual Surplus
- \$500 Million Assessment
 - Insurer Assessment



Funding Plan Class B Level

\$1.8 Billion Total (Total CRTF, Class A, Class B \$4.7 Billion 2015)

100 Year Storm Cost \$4.5 Billion

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- \$900 Million Bonding
 - 14 Coastal County Premium Surcharge
\$5.50 per \$100 in Premium – 10 Years
- \$900 Million Assessment
 - Insurer Assessment
\$2.73 per \$100 in Premium – One year



Funding Plan Class C Level

\$2.75 Billion Total (Total CRTF, Class A, Class B, Class C
\$7.45 Billion 2015)

250 year storm cost \$6.99 Billion

- \$2.750 Billion Bonding
 - Statewide Premium Surcharge
\$1.10 per \$100 in Premium – 14 years



Funding Plan Class D Level Unlimited

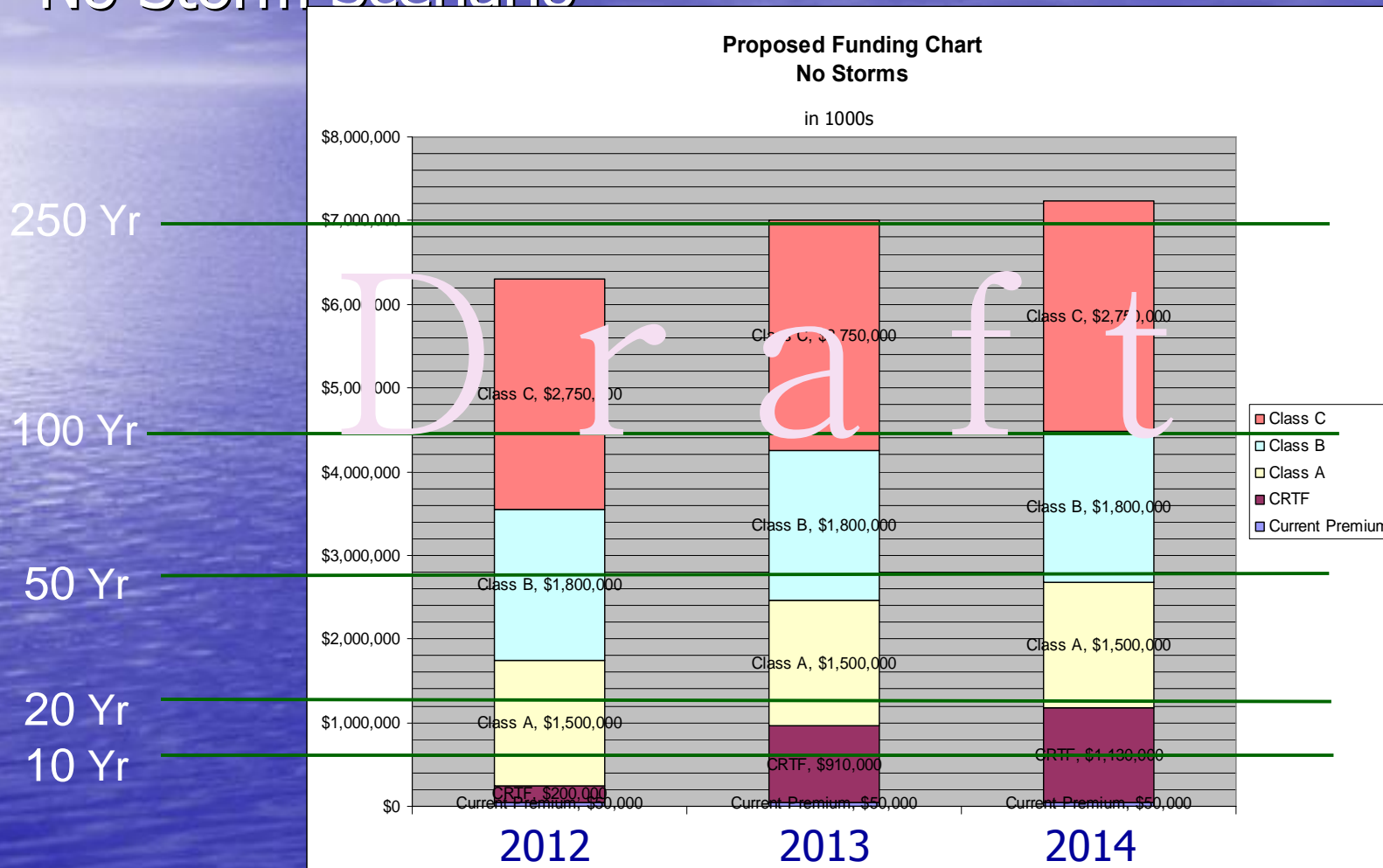
- Backed by State of Texas



Funding Plan

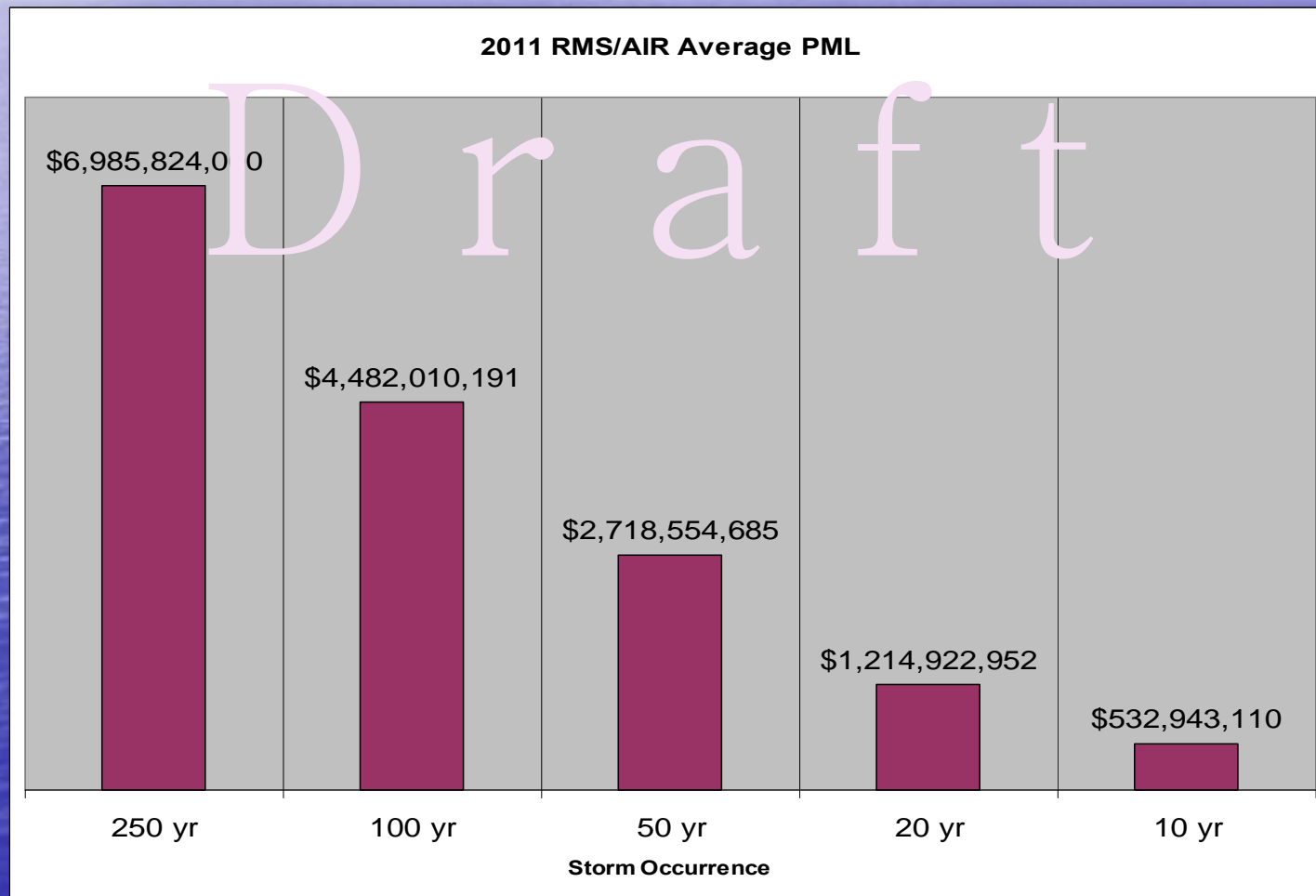
Funding Availability – 2014

No Storm Scenario



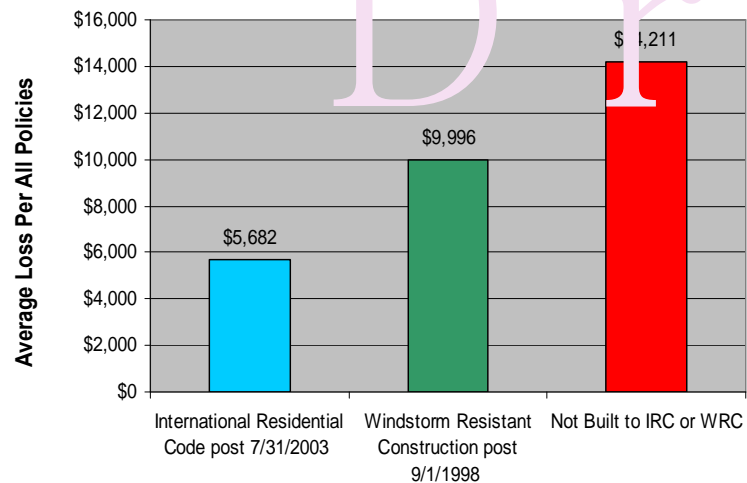
Funding Plan

Modeled Storm Loss Projections

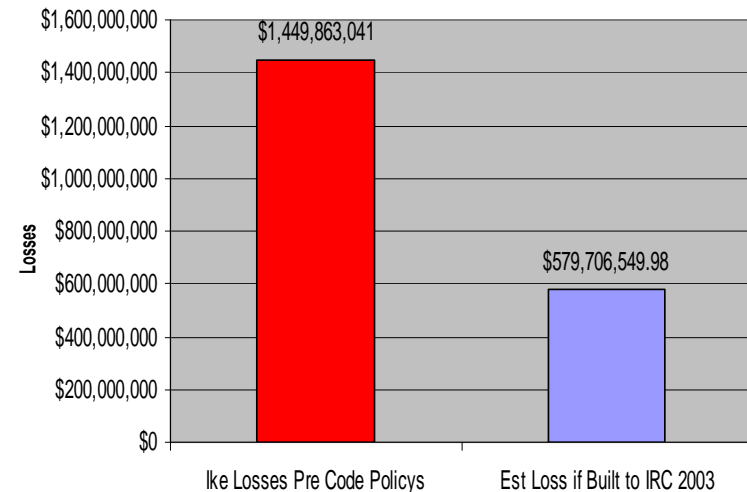


Windstorm Resistant Standards

**Ike Loss Experience
Residential Homes
Average Loss per Policy**



**Ike Loss Comparison
Residential Homes**



If all houses were built in such a substantial manner no one would fear It would be well in the future to prohibit the erection of flimsy structures ...

August 23, 1916 Corpus Christi Caller Times, in the aftermath of the 1916 Hurricane



Hurricane Celia 1970 Corpus Christi Naval Air Station

Courtesy Corpus Christi Caller Times

Windstorm Resistant Standards

- Require WPI-8's on all new Residential Construction
