



Texas Windstorm Insurance Association (TWIA)

Presentation for Joint Senate/House Interim Committee on
Windstorm Coverage and Budgetary Impact

June 28, 2006
Galveston, Texas



Overview

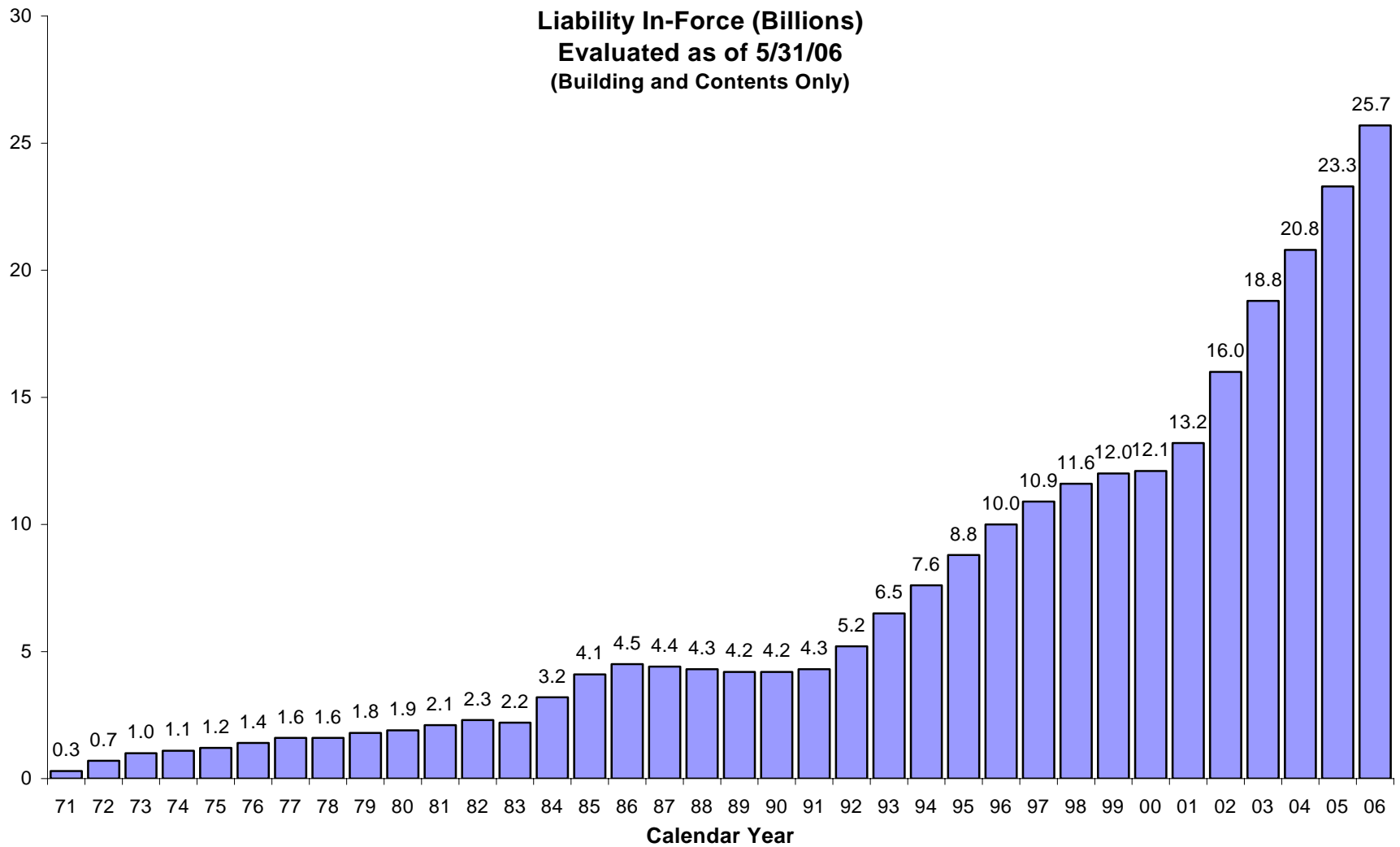
The Texas Legislature established the Texas Windstorm Insurance Association (TWIA) in 1971 because of the lack of property insurance (in particular, windstorm and hail coverages) on the Texas Gulf Coast following Hurricane Celia. The funding of losses at TWIA remained largely unchanged until 1991 when the Texas Legislature changed the funding mechanism. Based on the exposure at the time, the funding mechanism established in 1991 was adequate. Unfortunately, the exposures at TWIA have more than quintupled in size over the last 15 years. As a result, with over \$29 billion in exposure (as of 5/31/06), the funding of losses must change.

