

July/August

2012

Interim Report Card



September 30, 2012

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To: Michael Gerik, Chairman
Georgia R. Neblett, Vice-Chairman
Alice H. Gannon, Secretary/Treasurer
Richard Clifton Craig
Steven Lawrence Elbert
William David Franklin, Sr.
Ron Lawson
Michael O'Malley
Eugene "Gene" Seaman
Edward James Sherlock

Re: *Bi-monthly Interim Report - Section 2210.107(b)*

House Bill 3 became effective on September 28, 2011, and pursuant to Tex. Ins. Code, Section 2210.107(b), please find the bi-monthly interim report ("Interim Report Card") evaluating the extent to which the Texas Windstorm Insurance Association ("TWIA" or "Association") has met the objectives described by Section 2210.107(a) for the two-month period immediately preceding the date of the report (July and August 2012). This is the sixth interim report card.

Should you have any questions, please feel free to contact me at (512) 899-4949.

Sincerely,



John W. Polak, CPCU
Interim General Manager

About This Report

In 2011, the 82nd Texas Legislature, 1st Called Special Session, passed House Bill 3 (“HB 3”), modifying various aspects of the operations of the Texas Windstorm Insurance Association (“TWIA”). Amendments to Tex. Ins. Code, Section 2210.107 directed TWIA to report bi-monthly to the TWIA board of directors and annually to the commissioner, the legislative oversight board, the governor, the lieutenant governor, and the speaker of the house of representatives to the extent that TWIA met the objectives in Section 2210.107(a). This interim report card has been developed to satisfy these reporting requirements.

The primary objectives of the board of directors are to ensure that the board and TWIA:

- (1) operate in accordance with this chapter, the plan of operation, and commissioner rules;
- (2) comply with sound insurance principles;
- (3) meet all standards imposed under this chapter;
- (4) establish a code of conduct and performance standards for association employees and persons with which the association contracts; and
- (5) establish, and adhere to terms of, an annual evaluation of association management necessary to achieve the statutory purpose, board objectives, and any performance or enterprise risk management objectives established by the board.

Sources of Data

The measures presented in this report card were created using data gathered from a variety of sources:

- Planning and expense data from the 2011/2012 TWIA Budget
- Statutory and GASB Accounting statements
- Claim and premium data from the TWIA Data warehouse
- Regulatory Filings with the Texas Department of Insurance

Executive Summary

This interim report card is intended to inform the TWIA board of directors how effectively the Association has complied with the requirements of Section 2210.107. These interim report cards will be provided every 60 days as required by statute and will culminate in an Annual Report Card issued each June.

The initial report cards established the standards of performance for the Association to be reported against in subsequent report cards. Additional standards have been and will continue to be added as appropriate and as approved by the board of directors. Each interim report card serves as a snapshot in time of Association compliance with the standards with respect to each of the objectives.

The Association believes it is in full material compliance with all current standards of performance which are outlined in each of the following sections. This is the sixth interim report card to be issued by TWIA since the enactment of House Bill 3.



OBJECTIVE ONE:

Operate in accordance with Chapter 2210, the plan of operation, and commission rules

This objective encompasses all the statutory requirements in TWIA's enabling statute, Chapter 2210, all the administrative rules in its plan of operation under Title 28 Texas Administrative Code, Chapter 5, Subchapter E, and other administrative rules adopted by the commissioner applicable to TWIA.

Compliance under Chapter 2210

Texas Open Meetings Act

Section 2210.105 states that, except for an emergency meeting, the association shall notify the department not later than the 11th day before the date of a meeting of the board of directors or of the members of the association; and not later than the seventh day before the date of a meeting of the board of directors, post notice of the meeting on TWIA's and TDI's website. Section 2210.105 requires, except for a closed meeting authorized by Subchapter D, Chapter 551, Government Code (Texas Open Meetings Act), a meeting of the board of directors or of the members of the association is open to the commissioner or the commissioner's designated representative; and the public. Section 2210.105 requires that TWIA broadcast live on its Internet website, all meetings of the board of directors, other than closed meetings, and maintain on its Internet website an archive of meetings of the board of directors. A recording of a meeting must be maintained in the archive on the website up to the second anniversary of the broadcast. Section 2210.108 provides, except as specifically provided by Chapter 2210 or another law, TWIA is subject to Chapter 551, the Texas Open Meetings Act.

