



TEXAS DEPARTMENT OF INSURANCE

333 Guadalupe, Austin, Texas 78701 ★ PO Box 149104, Austin, Texas 78714-9104
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August 20, 2018

Xiuyu Li, Actuary
Texas Windstorm Insurance Association
5700 South MoPac Expressway, Building A
Austin, Texas 78749

Via Email: xli@twia.org

Dear Ms. Li:

Attached is a copy of a request from the Office of Public Insurance Counsel for additional supporting information on the Texas Windstorm Insurance Association's 2018 annual rate filing (P-0818-09 and P-0818-10). We are sending the request under Insurance Code Section 2210.354.

Insurance Code Section 2210.354 requires TWIA to provide the information to the Commissioner not later than the fifth day after the date TWIA receives the request for additional supporting information. If you need additional time, you must submit a request to the Commissioner for his approval.

Sincerely,

A handwritten signature in cursive script that reads "Norma Garcia".

Norma Garcia
General Counsel
Texas Department of Insurance

CC: Jerry Fadden, Chief Financial Officer, TWIA jfadden@twia.org
Cindy Johnson, Manager, Legal & Compliance, TWIA cjohnson@twia.org

Norma Garcia

From: Ken Lovoy <klovoy@opic.texas.gov>
Sent: Friday, August 17, 2018 1:03 PM
To: ChiefClerk
Subject: TWIA Annual Rate Filing

To the Chief Clerk:

The Office of Public Insurance Counsel (OPIC) has a series of questions and requests for additional information related to the rate filings of the Texas Windstorm Insurance Association (TWIA) submitted on August 14, 2018. These questions relate to TWIA contracting expenses presumably included in the rates, repayment of outstanding Class 1 securities, and reinsurance issues.

The link below from the TWIA web site indicates payments to a number of insurance companies and agencies in 2017.

<https://www.twia.org/wp-content/uploads/2018/01/HB3-List-Final-2017-V2.pdf>

What contract services are provided by the agencies and companies shown?
How does TWIA decide which agencies or companies to contract with?
How is the compensation paid to these agencies and companies determined?
What controls does TWIA employ to determine invoices submitted by insurance agency and company contractors are reasonable and not excessive?
How are insurance company and agency contracting expenses categorized for ratemaking purposes? For example, LAE, general expenses, etc.

Regarding Exhibit 11, Sheet 1 of the filing:

How is the Outstanding Class 1 Public Security Repayment amount of 18.6% determined?
Please provide the bond amortization schedule and reconcile it to the 18.6%.

The TWIA funding structure exhibit distributed at the July 31 board meeting displays a box for 2018 indicating \$1.4 billion in Traditional Reinsurance and 2018 Catastrophe Bonds.

What portion of the \$1.4 billion is reinsurance and what portion is catastrophe bonds? In what order would each pay out in the event of a hurricane?

Does the reinsurance purchase in this layer provide funding in excess of the minimum loss funding threshold detailed in Texas Insurance Code 2210.453(b)?

Would the rates proposed in the filing, if adopted, require policyholders to pay for reinsurance that exceeds the minimum loss funding threshold detailed in Texas Insurance Code 2210.453(b)?

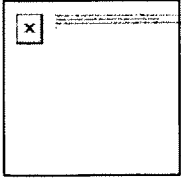
The following questions relate to repayment of the outstanding Class 1 securities:

11. Assuming no hurricanes and average non-hurricane losses, when would currently outstanding Class 1 securities be repaid:
 - a. if no rate increase were implemented on January 1, 2019?
 - b. if a 5% rate increase were implemented on January 1, 2019?

c. if a 10% rate increase were implemented on January 1, 2019?

For the above scenarios, assume rates remain constant after January 1, 2019.

If you have any questions about our request or need clarification, feel free to contact me. We appreciate your assistance in facilitating our review of the filings.



Ken Lovoy

Deputy Director | **Office of Public Insurance Counsel**

P: 512-322-4134 F: 512-322-4148

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If you have received this email in error, delete it without copying or forwarding it, and notify the sender of the error.



Xiuyu Li, ACAS, MAAA
Actuary

August 24, 2018

Norma Garcia
General Counsel
Texas Department of Insurance
333 Guadalupe Street
Austin, TX 78714-9104

RE: Request on Texas Windstorm Insurance Association Annual Rate Filing

Dear Mrs. Garcia

Attached is a copy of TWIA's responses to the request from the Office of Public Insurance Counsel for additional supporting information on the Texas Windstorm Insurance Association's 2018 annual rate filing (P-0818-09 and P-0818-10). We are providing information under Insurance Code Section 2210.354.

