

August 23, 2024

Jim Murphy
Chief Actuary, Vice President – Enterprise Analytics
Texas Windstorm Insurance Association
4801 Southwest Parkway
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Austin, TX 78735

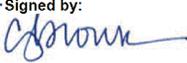
Via email: jmurphy@twia.org

Dear Mr. Murphy:

Attached is a copy of a request from the Texas Department of Insurance, Property and Casualty Division staff, for additional supporting information on the Texas Windstorm Insurance Association's 2024 annual rate filing (P-0123-05 and P-0123-06). We are sending the request under Insurance Code § 2210.354.

Insurance Code § 2210.354 requires TWIA to provide the information 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 me for approval.

Sincerely,

Signed by:


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Cassie Brown

Commissioner of Insurance

Under Texas Insurance Code 2210.354(a), TDI staff requests the following additional information regarding the 2024 annual rate filing submitted by the Texas Windstorm Insurance Association (TDI filing numbers S723754 and S723755).

TWIA Rating Rules Manual (Both Filings)

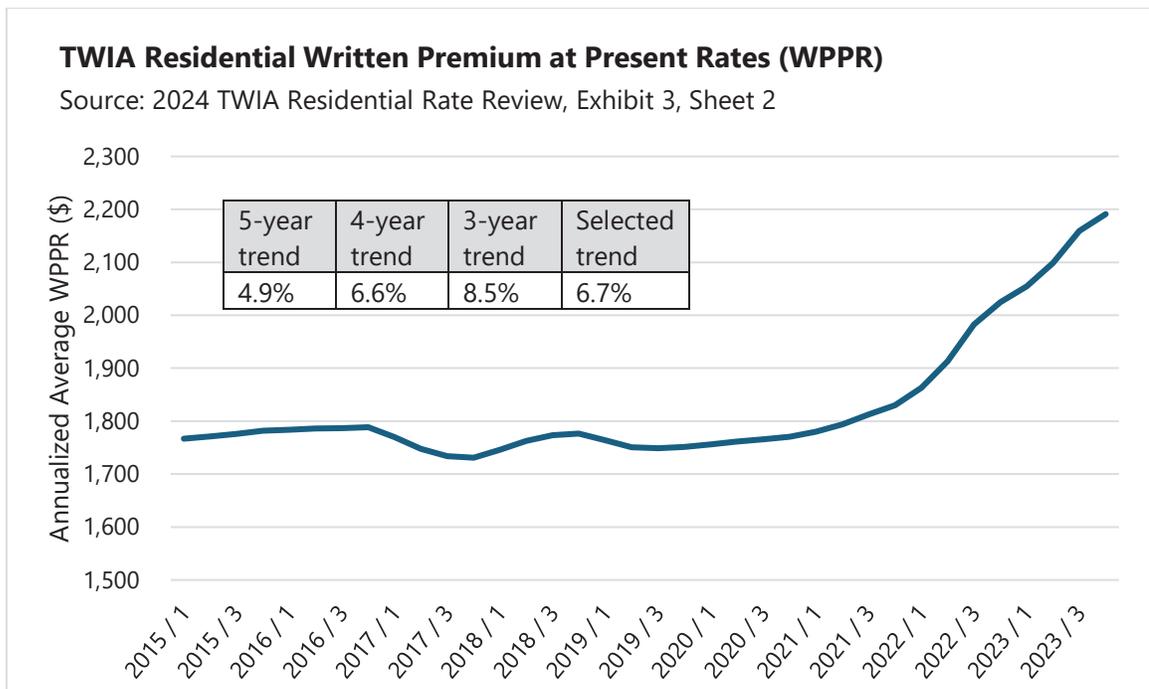
1. The redlined rate manual shows changes to several rating factors, including territorial multipliers. Please provide the rate order calculation for each coverage and explain how the changes shown in the redlined manual amount to a uniform 10% increase.