The number of structures and/or their contents insured by TWIA is growing dramatically. In 2001 the Association had 68,758 policyholders. Currently, TWIA has more than 114,000 policyholders in the 14 coastal counties and a portion of Harris County. In particular, TWIA has more than 63,000 policyholders in Galveston and Brazoria Counties.



TWIA Historical Growth

**Liability In-Force (Billions)
Evaluated as of 5/31/06
(Building and Contents Only)**





TWIA Historical Data 2000 – 2005

Year	Gross In Force Liability	Percentage Change Over Prior Year	Gross Written Premiums	Percentage Change Over Prior Year
2000	12,052,604,254	0.67%	48,010,503	7.69%
2001	13,249,406,793	9.93%	54,630,239	13.79%
2002	16,003,048,280	20.78%	72,966,925	33.57%
2003	18,824,457,208	17.63%	87,987,279	20.59%
2004	20,796,655,763	10.48%	102,384,352	16.36%
2005	23,276,428,681	11.92%	113,927,701	11.27%



TWIA Statistical Report

Evaluated as of 5/31/06

County	<u>Policies In-Force</u>				<u>Liability In-Force</u>			
	at 5/31/05	at 5/31/06	# Gain	% Gain	at 5/31/05	at 5/31/06	# Gain	% Gain
Aransas	3,398	3,467	69	2.00	701,125,736	807,479,758	106,354,022	15.20
Brazoria	12,420	14,083	1,663	13.40	2,391,922,214	2,958,667,565	566,745,351	23.70
Calhoun	1,964	2,112	148	7.50	315,387,384	380,116,456	64,729,072	20.50
Cameron	5,950	6,343	393	6.60	1,521,701,903	1,793,397,139	271,695,236	17.90
Chambers	921	1,066	145	15.70	190,367,540	235,549,314	45,181,774	23.70
Galveston	45,704	49,825	4,121	9.00	9,277,620,291	11,270,128,975	1,992,508,684	21.50
Harris	1,762	1,928	166	9.40	357,842,117	415,267,400	57,425,283	16.00
Jefferson	3,831	4,167	336	8.80	667,554,862	785,435,363	117,880,501	17.70
Kenedy	12	14	2	16.70	838,400	849,900	11,500	1.40
Kleberg	408	423	15	3.70	86,010,349	104,266,429	18,256,080	21.20
Matagorda	1,542	1,675	133	8.60	243,829,436	290,491,631	46,662,195	19.10
Nueces	22,860	25,162	2,302	10.10	4,923,997,726	5,824,481,824	900,484,098	18.30
Refugio	164	192	28	17.10	26,561,566	53,499,512	26,937,946	101.40
San Patricio	3,205	3,295	90	2.80	634,173,878	725,478,344	91,304,466	14.40
Willacy	347	360	13	3.70	52,318,680	59,966,909	7,648,229	14.60
Total	104,488	114,112	9,624	9.21	21,391,252,082	25,705,076,519	4,313,824,437	20.17



