



OFFICE OF PUBLIC INSURANCE COUNSEL

Melissa R. Hamilton, Public Counsel

December 5, 2019

Texas Windstorm Insurance Association
5700 South Mopac Expressway
Building A
Austin, TX 78749

CommunicationsMail@TWIA.org

Dear Chairman Shofner and Members of the Board of Directors:

The Office of Public Insurance Counsel (OPIC) appreciates the opportunity to comment on the 5% rate increase recommendation made by the Texas Windstorm Insurance Association (TWIA) Actuarial and Underwriting Committee (Committee) on November 19, 2019. OPIC previously provided comments to the TWIA Board of Directors (Board) on July 31, 2019, in which OPIC stated its opinion that the TWIA rate was inflated and questioned the accuracy of the methodologies related to expenses and hurricane models. See attachment A. OPIC reiterated these concerns to the Committee on October 10, 2019. See Attachment B.

OPIC understands that TWIA revised their rate adequacy analysis on November 19, 2019, reducing the indication from +42% to +37%. As with the previous rate analyses, OPIC reviewed the revised analysis pursuant to the agency's statutory duty to review insurance rates and assess the impact of those rates on Texas consumers. Insurance Code §§501.151 and 501.153. And, as with the previous TWIA Board meeting on August 6, 2019, and the Committee meeting on October 17, 2019, OPIC monitored the Committee's meeting on November 19, 2019.

The Committee voted on November 19, 2019, to recommend a 5% rate increase to the TWIA Board for consideration at their December 10, 2019, meeting. The Committee also voted to require the TWIA staff to compile additional information related to the hurricane models used in the rate adequacy analysis, as well as additional information concerning the refinancing of outstanding bond debt. The Committee declined to postpone action on a rate recommendation pending this outstanding information. OPIC disagrees with that decision. Accordingly, OPIC opposes any

Email: mhamilton@opic.texas.gov
www.opic.texas.gov

William P. Hobby Building
333 Guadalupe, Suite 3-120
Austin, Texas 78701-3942

Phone: (512) 322-4143
Fax: (512) 322-4148

action by the TWIA Board on the rate increase recommendation pending the delivery of outstanding information related to the hurricane models used in TWIA's rate adequacy analysis.

As mentioned above, OPIC has continuing concerns about TWIA's rate adequacy analysis. A number of these issues relate directly to the use of hurricane models. OPIC has questions about the widely disparate and unexplained variance in hurricane loss estimates generated by the AIR and RMS models. For example, page 5 of TWIA's November 12, 2019, *Response to TWIA Actuarial and Underwriting Committee* indicates the AIR model calculates a 100-year probable maximum loss (PML) that is \$1.6 billion (56%) higher than the RMS model. Pronounced differences also exist between the two models in their estimates of both retained and ceded average annual hurricane losses. TWIA's practice has been to average estimates from the two models, but this does not address their reliability.

In the same November 12th response, TWIA provided comparisons of actual incurred losses for Hurricanes Ike and Harvey versus those predicted by the AIR and RMS hurricane models. Discrepancies shown in the comparison were vast, raising questions not only about the models themselves but also about the exposure data TWIA provided to the modeling companies. At the November 19th Committee meeting, TWIA agreed to provide additional information about the models, including comparisons of model predictions versus actual losses for a number of previous Texas hurricanes. The Committee declined, however, to postpone its recommendation to the Board to raise rates for policyholders by 5% until they received this information.

The large discrepancies between the two models, and between the models and actual hurricane experience, raise questions about the reliability of TWIA's rate indication. Additional explanation and information forthcoming from TWIA staff may address some, or all, of these issues. OPIC believes prudence dictates that no rate action be taken by the Board until the requested information is received and reviewed by the Committee and Board.

OPIC will monitor TWIA Board's December 10, 2019, meeting to listen to testimony regarding the rate recommendation. OPIC requests that TWIA provide the agency with copies of all materials received related to the rate recommendation or the rate adequacy analysis. OPIC will review all materials and comments, both written and verbal. Should TWIA make an official rate filing, OPIC will analyze the filing pursuant to OPIC's statutory directives and parameters. Insurance Code Chapter 2210, Subchapter H and §§501.151, 501.153 and 501.154.