Loss Development Factors (Exhibit 2, Both Filings)

2. The indication uses implied loss development factors derived from TWIA’s paid and ultimate losses in Schedule P. Please provide a narrative and exhibit showing how the Schedule P ultimate losses were derived.

Premium Trend (Exhibit 3, Both Filings)

3. TWIA’s selected prospective premium trend of 6.7% for residential policies is the average of the 5-year, 4-year, and 3-year historical fitted trends for annualized average written premium at present rates through 2023. The chart below shows the data underlying these trends.

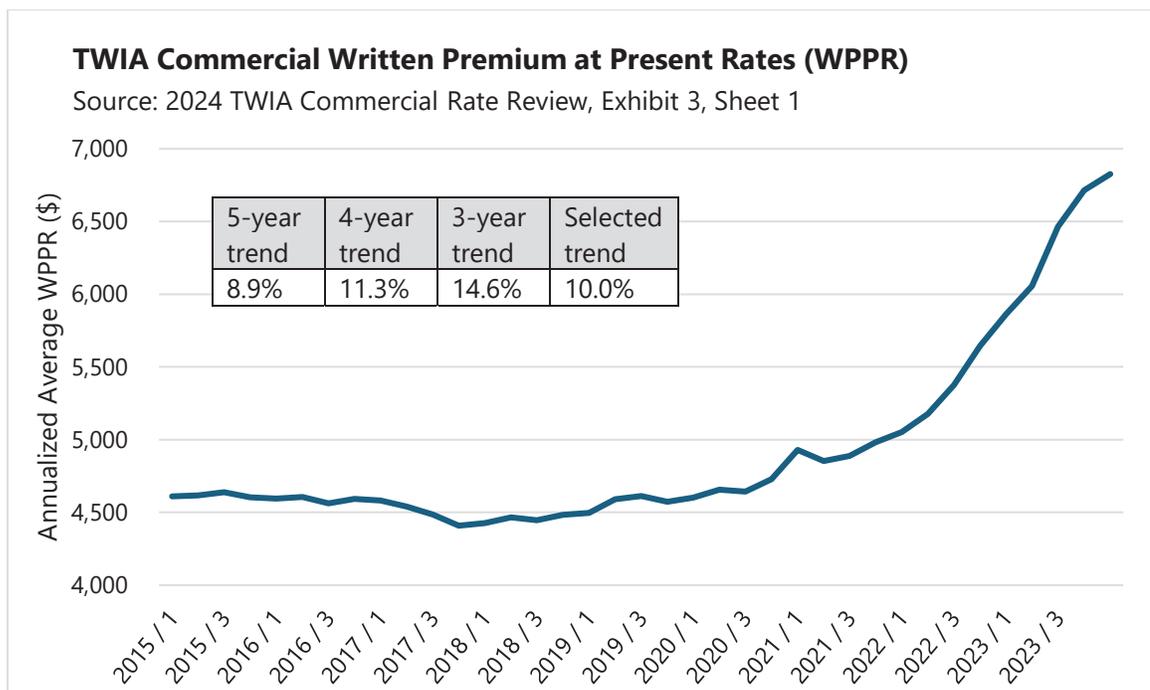


As shown in the chart, average written premium at present rates started to significantly increase in 2021. This increase is fully reflected in the 3-year trend but dampened in the 5-year and 4-year trends. If average premium continues to increase at the same (or higher) rate that it did starting in 2021, TWIA’s use of 5- and 4-year trends to select the premium trend may understate prospective premium levels.

Additionally, since the experience period used to develop the selected premium trend ends in 2023, it doesn’t reflect the impact of the 2024 Adjusted Building Cost (ABC) factor change, which will increase Coverage A limits by 12 to 13% for residential renewals effective on or after June 1, 2024 (unless the policyholder elects to reinstate the previous year’s limit). This change could sustain or accelerate recent increases in average premium.

Please provide the indicated rate change for residential using an alternate premium trend selection that gives more weight to short-term trends and reflects the expected impact of the ABC factor change.