If you or your staff have any questions, or any further action is required on my part, please contact Jerry Fadden or me.

Respectfully,

A handwritten signature in black ink, appearing to read 'Xiuyu Li', is written above the printed name.

Xiuyu Li

CC: Victoria L. Ortega, Office of the General Counsel/Chief Clerk victoria.ortega@tdi.texas.gov

Elisabeth Ret Elisabeth.Ret@tdi.texas.gov

Texas Windstorm Insurance Association

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What contract services are provided by the agencies and companies shown?

- Agencies are authorized access to TWIA to submit an application for insurance on behalf of the applicant. Agencies are not contracted to provide services on behalf of TWIA and have no binding authority.
 - Texas Insurance Code 2210.202 (b) states, in part:
 - *A property and casualty agent must submit an application for initial insurance coverage on behalf of the applicant on forms prescribed by the association.*
 - Texas Administrative Code Rule 5.4001 (d) (2) (A) states:
 - *Forms. Any person having an insurable interest in insurable property located in a catastrophe area shall be entitled to apply to the association for catastrophe insurance in the manner provided herein. All applications for catastrophe insurance shall be made on forms prescribed by the board of directors of the association and approved by the Commissioner as provided in paragraph (1)(A) of this subsection. Such application forms shall contain a statement as to whether or not there are any unpaid premiums due from the applicant for insurance on the property. All applications shall be made on behalf of the applicant by a local recording agent.*

How does TWIA decide which agencies or companies to contract with?

- Any licensed Property & Casualty Agency/Agent may request authorization and access to TWIA systems to submit an application of insurance on behalf of a property owner/applicant. At the time of a request for authorization, the Association verifies the agency/agent has an active property & casualty license through the TDI licensing database. The Association audits each authorized agency/agent license status monthly utilizing TDI's licensing database and, if necessary, restricts access to TWIA.

How is the compensation paid to these agencies and companies determined?

- Commissions are paid to insurance agencies on a monthly basis and are system calculated as a percentage of the premium on the amount of coverage provided by an insurance policy written in any given month. In event of cancellation of a policy, or if an endorsement is issued which requires premiums to be returned to the insured, the agent shall refund commission on the unearned portion of premiums at the same rate at which commissions were originally paid.
- Texas Insurance Code Sec. 2210.203. (d) states:
 - *The commissioner, after receiving a recommendation from the board of directors, shall approve a commission structure for payment of an agent who submits an*

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application for coverage to the association on behalf of a person who has an insurable interest in insurable property. The commission structure adopted by the commissioner must be fair and reasonable, taking into consideration the amount of work performed by an agent in submitting an application to the association and the prevailing commission structure in the private windstorm market.

- Texas Insurance Code Sec. 2210.355. (g) states:
 - *A commission paid to an agent for a windstorm and hail insurance policy issued by the association must comply with the commission structure approved by the commissioner under Section 2210.203(d) and be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory.*
- Texas Administrative Code Rule 5.4001 (d) (2) (B) states:
 - *Local recording agent. Commissions to be paid to a licensed agent shall be a percentage of the premium produced as may be determined by the board of directors. In event of cancellation of a policy, or if an endorsement is issued which requires premiums to be returned to the insured, the agent shall refund ratable commission on the unearned portion of canceled liability and on reductions in premiums at the same rate at which commissions were originally paid.*

What controls does TWIA employ to determine invoices submitted by insurance agency and company contractors are reasonable and not excessive?

- A monthly test and reconciliation is completed by the Associations accounting department and annually an independent (outside) audit firm completes a test on commissions.

How are insurance company and agency contracting expenses categorized for ratemaking purposes? For example, LAE, general expenses, etc.

- Agent Commission is treated as Variable Expense for ratemaking purpose.

Regarding Exhibit 11, Sheet 1 of the filing:

How is the Outstanding Class 1 Public Security Repayment amount of 18.6% determined?

Please provide the bond amortization schedule and reconcile it to the 18.6%.

Class I Public Security Annual Debt Service repayment is \$80,304,500, Calculated 2019 prospective earned premium at present rate is \$431,390,335. 18.6% is derived as the ratio of \$80,304,500 to \$431,390,335.

