

SUBJECT: Amending certain provisions for Texas Windstorm Insurance Association

COMMITTEE: Insurance — committee substitute recommended

VOTE: 8 ayes — Oliverson, Vo, Hull, Israel, Middleton, Paul, Romero, Sanford
1 nay — J. González

WITNESSES: For — Greg Smith, City of Corpus Christi; Sally Bakko, City of Galveston; Stephen Alexander and Ryan Brannan, Coastal Windstorm Insurance Coalition; (*Registered, but did not testify*: Ben Molina, City of Corpus Christi; Ned Muñoz, Texas Association of Builders; Robert Flores, Texas Association of Mexican-American Chambers of Commerce (TAMACC); Ginny Cross, United Corpus Christi Chamber of Commerce)

Against — Jay Thompson, Afact; Joe Woods, American Property and Casualty Insurance Association; Beaman Floyd, Texas Coalition for Affordable Insurance Solutions; (*Registered, but did not testify*: Anne O’Ryan, Auto Club Indemnity; Jon Schnautz, National Association of Mutual Insurance Companies)

On — (*Registered, but did not testify*: Kenneth Lovoy, Office of Public Insurance Counsel; Luke Bellsnyder, Texas Department of Insurance; James Murphy, Texas Windstorm Insurance Association)

BACKGROUND: Insurance Code ch. 2210 governs the Texas Windstorm Insurance Association (TWIA), a nonprofit insurance provider of windstorm and hail insurance for residential and commercial property owners in designated coastal counties who are unable to purchase coverage in the private insurance marketplace. TWIA operates with regulation and oversight from the Texas Department of Insurance (TDI).

Sec. 2210.452 governs the authorized uses of the catastrophe reserve trust fund. At the end of each calendar year or policy year, TWIA must use the net gain from its operations, including all premium and other revenue in excess of incurred losses, operating expenses, public security obligations,

and public security administrative expenses, to make payments to the trust fund, procure reinsurance, or use alternative risk financing mechanisms.

Sec. 2210.4521 requires TWIA's board to, at least once each 12-month period, determine a sufficient balance for the trust fund to meet cash flow requirements in funding the payment of insured losses. Sec. 2210.453 requires the association to maintain total available loss funding in an amount not less than the maximum loss for the association for a catastrophe year with a probability of one in 100.

Sec. 2210.611 permits certain excess revenue collections and investment earnings to be deposited in the catastrophe reserve trust fund.

Interested parties suggest that additional reforms to TWIA are needed to improve its administration and ensure that it operates effectively and efficiently.

DIGEST:

CSHB 769 would revise certain provisions relating to the Texas Windstorm Insurance Association's (TWIA) headquarters and the catastrophe reserve trust fund.

Location and proposed rates. The bill would require the association's headquarters to be located in a first or second tier coastal county by January 1, 2023.

The bill would prohibit TWIA's board of directors from voting on a proposed rate filing if there was a vacancy on the board.

Catastrophe Reserve Trust Fund. The bill would revise certain provisions under Insurance Code sec. 2210.452 by removing the requirement that TWIA use its net operational gain to make payments to the trust fund to procure reinsurance or use alternative risk financing mechanisms. The bill would require TWIA to pay public security obligations, giving priority to the obligations with the highest interest rates.

The bill also would remove TWIA's authority to deposit certain excess revenue collections into the catastrophe reserve trust fund.

Probable loss. Among other specified provisions, in determining the probable maximum loss, the association:

- could not consider the cost of providing loss adjustments;
- to the extent possible, would have to contract with any disinterested third parties necessary to execute any hurricane risk simulation models that were executed in the preceding storm season;
- would have to provide to a third party executing a hurricane risk simulation model any necessary information;
- could not use a combination of hurricane risk simulation models to determine the probable maximum loss; and
- could only use the hurricane risk simulation model that produced the lowest probable maximum loss.

Other provisions. The bill would revise certain dates relating to required reports and studies in addition to TWIA's legislative funding and funding structure oversight board.

By the 60th day after the bill's effective date, the Texas Department of Insurance would have to amend TWIA's plan of operation to conform to the bill's provisions.

The bill would take effect September 1, 2021.