TWIA In-Force Distribution By County and Class of Business

Evaluated as of 5/31/06

County	Policies In-Force			Premiums In-Force			Exposures In-Force		
	Residential	Commercial	Total	Residential	Commercial	Total	Residential	Commercial	Total
Aransas	2,960	507	3,467	2,679,332	1,355,169	4,034,501	563,478,454	244,001,304	807,479,758
Brazoria	13,099	984	14,083	10,572,751	2,492,725	13,065,476	2,565,454,740	393,212,825	2,958,667,565
Calhoun	1,850	262	2,112	1,387,923	593,844	1,981,767	285,764,288	94,352,168	380,116,456
Cameron	4,851	1,492	6,343	3,016,209	5,258,810	8,275,019	747,552,003	1,045,845,136	1,793,397,139
Chambers	927	139	1,066	762,682	333,112	1,095,794	180,920,739	54,628,575	235,549,314
Galveston	46,972	2,853	49,825	41,732,537	11,677,028	53,409,565	9,317,628,600	1,952,500,375	11,270,128,975
Harris	1,867	61	1,928	1,126,169	123,168	1,249,337	391,511,994	23,755,406	415,267,400
Jefferson	3,507	660	4,167	2,320,962	1,850,525	4,171,487	507,791,188	277,644,175	785,435,363
Kenedy	13	1	14	4,316	1,536	5,852	809,900	40,000	849,900
Kleberg	338	85	423	231,093	234,002	465,095	54,685,765	49,580,664	104,266,429
Matagorda	1,468	207	1,675	973,299	587,016	1,560,315	202,087,332	88,404,299	290,491,631
Nueces	22,038	3,124	25,162	16,024,807	11,881,505	27,906,312	3,586,690,074	2,237,791,750	5,824,481,824
Refugio	153	39	192	113,516	156,872	270,388	21,896,077	31,603,435	53,499,512
San Patricio	2,844	451	3,295	2,180,044	1,282,256	3,462,300	493,426,008	232,052,336	725,478,344
Willacy	294	66	360	196,781	123,017	319,798	39,641,694	20,325,215	59,966,909
Total	103,181	10,931	114,112	83,322,421	37,950,585	121,273,006	18,959,338,856	6,745,737,663	25,705,076,519

Notes: Residential statistics include mobile homes
 Premiums in-force represent the annual premiums for all policies in-force
 Exposures shown are building and contents only



Total Exposure as of 5/31/06

Buildings and Contents	\$25,705,076,519
Additional Living Expense	\$ 3,200,000,000
Business Income	<u>\$ 500,000,000</u>
Total	\$29,405,076,519



TWIA Catastrophe Modeling Results – RMS

Probability	Return Period	RMS as of 11/30/04 (RiskLink 4.5)	RMS as of 12/31/05 (RiskLink 5.0)	Percent Change
90.00%	10	\$153,691,984	\$177,188,233	15.3%
95.00%	20	\$399,476,958	\$466,121,535	16.7%
98.00%	50	\$1,027,282,156	\$1,219,665,374	18.7%
99.00%	100	\$1,716,964,119	\$2,078,191,203	21.0%
99.60%	250	\$2,755,664,992	\$3,425,720,865	24.3%
99.80%	500	\$3,330,163,872	\$4,173,002,153	25.3%
	AAL	\$83,871,917	\$100,318,403	19.6%



TWIA Catastrophe Modeling Results – AIR

Probability	Return Period	AIR as of 11/30/04 (Version 6.2)	AIR as of 12/31/05 (Version 7.0)	Percent Change
90.00%	10	\$138,706,190	\$158,995,914	14.6%
95.00%	20	\$319,231,509	\$392,086,375	22.8%
98.00%	50	\$704,041,020	\$891,734,209	26.7%
99.00%	100	\$1,034,326,385	\$1,460,213,065	41.2%
99.60%	250	\$1,617,485,991	\$2,559,237,473	58.2%
99.80%	500	\$2,015,827,265	\$3,308,606,309	64.1%
	AAL	\$58,639,984	\$77,668,822	32.5%