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TEXAS WINDSTORM INSURANCE ASSOCIATION					
PRELIMINARY AMORTIZATION SCHEDULE- PRE EVENT CLASS 1 BONDS					
Date	TOTAL ALL TRANCHES				
	Principal Borrowed		\$500,000,000		
	Total	Payments Principal	Interest	Balance	Eff Rate
09/30/14				500,000,000	
01/01/15	9,779,467	0	9,779,467	500,000,000	7.738%
07/01/15	19,344,000	0	19,344,000	500,000,000	7.738%
01/01/16	19,344,000	0	19,344,000	500,000,000	7.738%
07/01/16	60,944,000	41,600,000	19,344,000	458,400,000	7.738%
01/01/17	18,252,000	0	18,252,000	458,400,000	7.963%
07/01/17	62,052,000	43,800,000	18,252,000	414,600,000	7.963%
01/01/18	17,102,250	0	17,102,250	414,600,000	8.250%
07/01/18	63,202,250	46,100,000	17,102,250	368,500,000	8.250%
01/01/19	15,200,625	0	15,200,625	368,500,000	8.250%
07/01/19	65,100,625	49,900,000	15,200,625	318,600,000	8.250%
01/01/20	13,142,250	0	13,142,250	318,600,000	8.250%
07/01/20	67,142,250	54,000,000	13,142,250	264,600,000	8.250%
01/01/21	10,914,750	0	10,914,750	264,600,000	8.250%
07/01/21	69,414,750	58,500,000	10,914,750	206,100,000	8.250%
01/01/22	8,501,625	0	8,501,625	206,100,000	8.250%
07/01/22	71,801,625	63,300,000	8,501,625	142,800,000	8.250%
01/01/23	5,890,500	0	5,890,500	142,800,000	8.250%
07/01/23	74,490,500	68,600,000	5,890,500	74,200,000	8.250%
01/01/24	3,060,750	0	3,060,750	74,200,000	8.250%
07/01/24	77,260,750	74,200,000	3,060,750	0	8.250%
	751,940,967	500,000,000	251,940,967		

Annual principle and Interest payment =

$$0 + 17,102,250 + 46,100,000 + 17,102,250 = 80,304,500$$

The TWIA funding structure exhibit distributed at the July 31 board meeting displays a box for 2018 indicating \$1.4 billion in Traditional Reinsurance and 2018 Catastrophe Bonds.

What portion of the \$1.4 billion is reinsurance and what portion is catastrophe bonds? in what order would each pay out in the event of a hurricane?

\$1 billion (71.43%) of the \$1.4 billion is placed in Traditional Reinsurance, and \$0.4 billion (28.57%) of the \$1.4 billion is 2018 Catastrophe Bonds. Each dollar of layer loss will be shared proportionally by Traditional Reinsurance (71.43%) and Catastrophe Bonds (28.57%).

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Does the reinsurance purchase in this layer provide funding in excess of the minimum loss funding threshold detailed in Texas Insurance Code 2210.453(b)?

Yes, about \$0.28 billion above the minimum requirement.

Would the rates proposed in the filing, if adopted, require policyholders to pay for reinsurance that exceeds the minimum loss funding threshold detailed in Texas Insurance Code 2210.453(b)?

Proposed rate increase is 10% for residential versus indicated 33%, proposed rate increase is 10% for commercial versus indicated 37%. Proposed rates are not enough to pay the expected expense incurred by the Association, including the cost of reinsurance that exceeds the minimum loss funding threshold.

11. Assuming no hurricanes and average nonhurricane losses, when would currently outstanding Class 1 securities be repaid:

a. if no rate increase were implemented on January 1, 2019?

Assuming 2018 and future cumulative underwriting profit is entirely used to pay off the outstanding class I securities versus being converted to CRTF fund

Q1, 2022

b. if a 5% rate increase were implemented on January 1, 2019?

Assuming 2018 and future cumulative underwriting profit is entirely used to pay off the outstanding class I securities versus being converted to CRTF fund

Q4, 2021

c. if a 10% rate increase were implemented on January 1, 2019?

Assuming 2018 and future cumulative underwriting profit is entirely used to pay off the outstanding class I securities versus being converted to CRTF fund

Q2, 2021

For the above scenarios, assume rates remain constant after January 1, 2019; assume TWIA premium decreases at annual rate of -7.3%; assume reinsurance cost decreases at annual rate of -4%; assume TWIA general expense level increases at annual rate of 1%.

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