A meeting of the board of directors was held in Galveston, Texas, and broadcast from the TWIA website on August 7, 2012. Posting for the meeting was in compliance with all requirements. An archive of the meeting is currently found on TWIA's website.

A meeting of the Actuarial and Underwriting Committee was scheduled for July 23, 2012, but it was canceled.

Public Information Act

Section 2210.108 provides, except as specifically provided by Chapter 2210 or another law, TWIA's applicability to Chapter 552, the Texas Public Information Act. TWIA receives and

responds to requests in accordance with the Public Information Act (“the Act”). For the first eight months of 2012 and compared to the same time frame in 2011, the following requests have been received, withdrawn, or referred to the OAG for a decision under the Public Information Act:

Description	YTD 8/30/2011	YTD 8/30/2012	Change
Total Requests Received	78	136	+58
Number of Requests Withdrawn	5	12	+7
Number of Requests Sent to OAG	7	15	+8

As illustrated by the chart, there has been a significant increase in requests, and the expectation for the remainder of 2012 is that requests will continue to increase due to the fact that TWIA has been subject to media attention and other interested individual parties.

State Auditor’s Office

Under Section 2210.058, TWIA is subject to audit by the state auditor’s office (“SAO”). On August 1, 2012, the SAO released its final report. The overall conclusion in the SAO report, stated:

“TWIA has improved its processing of claims. TWIA also has controls to help produce accurate financial information, ensure accountability for funds, and adequately support and authorize non-claims-related expenditures. In addition, TWIA's accounting practices for reporting selected financial transactions comply with the National Association of Insurance Commissioners' standards.

However, auditors identified areas for improvement in TWIA's processing of claims, premium payments, adjusting journal entries, contracting, and information technology.

The scope of this audit engagement was from January 1, 2011, through March 31, 2012. It should be noted that TWIA is currently under administrative oversight and has been under new executive management since April 2011. In addition, TWIA hired a new vice president of claims and a new controller in January 2012.

Processing of Claims. Since December 2008, TWIA has undergone six external reviews. Some of the reports from those reviews identified issues involving claims processing.

From January 1, 2011, through March 31, 2012, TWIA processed 88,408 payments. Those payments represented 24,411 total claims. For 50,466 (57 percent) of those 88,408 payments, the TWIA was involved in some form of litigation. According to data TWIA provided to auditors, from January 1, 2011, through March 31, 2012, the Association paid \$25,224,655 to law firms to defend and settle \$333,683,706 in claims litigation.

Auditors reviewed timeliness, appropriateness, and payment authorization for a sample of claims TWIA paid from January 1, 2011, through March 31, 2012, and determined that TWIA had addressed certain issues previously identified. Specifically, auditors tested the TWIA's processing of 39 claims and determined that TWIA adequately authorized payment and had supporting documentation for those claims. House Bill 3 (82nd Legislature, First Called Session) established different requirements and processes for TWIA policies issued after November 27, 2011. It is important to note that 30 of the claims tested were associated with policies with effective dates before November 27, 2011, and 9 of the claims tested were associated with policies with effective dates on or after November 27, 2011.

Although TWIA adequately processed the 39 claims tested, auditors identified improvements TWIA should make within its claims processing. Specifically, the TWIA should:

- Monitor the assignment of claims to its claims examiners to identify potential conflicts of interests.
- Ensure that its claims examiners do not exceed their authorized limits for approving the payment of claims.
- Establish and enforce reasonable time frames for making payments to policyholders for additional living expenses.
- Ensure that its quality assurance and training department meets operational targets, notifies TWIA management of errors it identifies in claims processing, and accurately reports results.

Processing of Premium Payments. Auditors tested 30 premium payments the TWIA received, and the TWIA properly recorded and had supporting documentation for those 30 premium payments. However, TWIA should strengthen its reconciliations of the premium payments it receives with the bank deposits it makes to ensure that those reconciliations are documented, accurate, and receive appropriate supervisory review. In addition, TWIA should improve its documentation of journal entries and ensure that they receive appropriate supervisory review.