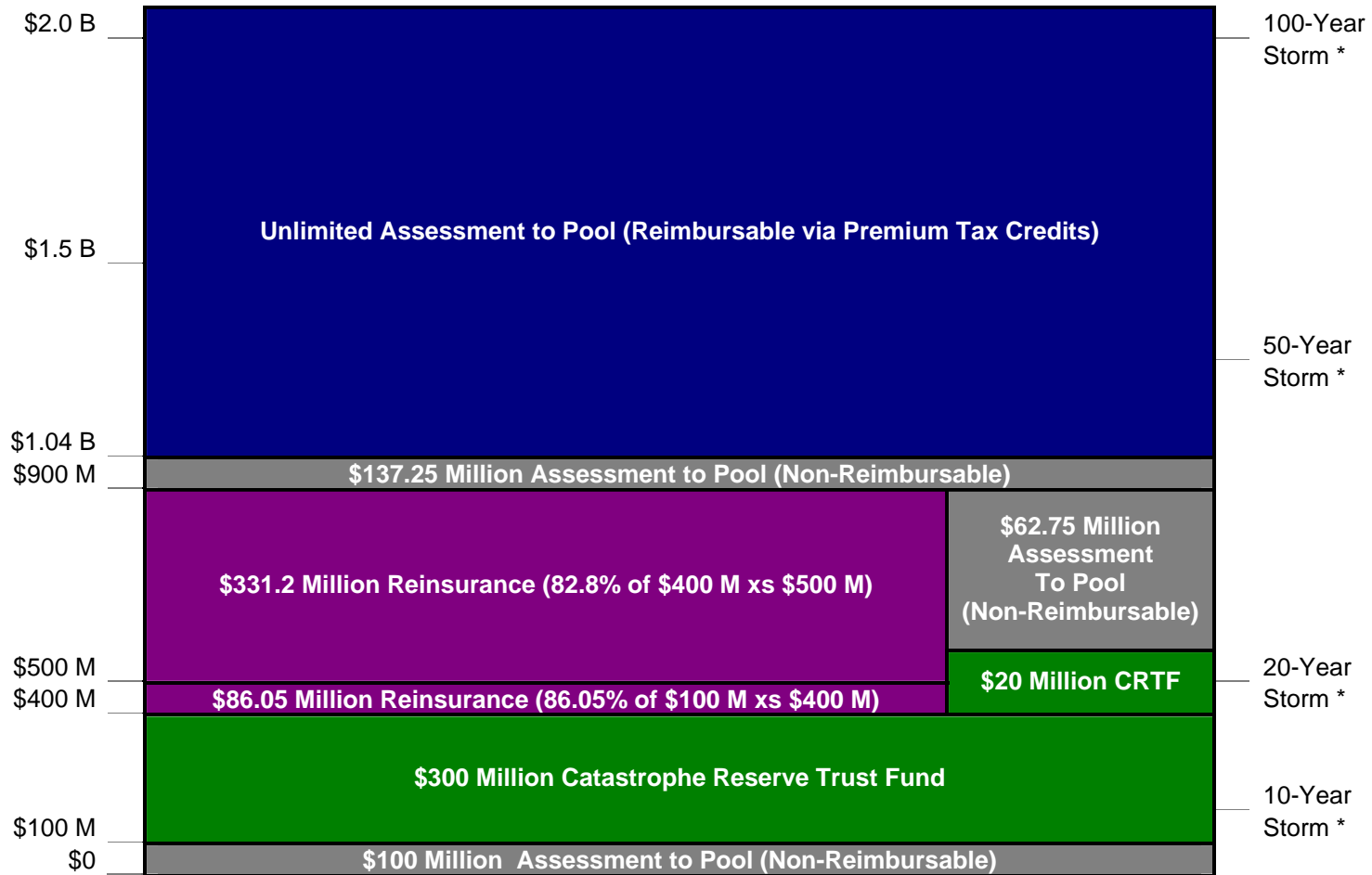
TWIA Current Funding Sources

- Property and casualty insurance companies in the pool
- Catastrophe Reserve Trust Fund
- Reinsurance
- Bank Line of Credit (cash only)
- State of Texas