- Grant Coastal Counties Windstorm Standard enforcement authority
- Require 140 MPH* Seacoast**/130 MPH Inland Roofs***

* ASTM D7158 Class H, ACP, 140 MPH Metal Roof

** Seaward of Intercoastal Waterway

*** Current Standard 130/120/110 MPH

Hurricane Celia 1970 Corpus Christi
Naval Air Station

Courtesy Corpus Christi Caller Times

Claim Resolution

- Apply HB3 to all Wind Policies in the 14 Coastal Counties
 - One Year in Which to file claims
 - Alternate Dispute Resolution procedure prior to filing lawsuit
 - Claimant may be awarded twice actual damages



Depopulation

- Ceding
- Quota Share
- HB 3 Claim Procedure
- TWIA Policy Database
- Homeowner Policy attached to Wind Policy

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Board Composition

- 3 Industry
- 2 Coastal Agent
- 1 Financial Industry
- 1 Coastal Construction Industry
- 1 Coastal Local Public Official
- 2 Policy Holders – non-agent
- 1 Coastal Engineer

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Administrative Oversight

- Define requirements for release
- Monthly reports to TWIA board on release status and on going initiatives
- Quarterly reports on release requirement and status to Texas Legislature



Alternative Certification

- Extend Alternative Certification to September 1, 2016 for Policies less than \$400,000
- Allow certification residences built and inspected by municipalities built under WRC standards Prior to 2003 or IRC standards to present. Building code credits will not apply.



Home Fortification Grants/Credits

- Grant/Credit program for improving windstorm resistance in current homes.
 - Additional strapping