Contracting. The Association's non-claims-related expenditures totaled \$123,615,341 from January 1, 2011, through March 31, 2012. Those expenditures were generally supported and authorized. However, auditors identified certain weaknesses in the TWIA's contracting process. Specifically:

- Auditors were unable to determine whether the services and related expenditures associated with seven contracts for contract workers were reasonable and necessary. Those seven contracts were with Odyssey Information Services, Inc., to which TWIA paid \$1,050,836 in calendar year 2011.
- The TWIA's contracts database was not reliable because it contained (1) duplicate contracts, (2) incorrect dates for contract inception and contract expiration, (3) contracts that had expired or had been replaced, and (4) documents for items that were not contracts for services.”

TWIA agreed with the recommendations of the SAO report and has either implemented changes based on the recommendations or is in the process of implementing changes. Implementation of all changes will be accomplished by the end of the year.

Surcharge for Noncompliant Structures

Section 2210.259 allows for an annual fifteen percent premium surcharge to be assessed on a policy covering a noncompliant residential structure that has been approved for insurability under the approval process. Surcharges collected must be deposited in the catastrophe reserve trust fund (“CRTF”). TWIA deposited \$818,543 and \$860,711 into the CRTF, in July and August 2012, respectively. The balance of the CRTF at the end of August was \$176,199,700.07.

Policies in Force

Under Section 2210.203, if the association determines that the property for which an application for initial insurance coverage is made is insurable property, the association, on payment of the premium, shall direct the issuance of an insurance policy as provided by the plan of operation. A policy issued is for a one-year term, and a policy may be renewed annually on application for renewal as long as the property continues to be insurable property. Below are charts illustrating the number of policies in force, direct liability of those policies, and written premiums from those policies.

Policies in Force:

Policy Type	As of 8/31/11	As of 8/31/12	Change\$	Change%
Mobile Home	614	672	+58	+9.4%
Residential	177,836	188,930	+11094	+6.24%
Commercial	11,027	11,140	+113	+1.02%
Totals	189,477	200,742	+11265	+5.95%

Direct Liability:

Policy Type	As of 8/31/11	As of 8/31/12	Change\$	Change%
Mobile Home	\$34,602,468	\$39,362,242	+\$4,759,774	+13.76%
Residential	\$56,982,238,709	\$60,603,576,357	+\$3,621,337,648	+6.36%
Commercial	\$12,748,691,901	\$12,713,099,317	-\$35,592,584	-0.28%
Totals	\$69,765,533,078	\$73,356,037,916	+\$3,590,504,838	+5.15%

Written Premium:

Policy Type	As of 8/31/11	As of 8/31/12	Change\$	Change%
Mobile Home	\$655,123	\$764,688	\$109,565	+16.72%
Residential	\$216,699,402	\$239,571,055	\$22,871,653	+10.55%
Commercial	\$69,725,097	\$78,714,822	\$8,989,725	+12.89%
Totals	\$287,079,622	\$319,050,565	\$31,970,943	+11.14%

Implementation of House Bill 3

TWIA continues to implement legislative changes as required by HB 3. The only provision of HB 3 not implemented by TWIA is the development of simplified renewal process that allows for the acceptance of an application for renewal coverage, and payment of premiums, from an agent or insured person as created under Section 2210.202(b). There is no established deadline under HB 3, but IT changes to be implemented in 2013 through TWIA's Policy Center initiative should allow for this option.

For the remainder of the year, the only major requirements remaining are related to the Biennium Report to be issued at the end of 2012 relating to legislative recommendations and required studies as specified in House Bill 3. The following actions have been taken since the last Report Card:

House Bill 3 Implementation
Actions from July 1 – August 31, 2012

7/31/12	TWIA issues bi-monthly report card to board of directors on meeting the five primary board objectives (Report Card) for May-June 2012 timeframe.	2210.107	<input checked="" type="checkbox"/>
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House Bill 3 Implementation
Future Actions – September 2012 to December 2012