TWIA Current Financial Structure

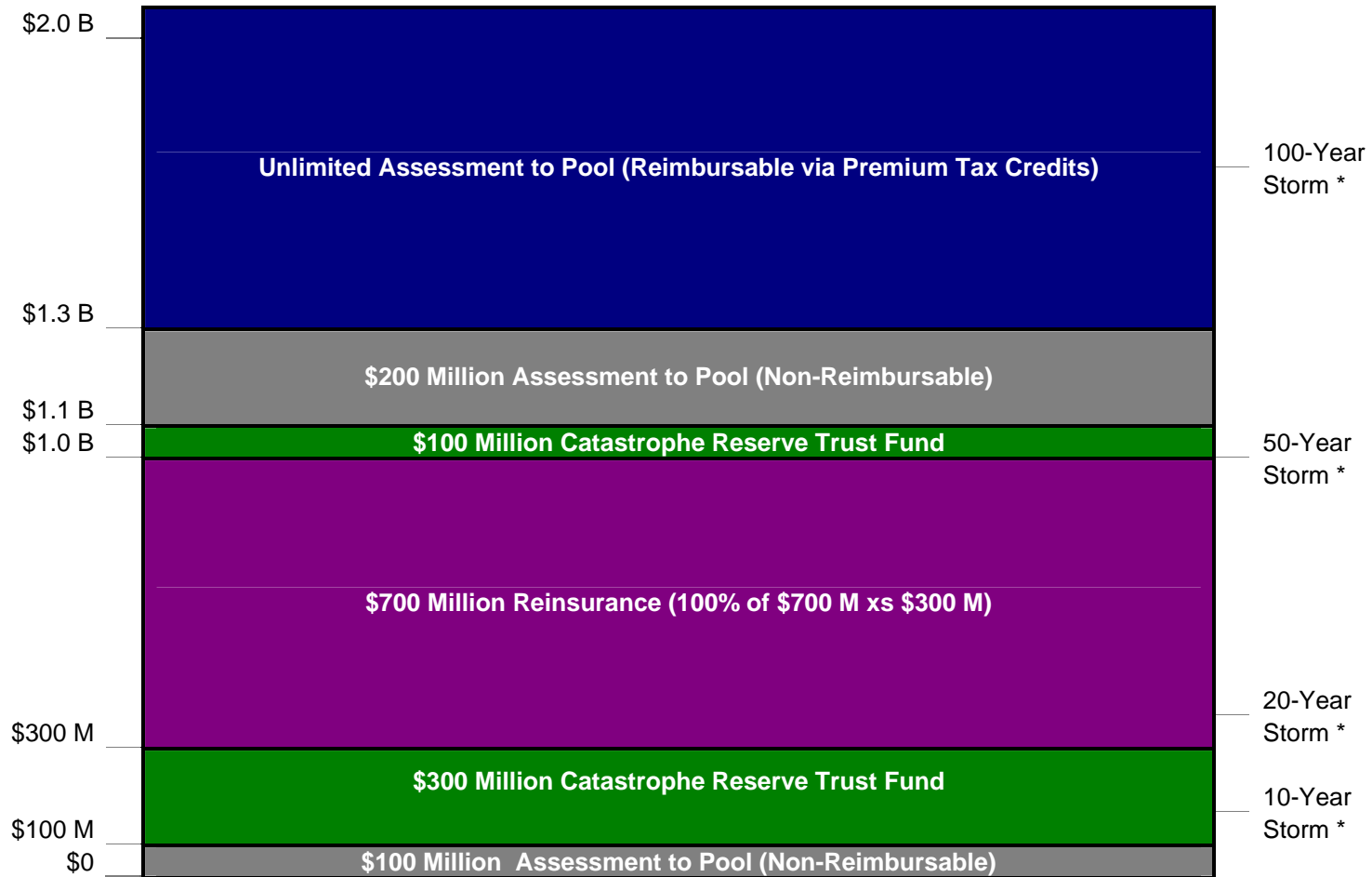
(Reinsurance Effective 6/1/2006 – 5/31/2007)



Storm frequencies based on RMS RiskLink 5.0 per occurrence losses using TWIA exposures as of 12/31/2005 *



TWIA Previous Financial Structure (Reinsurance Effective 6/1/2005 – 5/31/2006)



Storm frequencies based on RMS RiskLink 4.5 per occurrence losses using TWIA exposures as of 11/30/2004 *



TWIA Funding (Possible Legislative Changes)

- Property and Casualty Insurance Companies in Pool
- Direct Assessments to Catastrophe Area Property and Casualty Policyholders and/or Property and Casualty Policyholders Statewide
- Catastrophe Reserve Trust Fund
- Bank Line of Credit (cash only)
- Reinsurance
- Bonds (Pre-Event/Post-Event)
- State of Texas



TWIA Funding Bonds

- Pre-Event – Supply Immediate Cash After Storm
- Post-Event – Pay Losses



TWIA Funding Bonds

Who pays for the bonds?