Thank you for your time and consideration.

Sincerely,



Melissa R. Hamilton
Public Counsel



OFFICE OF PUBLIC INSURANCE COUNSEL

Melissa R. Hamilton, Public Counsel

Attachment A

Email: mhamilton@opic.texas.gov
www.opic.texas.gov

William P. Hobby Building
333 Guadalupe, Suite 3-120
Austin, Texas 78701-3942

Phone: (512) 322-4143
Fax: (512) 322-4148



OFFICE OF PUBLIC INSURANCE COUNSEL

Melissa R. Hamilton, Public Counsel

July 31, 2019

Texas Windstorm Insurance Association
5700 South Mopac Expressway
Building A
Austin, TX 78749

CommunicationsMail@TWIA.org

Dear Chairman Fields and Members of the Board of Directors:

The Office of Public Insurance Counsel (OPIC) appreciates the opportunity to provide comments on the rate adequacy analysis developed by the Texas Windstorm Insurance Association (TWIA) and posted on TWIA's website on July 22, 2019.

OPIC reviewed TWIA's rate adequacy analysis pursuant to the agency's statutory duty to review insurance rates and assess the impact of those rates on Texas consumers. Insurance Code §§ 501.151 and 501.153. As a result of that review, OPIC believes TWIA's overall rate indication is inflated and is concerned about some of the assumptions used in the analysis. In particular, OPIC questions the methodology and assumptions related to expenses and hurricane loss estimates.

OPIC plans to watch the TWIA Board's August 6, 2019, meeting to listen to testimony regarding the analysis. OPIC requests that TWIA provide the agency with copies of all materials received regarding this rate adequacy analysis. OPIC will review all materials and all comments, both written and verbal. Then, pursuant to OPIC's statutory directives and parameters, OPIC will analyze the official rate filing TWIA makes with the Texas Department of Insurance (TDI). Insurance Code Chapter 2210, Subchapter H and §§ 501.151, 501.153, and 501.154. OPIC may have further comments after the rate change proposal is finalized by TWIA's Board of Directors and filed with TDI.

Thank you for your time and consideration. If you have any questions regarding the comments above or where to send the materials and comments related to the rate analysis, please do not hesitate to contact me.¹

Sincerely,

Melissa R. Hamilton

¹ In the effort of full disclosure, OPIC states that the Public Counsel's parents own property covered by a TWIA policy. The Public Counsel does not hold an interest in that property.



OFFICE OF PUBLIC INSURANCE COUNSEL

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Attachment B

Email: mhamilton@opic.texas.gov
www.opic.texas.gov

William P. Hobby Building
333 Guadalupe, Suite 3-120
Austin, Texas 78701-3942

Phone: (512) 322-4143
Fax: (512) 322-4148



OFFICE OF PUBLIC INSURANCE COUNSEL

Melissa R. Hamilton, Public Counsel

October 10, 2019

Via E-mail: PublicComment@twia.org

Texas Windstorm Insurance Association
5700 South MoPac Expressway, Building A
Austin, Texas 78749

Re: October 17, 2019 meeting of the Texas Windstorm Insurance Association (TWIA) Actuarial and Underwriting Committee.

Dear Members of the TWIA Board of Directors and Actuarial and Underwriting Committee:

Please see attached the Office of Public Insurance Counsel's (OPIC) comments regarding the rate adequacy analysis conducted by TWIA and posted for the public on July 22, 2019. OPIC's understanding is that nothing has changed in the actuarial analysis since July 2019. Accordingly, our concerns with the rate adequacy analysis remain, and we reiterate the concerns raised in the attached letter, which was submitted to the TWIA Board of Directors on July 31, 2019.

If you have any questions, please feel free to contact me. Thank you for your time and consideration.

Sincerely,

Melissa R. Hamilton
Public Counsel

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www.opic.texas.gov

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