

Rate Development Overview & Proposed Rates for Other Structures

Section I - Background

The Association currently offers coverage against windstorm and hail losses for appurtenant structures via a provision in its Residential Dwelling Policy. The policy limits the liability for other structures to 10% of the Coverage A (Dwelling) limit of liability and specifies that this is not additional coverage nor does it increase the Coverage A (Dwelling) limit of liability. There are related limitations spelled out in the policy (e.g., the Association does not cover certain items unless they are specifically listed on the declarations page, and it does not cover structures used for commercial purposes). From under-writing perspective, there are potential drawbacks to this framework, including the risk of a policyholder being underinsured in the event of a total loss, and the difficulty in specifically valuing each “other structure.”

In order to mitigate these issues, TWIA is proposing a new, **optional** endorsement to provide separate and additional coverage for other structures as an alternative to the current policy provision, which will also remain in place when the optional endorsement is not selected. If selected by an agent at application, the endorsement will enable the agent to select an additional amount of coverage for other structures in the aggregate, in increments of ten percentage points, up to fifty percent of the total limit for Coverage A. The endorsement brings visibility to this coverage for other structures that may mitigate potential confusion and frustration that arises when policyholders under the current framework encounter a large loss.

Section II - Covered Risk Items Descriptions

Once the endorsement is approved and implemented, dwelling residential outbuildings and other non-primary risk items, which are currently scheduled and rated individually, are expected to be covered by the other structure coverage through the endorsement. The following table illustrates the risk items likely to be covered by the endorsement form.

Class Description	Number of items in-force as of Feb, 2021
Dwelling residential Outbuildings	1,903
Farm & Ranch Dwelling Outbuilding (Excluding "Barn" Type Structures)	10
All Other Residential Structure Items	404
Total	2,317

Section III - Data and Data Adjustments

The rates, defined as premiums per \$1,000 limits, are derived from premium and limit data for the subject risk items as described in session II, which were written during 2018, 2019, and 2020.

TWIA’s current rates took effect on January 1, 2018, premiums written during 2018 – 2020 are naturally at TWIA’s present rates. Premium for any risk items with a policy term less than 12 months due to cancellations is restated to reflect the full-term (12 months) premium.

Section IV- Analysis and Rate Development

	Territory 8,9,10	Territory 1	All Territories
(1) Total Building Limits of Other Structures (PY2018-2020)	325,893,383	6,561,162	332,454,545
(2) Other Structure Risk Count (PY2018-2020)	7,111	108	7,219
(3) Total Premium at Present Rates Adjusted to full term (PY2018-2020)	2,324,226	34,936	2,359,162
(4) Indicated Premium Rate per \$1,000	7.13	5.32	
(5) Credibility Standard (risk count)	1082	1082	
(6) Credibility Factor	1	0.316	
(7) Complement of Credibility	NA	4.49	
(8) Credibility Weighted Premium Rate per \$1,000	7.13	4.75	
(9) In-force premium of Other Structures as of Feb 2021	767,074	10,257	777,331
(10) In-force premium of Other Structures as of Feb 2021 at Credibility Weighted Premium Rate	783,032	9,581	792,613
(11) Off-Balance Factor to Premium Level on Feb 2021			0.981
(12) Selected Premium Rate per \$1,000	6.99	4.66	

Notes:

- (1) - (3) TWIA data
- (4) = (3)/(1)*1000
- (6) = $\min(1, \sqrt{(2)/(5)})$
- (7) Selected as $0.629 \times \text{Territory 8,9,10 credibility weighted premium rate}$; 0.629 is ratio of rates in Territory 1 to rates in Territory 8
- (8) = $((4) \times (6) + (7) \times [1 - (6)]) \times 1000$
- (9) TWIA Data
- (10)=(9) is re-stated at (8)
- (11) = All Territories (9) / All Territories (10)
- (12) = (8)*(11)

Section V - Rates

Additional coverage for residential other structures may be provided at the per \$1,000 rate in the table shown below, regardless of deductible. The additional coverage is subject to a minimum of 10% of coverage A and a maximum of 50% of coverage A.

Coverage % of Coverage A	Territory 1	Territory 8,9,10
Min 10% to Max 50%	4.66	6.99

Section VI – Premium Impacts

The overall impact on premium written by the Association is expected to be 0. The expected impact on premium of an individual policy varies, which is illustrated by the following table.

Change as % of Primary Dwelling Premium	% Distribution
-50% to -40.01%	0.00%
-40% to -30.01%	0.00%
-30% to -20.01%	0.00%
-20% to -10.01%	0.01%
-10% to 0%	0.70%
No Change	98.82%
0% to 10%	0.39%
10.01% to 20%	0.07%
20.01% to 30%	0.01%
30.01% to 40%	0.00%
40.01% to 55%	0.00%
Total	100%