- TWIA policyholders pay annual costs if small or no losses of any consequence
- If losses exceed TWIA ability to pay:
 - ✓ Property and Casualty Insurance Companies
 - ✓ Catastrophe Zone Property and Casualty Policyholders
 - ✓ Statewide Property and Casualty Policyholders



TWIA Estimated Costs of Funding Assessments and Bonds

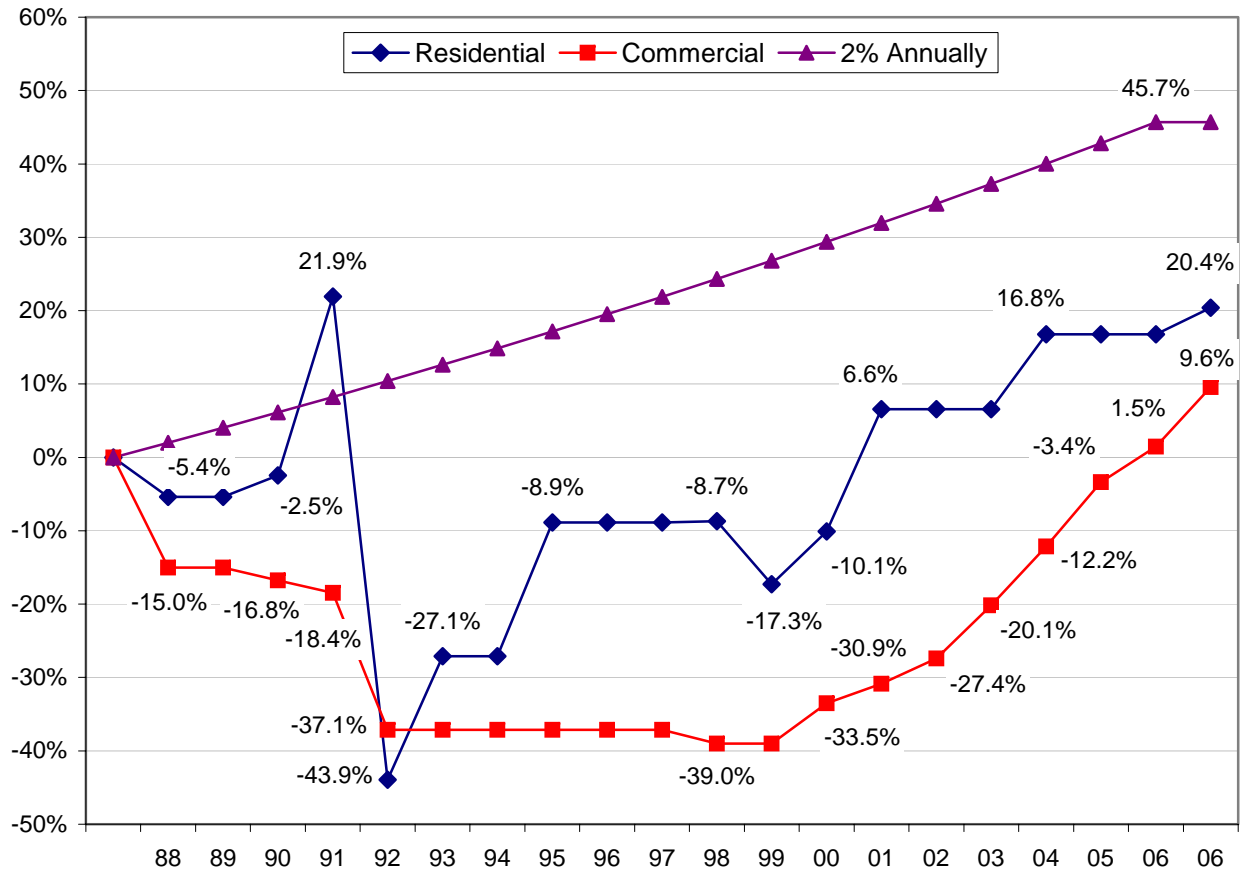
	TWIA Only	Coastal Property	Coastal P&C	Statewide Property	Statewide P&C
2005 Written Premiums	113,927,701	868,300,000	2,588,000,000	6,926,000,000	20,642,300,000
<u>\$100 Million Policyholder Assessment</u>					
	as a Percent of Premiums				
1-Year Payback	87.77%	11.52%	3.86%	1.44%	0.48%
5-Year Payback	17.55%	2.30%	0.77%	0.29%	0.10%
10-Year Payback	8.78%	1.15%	0.39%	0.14%	0.05%
	Dollars per Thousand in Premium				
1-Year Payback	877.75	115.17	38.64	14.44	4.84
5-Year Payback	175.55	23.03	7.73	2.89	0.97
10-Year Payback	87.77	11.52	3.86	1.44	0.48
<u>Bonds (10-year, 6%, 3%)</u>					
	as a Percent of Premiums				
\$100 Million	12.92%	1.70%	0.57%	0.21%	0.07%
\$500 Million	64.62%	8.48%	2.84%	1.06%	0.36%
\$1 Billion	129.23%	16.96%	5.69%	2.13%	0.71%
	Dollars per Thousand in Premium				
\$100 Million	129.23	16.96	5.69	2.13	0.71
\$500 Million	646.16	84.78	28.44	10.63	3.57
\$1 Billion	1,292.32	169.56	56.89	21.26	7.13