4. TWIA’s selected prospective premium trend of 10.0% for commercial policies is lower than the average of the 5-year, 4-year, and 3-year historical fitted trends for annualized average written premium at present rates (WPPR) through 2023. The chart below shows the data underlying these trends.



Similar to residential policies, average premium for commercial policies has increased at a higher rate in recent years than in previous years. If average premium continues to increase at the rates seen in the 4- and 3-year trends, TWIA's selection of 10.0% may understate prospective premium levels.

Please provide the indicated rate change for commercial using an alternate premium trend selection that gives more weight to short-term trends.

Modeled Hurricane Losses (Exhibit 7, Both Filings)

5. The hurricane models use TWIA exposures in-force as of 11/30/2023. What date or period do the construction, repair, and labor costs used in the models reflect?
6. For each hurricane model, please provide the documentation TWIA relied upon with respect to Actuarial Standard of Practice No. 38 ("Catastrophe Modeling (for All Practice Areas)"), as described on page 1 of the residential and commercial rate review memos (pdf page 3).

General Expenses (Exhibit 10, Both Filings)

7. TWIA's General Expense ratio has been steadily decreasing.

	2021	2022	2023	Projected 2024
Direct Written Premium	395,112,773	518,299,032	653,043,231	815,861,000
General Expense	29,979,903	35,578,580	36,234,634	40,243,000
% of DWP	7.6%	6.9%	5.5%	4.9%

Source: 2024 TWIA Residential and Commercial Rate Review, Exhibit 10, Sheet 1

This trend indicates that increases in average premium have outpaced changes in General Expenses per exposure. Since average premium is expected to continue to increase at a significant rate (see items #3-4 above and Exhibit 3), especially with the ABC factor change, the General Expense ratio may continue to fall going into the prospective period.

TWIA's selected General Expense provision of 5.2% is the average of the 2023 and projected 2024 ratios. Since these ratios were calculated using untrended premium, they may overstate prospective expense levels.

Please provide the indicated rate change for residential and commercial using an alternate General Expense provision that considers premium trend and, if material, expense trend.

Net Cost of Reinsurance (Exhibit 10, Both Filings)

8. It's my understanding that premium ceded to TWIA's reinsurers is fully earned over the six-month hurricane risk period (i.e., June 1 to November 30), which would imply that TWIA's 2024 - 2025 reinsurance premium is earned between June 1, 2024 and November 30, 2024. This period ends before the rates in this filing will go into effect, if approved. How does TWIA consider this apparent mismatch in timing when determining the reinsurance expense to include in the indication?
9. Are there any provisions in TWIA's reinsurance contracts that adjust the premium up or down for changes in TWIA's exposures after the effective date of the contract? For example, if TWIA's exposures dropped 25 percent on July 1 (one month after the contract) is there an adjustment to the reinsurance premium? If the answer differs by reinsurance layer, please provide separate answers for each layer.
 - a. If there is such a provision, please explain how the provision works. If the answer differs by reinsurance layer, please provide separate answers for each layer.
 - b. If there is such a provision, how did TWIA consider this when determining the reinsurance expense to include in the indication?
10. Is the "2024 - 2025 Reinsurance Premium" amount in Sheet 2, line (1) the premium amount stated in the reinsurance contract? If it is not, please provide actuarial support for line (1). The support must begin with the premium stated in the contract and show the step-by-step calculations TWIA used to arrive at line (1). Describe all material assumptions used.
11. Is the "2024 - 2025 Reinsurance Premium" amount in Sheet 2, line (1) net or gross of broker's discount? If gross, what is the amount of the broker's discount?
12. Is the "2024 - 2025 Reinsurance Premium" amount in Sheet 2, line (1) net or gross of ceding commission? If gross, what is the amount of the ceding commission?

General (Both Filings)

13. In items #3, 4, and 7, we asked TWIA to calculate the indicated rate changes using alternate premium trend and General Expense selections. Please provide the indicated rate changes for residential and commercial if both of the alternate selections are used.