THE SENATE OF TEXAS

TEXAS HOUSE OF REPRESENTATIVES

August 1, 2017

Mr. Joshua Fields, Chairman
And Respective Board Members
Texas Windstorm Insurance Association
5700 S. MoPac Expressway, Building A
Austin, Texas 78749

Dear Chairman Fields and Board Members:

As legislators charged with representing the interests of coastal residents and business owners, many of whom are Texas Windstorm Insurance Association (Association) policyholders, we respectfully request that the board reject the 2018 rate increase recently proposed by the Actuarial and Underwriting Committee.

Overall, the Legislature has gone to great lengths to reform the Association over the last five legislative sessions, beginning in 2009, to ensure greater financial stability. Many of these reforms have addressed much needed change to the Association's funding structure, board composition, legal processes, and administrative and claim operations.

To date, the Association has increased its rates 5 percent each year from 2011 to 2016, resulting in a cumulative effect of 34 percent for both residential and commercial policies. According to Association records, for an average TWIA policy with a premium of $1,500, this would represent an increase of approximately $380, due solely to rate changes.

As policy makers, we ask you to consider seriously the fundamental differences between a traditionally funded private insurer and the Association that serves as the state's insurer of last resort. It is important to keep in mind that domestic property and casualty insurers licensed to do business in Texas are members of the Property and Casualty Insurance Guaranty Association. The Guaranty Association is a safety net for these companies should they become insolvent and unable to pay claims. In contrast, the Association is not a member of the Guaranty Fund, but rather covers its financial obligations through earned premiums, bond proceeds, member assessments, surcharges, reinsurance, and investments. These mechanisms were established carefully by the Texas Legislature and require strict statutory adherence by the Association to operate and fund losses.

Furthermore, we ask that you contemplate the financial strength by which the Association stands today. By law the Association is required to cover, at minimum, a 100-year season, a storm or series of storms with a 1 percent or less chance of occurring. Effective June 1, 2017, to May 31, 2018, the Association provides a record $4.9 billion in total aggregate funding, representing $2.3 billion more than losses associated with Hurricane Ike, sufficient for more than 99 percent of all possible storm seasons, and more than the statutory minimum funding required.

Other financial milestones also have been accomplished in recent years. The last major hurricane- or weather-related event along the coast was Hurricane Ike in 2008. Since then, the Association continually has increased the Catastrophe Reserve Trust Fund (Fund) with a current balance of $737 million, the highest level since inception. The Fund is expected to grow by $120 million in the first quarter of 2018, due to a better than expected storm season in 2017. At the same time, more than 11,000 policies were transferred to four carriers through the 2016-2017 Assumption Program, effectively reducing the Association's total liabilities exposure.

As an insurer of last resort, 234,861 policyholders would be affected by a rate increase in which our constituents and your customers would have to determine whether they should forgo coverage and hope for the best or perhaps forgo another necessity. Either scenario is unacceptable.

Overall, we believe these facts cannot be ignored. It is disingenuous to compare the Association to a traditionally funded private insurance company and impose private industry ratemaking standards to the Association's already established statutory fiduciary responsibilities and guidelines.

On behalf of the Association policyholders who live and work in our districts and considering the tremendous financial strength of the Association and record level funding available to pay losses, we urge you to reject any rate increase for the 2018 calendar year.

Respectfully,

Senator Larry Taylor
District 11

Senator Lois Kolkhorst
District 18

Senator Paul Bettencourt
District 7

Senator Juan Hinojosa
District 20

Senator Judith Zaffirini
District 21

Senator Joan Huffman
District 17

Senator Sylvia Garcia
District 6

Senator Brandon Creighton
District 4

Senator Eddie Lucio, Jr.
District 27

Representative Wayne Faircloth
District 23

Representative Dennis Paul
District 129

Representative Dennis Bonnen
District 25

Representative Rene Oliveira
District 37

Representative J.M. Lozano
District 43

Representative Eddie Lucio, III
District 38

Representative Geanie Morrison
District 30

Representative Joe Deshotel
District 22

Representative Greg Bonnen
District 24

Representative Ed Thompson
District 29

Representative Todd Hunter
District 32

Representative Abel Herrero
District 34

Representative Dade Phelan
District 21