Notes: "Property" refers to Fire, Allied Lines, Farmowners Multi-Peril, Homeowners Multi-Peril, and Commercial Multi-Peril Lines of Business
 "P&C" refers to all Property and Casualty Lines of Business except Medical Malpractice, Accident & Health, and Workers Compensation
 Bonds are assumed to be 10-year maturity, paying 6% interest to bondholders and earning 3% interest on invested principal (pre-event)



TWIA Historical Rate Levels (From 1988 to 9/1/2006)

History of Rate Changes		
Year	Residential	Commercial
1988	-5.4%	-15.0%
1989	0.0%	0.0%
1990	3.1%	-2.1%
1991	25.0%	-2.0%
1992	-54.0%	-22.9%
1993	30.0%	0.0%
1994	0.0%	0.0%
1995	25.0%	0.0%
1996	0.0%	0.0%
1997	0.0%	0.0%
1998	0.2%	-3.0%
1999	-9.4%	0.0%
2000	8.7%	9.0%
2001	18.5%	4.0%
2002	0.0%	5.0%
2003	0.0%	10.0%
2004	9.6%	10.0%
2005	0.0%	10.0%
2006 (Jan)	0.0%	5.0%
2006 (Sep)	3.1%	8.0%
Cumulative	20.4%	9.6%
Annual Avg.	0.9%	0.5%



Notes

1992 – Elimination of 400% beach surcharge
 1993 – Addition of 30% to benchmark rates



TWIA Residential Property Examples of Premiums (Rates Effective 9/1/06)

Type of Construction	<u>Amount of Insurance (Dwelling)</u>			
	\$ 75,000	\$ 100,000	\$ 150,000	\$ 200,000
Frame	658	881	1,320	1,757
Brick Veneer	573	760	1,136	1,517

Rating Assumptions: Primary residential dwelling located in first tier
Contents insured for 50% at replacement cost
1% deductible
Additional living expense insured for 20%
Increased Cost of Construction endorsement for 15%
(65% policies currently have this optional coverage)
No other credits or surcharges



TWIA Rating Methodology (Possible Legislative Changes)

- Allow for increase annually (if actuarially justified), less than 5% without approval, greater than 5% with prior approval by Insurance Commissioner.
- Use most up-to-date, actuarially sound rating methodology, including models
- Surcharge for seasonal/rental properties
- Appeal provision for rate requests not approved
- Special surcharge to increase Catastrophe Reserve Trust Fund



TWIA Reinsurance Facility

- Catastrophe Excess Only
- No Individual Risk Coverage
- Mandatory Participation by All Property and Casualty Insurance Companies
- Provide Coverage for All of Texas
- Will Require Details Spelled Out in Legislation
- Funding?



Mandatory Requirement to Build, Remodel or Repair to TWIA Building Codes in Catastrophe Area