 - Wind-resistant window and door covering
 - High wind load roof
 - Secondary roof seal



Other

- TIWA & TDI

- Improve and automate new policy and renewal procedures
- Add surcharge for reinstatement of policies dropped without cause
- Create credits for residences built in excess of code or upgraded from current status (fortified homes - http://disastersafety.org/wp-content/uploads/FEH_HURR_designations_IBHS.pdf)
- Single Rate



Selected Links

- NOAA Chronological list of hurricanes
- http://www.aoml.noaa.gov/hrd/hurdat/All_U.S._Hurricanes.html
- Texas Hurricane History NOAA
- <http://www.hpc.ncep.noaa.gov/research/txhur.pdf>
- Fortified Homes
- http://disastersafety.org/wp-content/uploads/FEH_HURR_designations_IBHS.pdf
- Galveston 1915 Storm
- <http://www.gthcenter.org/exhibits/storms/1915/Manuscripts/19.html>
- Texas Windstorm Insurance Association
- <http://www.twia.org>
- Texas Department on Insurance
- <http://www.tdi.texas.gov/>
- Insurance Information Institute
- <http://www.iii.org>
- Property Insurance Plans Service Office
- <http://pipso.com>
- The Association of Bermuda Insurers and Reinsurers
- <http://www.abir.bm/>
- Florida Hurricane Catastrophe Fund
- <http://www.sbafla.com/fhc>
- Citizens Property Insurance Corporation
- <http://citizensfla.com/>
- North Carolina Insurance Underwriting Association
- <http://ncjua-nciua.org/>
- MISSISSIPPI WINDSTORM UNDERWRITING ASSOCIATION
- <http://www.msplans.com/mwua/>
- South Carolina Wind and Hail Underwriting Association
- <http://www.scwind.com/index.html>
- NAIC
- <http://www.naic.org/>

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