9/30/12	TWIA issues bi-monthly report card to board of directors on meeting the five primary board objectives (Report Card) for July-August 2012 timeframe.	2210.107	<input checked="" type="checkbox"/>
11/30/12	TWIA issues bi-monthly report card to board of directors on meeting the five primary board objectives (Report Card) for September-October 2012 timeframe.	2210.107	
12/31/12	Board submits its Biennium Report to the commissioner, legislative committees, and the Sunset Advisory Commission, a written report relating to the operations of the association during the preceding biennium. The report must include: (1) any proposed changes in the laws relating to regulation of the association and a statement of the reasons for the changes; and (2) any information regarding association operations or procedures that is requested by the department to be addressed in the report.	2210.0025	
12/31/12	The Biennium Report will contain the results of a joint study between TWIA and TDI regarding the efficiency and effectiveness of a single adjuster program, and will include a study by TDI regarding the feasibility of TWIA writing policies directly.	HB 3, Section 61.	

Compliance with the Plan of Operation

On August 30, 2012, the TDI adopted amendments to the Plan of Operation to implement Section 2210.260 relating to obtaining Alternative Certification (“the program”) for TWIA coverage on certain structures. TWIA and TDI worked cooperatively on these new rules. On August 31, 2012, TWIA sent out an agent bulletin and placed FAQs on its website to answer questions regarding the implementation of the new program. This program allows property owners who do not have a Certificate of Compliance (Form WPI-8) for their entire structure the opportunity to obtain windstorm and hail insurance coverage through TWIA. The program also allows structures with TWIA coverage under the Alternative Eligibility Program to continue

TWIA coverage if one of three qualifying structural building components meet the standards for a WPI-12. After August 30, 2013, TWIA will not renew coverage if a structure does not have an Alternative Certification.

Compliance with Rules and Other Statutes

Written Complaint Procedures

Under Section 542.005, TWIA is required to maintain a record of complaints. TWIA also maintains a complaint log in compliance with Title 28 Texas Administrative Code, Section 21.2504. Summaries of the complaints are listed below. Texas Department of Insurance complaints refer to inquiries filed with TDI and forwarded to TWIA for resolution. Written complaints refer to unsolicited written communications received by TWIA from any source primarily expressing a grievance.

Complaint Statistics

This section illustrates the total number of complaints received by TDI on a monthly basis and is further broken down by number of complaints to which each department responded. This section does not address source of complaint or reason for the complaint. Note: Average days open refers to the time between receipt of complaint and final resolution of the complaint with the policyholder. The legal requirement for complaint responses to TDI is 10 days as are the Associations' own compliance standards, however, complaints from third-parties have no legal response timeframe other than "reasonable". Unless otherwise noted, an initial response was prepared prior to the deadline even though the complaint may stay open longer.

TWIA year to date monthly comparison

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	YTD
Total TWIA Complaints	7	12	21	11	14	14	11	12	102
Underwriting Responses	4	3	4	7	5	7	5	4	43
Claims Responses	3	9	17	4	9	7	6	8	59
Compliance Responses	0	0	0	0	0	0	0	0	0
	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	YTD
Total TWIA Complaints	16	9	15	12	20	13	16	13	114
Underwriting Responses	10	2	9	6	11	7	6	8	59
Claims Responses	4	4	4	6	5	5	6	3	37
Compliance Responses	2	3	2	0	4	1	4	2	18

- YTD total complaints have increased 12% in comparison with 2011 YTD.

- Average days open for TWIA complaints is 9 days and there are currently no open complaints pending resolution.

Claim handling complaints by storm name

Storm Name	# of 2012 Complaints	Number of Claims Filed YTD 8/31/12	Ratio Complaints to Claims Filed
2012 Corpus	2	1845	.11%
Brazoria	3	1356	.22%
Hurricane Dolly	1	5	20%
Hurricane Ike	11	60	18.33%
LaMarque	2	1039	.19%
Robstown	11	405	2.72%
Unnamed Weather Events	7	2062	.34%

Complaint reasons

	YTD 8/31/11	YTD 8/31/12
CLAIMS PROCEDURE	4	-
UNSATISFACTORY SETTLEMENTS	45	8
DELAYS	-	7
DENIAL OF CLAIM	1	10
ADJUSTER HANDLING	-	4
FRAUD	-	1
POST CLAIM UNDERWRITING	-	3
VALUE DISPUTE	-	3
MISCELLANEOUS	8	-

Compliance Reporting

Pursuant to Section 701.051, not later than the 30th day after the date TWIA makes the determination or reasonably suspects that a fraudulent insurance act has been or is about to be committed in this state, TWIA:

(1) shall report the information in writing to the insurance fraud unit of the department, in the format prescribed by the fraud unit or by the National Association of Insurance Commissioners; and

(2) may also report the information to another authorized governmental agency.

