



Coastal Task Force

Texas Windstorm Insurance Recommendations

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Coastal Task Force Plan

The Coastal Task Force plan features two primary goals:

Increased availability of insurance through greater affordability.

1. **A long term goal of premium reduction accomplished by reducing claims.** Claims are the largest expense to TWIA (69%) but homes built to IRC (International Residential Code) standards since 2003 losses were 60% less per policy than homes built before 1999 from Hurricane Ike. The plan will adopt broader enforcement of building standards, strengthening current standards and granting credits and incentives to structures retrofitted or built to higher standards than required.
2. **Discontinue the need purchase of reinsurance by TWIA.** Reinsurance is the 2nd largest expense to TWIA. Under current financing TWIA is compelled to buy reinsurance to take their ability to pay claims from a 40 year storm to a 60 year storm. Based on 40 year storm history, TWIA recovers an average of 7.1% of premiums paid for reinsurance from storm claims, making the net cost of reinsurance 22.9% of current premiums. Discontinuation of the purchase of reinsurance reduces TWIA's cost structure by that amount. If reinsurance rates drop to levels that reflect historical losses, TWIA may resume purchases.
3. **Extend HB 3 legislation passed in 2011 to all tropical cyclone wind claims written in the coastal counties.** TWIA legal costs from Ike were \$70 million in defense and settlement of claims to date and an estimated \$320 million to cover legal costs and fees incurred by plaintiffs. Legal costs are 15.6% of Ike claim expense and HB 3 streamlines the legal procedure and substantially reduces the litigation cost of claims in the future.
4. **Automation and streamlining TWIA operations.** This would allow a reduction in internal expenditures and also the cost to agents writing TWIA policies.
5. **Reduce costly “gaming” of the system.** Some policy holders carry insurance only during the few months of “prime storm” season and then drop their policies. Adding a surcharge to policies dropped in this manner can increase premium income by 3% without any increase in risk to TWIA.

Coastal Task Force Plan

Creation of a solvent Texas Windstorm Insurance Association (TWIA).

The Coastal Task Force Plan creates a \$7 billion funding capacity by providing:

- A. A mechanism to expand the Catastrophic Relief Trust Fund (CRTF) from its current level of \$200 million to \$1.1 billion by 2014.
- B. Create 3 levels of funding that will cover 50, 100 and 250 year storms.
- C. Class A level for 50 year storm is \$1.5 billion.
- D. Class B level for 100 year storm is \$1.8 billion.
- E. Class C level for 250 year storm is \$2.75 billion.
- A. Plan passes a stress test for the last 120 years of hurricanes and, at no time, exceed financing capacity.

Creation of a solvent Texas Windstorm Insurance Association (TWIA).

Windstorm Rates Increases 2005-2013



Coastal Task Force Plan

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Funding Plan Goals

- 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 covers a 42 year storm

Funding Plan

CRTF* Funding

(The first source of funds)

When the CRTF fund is less than 1.5% of TWIA total exposure of \$73 Billion (\$1.1 Billion currently)

- CRTF paid directly from TWIA premium \$208 M
- 14 Coastal county all policy 3.9% surcharge \$ 90 M
will add \$3.90 additional per \$100 in premium
- Insurance industry assessment \$100 M
will add 30 cents per \$100 in premiums Texas wide
- TWIA annual surplus varies 0 - \$60 M

*Catastrophic Relief Trust Fund, Administrated by State of Texas

Funding Plan

CRTF* Funding

A 20 year storm cost \$1.2 Billion

If CRTF is greater than 1.5% of TWIA exposure
currently total exposure of \$73 Billion x 1.5% = \$1.1 Billion

- CRTF paid directly from TWIA premium \$208 M
- TWIA annual surplus varies 0 - \$60 M

*Catastrophic Relief Trust Fund, Administrated by State of Texas

Funding Plan for Class A Bond

A 50 year storm cost \$2.7 Billion

Issued after CRTF spent

Issued after CRTF spent (\$600 M in 2012 to – \$1400 M in 2015)

\$1.5 Billion Total Class A Bond

Pro Rata Allocation if less than \$1.5 Billion

- \$1 Billion Bonding for 10 year maximum issue
 - 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 for Class B Level

A 100 Year Storm Cost \$4.5 Billion

Issued after CRTF spent

Issued after Class A Bond spent

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

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

Funding Plan for Class C Level

A 250 year storm costing \$6.99 Billion

Issued after Class A and B Bonds Spent

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

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

Funding Plan for Class D Level

Terms over 250 year

Issued after Class A, B, and C Bonds spent

Unlimited

- Backed by State of Texas

Funding Plan Funding Availability 2012– 2014 No Storm Scenario



Funding Plan

Modeled Storm Loss Projections

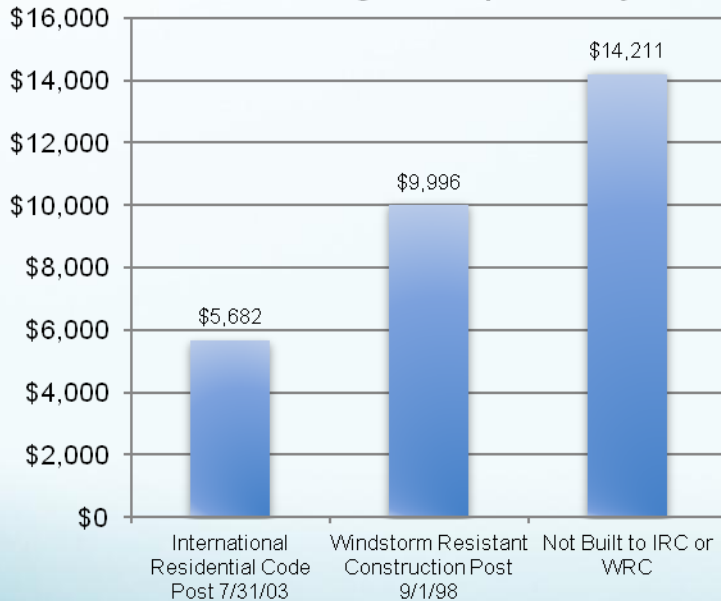
2011 RM/AIR Average Probable Maximum Loss



Windstorm Resistant Standards

IRC building codes cut damages by more than 60%

Ike Loss Experience Residential Homes Average Loss per Policy



Ike Loss Comparison Residential Homes



Windstorm Resistant Standards

- Require WPI-8's on all new Residential Construction (Currently Voluntary)
- Grant Coastal Counties Windstorm Standard enforcement authority (Currently None)
- Require 140 MPH* Seaward of the Intercoastal waterway/130 MPH in Inland areas
Inland Roofs**

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

** Current Standard 130/120/110 MPH in three zones

Claim Resolution

Litigation cost for Ike was \$400M

- 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

Encouraging private industry to insure

- Ceding
- Quota
- HB 3 claim procedure – All insurers covered by HB 3
- TWIA policy database – Share with private industry
- Homeowner policy attached to Wind Policy – Increase industry incentive to insure

Board Composition

Appointed by the Governor

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

Release TWIA from Administrative Oversight

Cost of Oversight \$13 Million*

- 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 for residences built and inspected by municipalities 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

- TWIA & 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

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/fhcf/>

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/>