Under Section 101.301, when TWIA is investigating or adjusting a loss or claim, TWIA shall immediately report to the department an insurance policy or contract that has been entered into by an insurer that is not authorized to transact the insurance in this state. For example, this may include the actions of an individual acting as an unlicensed public insurance adjuster or

unlicensed agent when they perform certain acts regulated by the Insurance Code or administrative rules. The following compliance complaints have been filed by TWIA with TDI through August of this year.

Fraud and Enforcement Reporting to TDI

	YTD 8/31/2011	YTD 8/312012
Reports Filed with TDI Fraud	30	29
Reports Filed with TDI Enforcement	2	18

- Compliance responded to (2) requests for information from TDI Fraud.



OBJECTIVE TWO:
Comply with sound insurance principles

Catastrophe Funding

TWIA staff has continued to work with representatives from the Texas Public Finance Authority and TDI on the issuance of public securities, including a Bond Anticipation Note (“BAN”). The proceeds are being invested on our behalf with the Texas Treasury Safekeeping Trust Company which is maintained by the Texas Comptroller of Public Accounts.

Financials

The chart below illustrates TWIA’s most recent statutory income statement.

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)
for the eight months ended August

	for the eight months ended August,		
	Actuals -		Variance -
	2012	Budget - 2012	2012
Direct Premiums Written:			
Direct	\$ 318,085	\$ 303,000	\$ 15,085
Ceded	(108,000)	(110,295)	2,295
Net	210,085	192,705	17,380
Premiums Earned:			
Direct	\$ 281,794	\$ 271,163	\$ 10,631
Ceded	(72,156)	(72,623)	467
Net	209,638	198,540	11,098

Deductions:

Direct Losses and LAE Incurred	71,599	29,523	42,076
Ceded Losses and LAE Incurred	0	0	0
Operating Expenses	16,666	22,483	(5,817)
Commission Expense	50,892	48,466	2,426
Ceding commissions / brokerage	(8,193)	(8,493)	300
Premium / Maintenance Tax	6,189	6,235	(46)
Total Deductions	137,153	98,214	38,939

Net Underwriting Gain or (Loss)

	72,486	100,326	(27,840)
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Other Income or (Expense):

Gross Investment Income	366	200	166
Interest Expense	(423)	166	(589)
BAN Issuance & Other Investment Expenses	(1,011)	0	(1,011)
Other Income (Expense)	(79)	0	(79)
Total Other Income or (Expense)	(1,148)	366	(1,514)

Net Income (Loss)

	\$ 71,338	\$ 100,692	\$ (29,354)
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Surplus (Deficit) Account:

Beginning Surplus (Deficit)	0	0	0
Net Income (Loss)	71,338	100,692	(29,354)
Change in Provision for Reinsurance	966	555	411
Change in nonadmitted assets & deferred taxes	(2,872)	0	(2,872)
Other	0	0	0
Statutory Fund Cost	(69,432)	(101,247)	31,815
Ending Surplus (Deficit)	\$ 0	\$ 0	\$ 0

Claims Handling**2012 Spring Storm Claim Activity:**

Event	Corpus2012	Brazoria2012	LaMarque2012	Portland2012	All Storms
Date(s)	5/10-5/12	4/4/2012	4/20/2012	4/14-4/17	4/4-5/12
New Reported Claims	1,955	1,391	1,075	441	4,862
Closed Claims	1,871	1,340	1,029	427	4,667
Current Open Claims	84	51	46	14	195
Percentage Closed	96%	96%	96%	97%	96%
Total Incurred	\$19,095,081	\$12,217,579	\$13,677,543	\$2,960,726	\$47,950,929

- The above chart is a summary of activity for the claims from the April & May 2012 storms
- Despite higher than anticipated new claim volume, as well as ongoing receipt of new claims for these storms, we have maintained very high production rates which has driven closing rates well above the 90% target.
- New claims were still being reported in August which saw another 203 claims for these four events with 109 for Corpus, 48 Brazoria, 43 LaMarque, and 3 Portland
- The majority of the 195 claims still open were recently reported claims or those where the customer has yet to complete repairs and collect their recoverable depreciation

Claims Customer Satisfaction Survey Results

We continue to receive many positive claims customer survey responses. Our current overall survey score is 4.3 on a scale of 0-5. Here are some of the comments we’ve received:

- “Claims personnel were courteous, professional, and helpful throughout the process.”
- “All parties involved have been courteous, knowledgeable and extremely helpful. The processes, conditions and responsibilities were explained in layman’s terms but with plenty of details. All questions were answered promptly and accurately. Thank you all!”
- “Every person within TWIA has been incredibly helpful and accommodating to us, and we are grateful for the service you provide. Thanks so much! You’ve made this daunting task of repairing the damage to our property so much more manageable!”
- “I want TWIA to be aware that one of their adjusters took over an existing claim and went above and beyond with customer service. My insured was a little frustrated with the paperwork in applying for their replacement cost coverage, but the adjuster not only took the initiative to help, but he took time to call the insured and I to inform us of where we were in the process and TWIA what needed. The TWIA adjuster impressed me because he took the time to do a thorough enough job to find some coverage issues that had been previously overlooked. I respect and appreciate his friendly and professional efforts! Sincerely, Agent of Record.”



OBJECTIVE THREE:
Meet all standards imposed under Chapter 2210

Rate Adequacy

Pursuant to Section 2210.352, not later than August 15 of each year, the association shall file with the Texas Department of Insurance a proposed manual rate for all types and classes of risks written by the association. On August 15, TWIA submitted a uniform 5% rate increase. Under 2210.352, TWIA may file and use a 5% rate increase without approval by the commissioner of insurance. The rate increase will be effective on January 1, 2013.



OBJECTIVE FOUR:
**Establish a code of conduct and performance standards for association employees and persons with which the association
tracts**

TWIA continues to monitor employees and persons with association contracts for compliance with the code of conduct and performance standards. On August 17, two sessions on Ethics and Conflicts of Interest training was held for all new employees and contractors of TWIA who have become employed or started working for TWIA since the required training by the Texas Department of Insurance occurred earlier this year. A total of 43 employees and contractors attended the training. Ethics and Conflicts of Interest training will be scheduled quarterly for new employees and those who desire a refresher course.



OBJECTIVE FIVE:

Establish, and adhere to terms of annual evaluation of association management necessary to achieve the statutory purpose, board objectives, and any performance or enterprise risk management objectives established by the board

Beginning January 1, 2012, TWIA's annual budget is based upon department level budgets for which department management and their staffs are accountable. Individual performance standards have been established for each position within the organization that reflects that accountability as well as objective measurable standards appropriate to the individual employees responsibilities. The 2012 budget was reviewed and approved by the board at its December, 2011 meeting. The Finance department prepares budget conformance reports at the department level to monitor performance beginning with first quarter results. TWIA is beginning the budget process for 2013 which will be reviewed by the Board at its December 4, 2012 meeting.

Risk Management Objectives have been established in the form of Business Continuity planning, Catastrophe Claims planning, Reinsurance and other funding mechanisms to effectively manage the financial and human resources of the organization in meeting its established purpose.

TWIA staff is evaluated against a set of performance standards including objective performance measures based upon their department and their individual role within their department. Each department head is accountable for his or her individual budgets and these measures comprise a portion of their standard of performance against which they are be evaluated on an annual basis. Staff within each of these departments has similar, although not identical, objective measures against which to measure and evaluate performance.

Merit Salary and Performance Evaluation documents reflect these accountabilities.

The results and standards presented in this interim annual report card reflect TWIA's 2012 Budget Plan, TWIA's Operations Improvement Plan, statutory changes enacted by HB3, and the TWIA Legislation Implementation Plan, which was developed by TWIA in cooperative meetings with the Texas Department of Insurance. Underlying documents contained in the Operations Improvement Plan such as the Business Continuity and Catastrophe Claims Plan also contribute to the standards and results reported in the annual report card.