



Texas Department of Insurance

Commissioner of Insurance, Mail Code 113-1C

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September 7, 2012

Members of the Joint Interim Committee to Study Seacoast Territory Insurance:

Enclosed is a report by Alvarez & Marsal Insurance Advisory Services, LLC (A&M), a global consulting firm retained by TDI earlier this year to explore options for restructuring TWIA. A&M interviewed numerous stakeholders and worked with a technical advisory working group selected by TDI for their knowledge, expertise, and experience regarding various aspects of TWIA's operations. The original charge to A&M was to develop restructuring options and proposals that were rate neutral and that TWIA and/or TDI could implement without legislation. As work progressed, it became evident that certain options which would require legislation should also be considered, and those have been included in the report. Given the proximity to the next legislative session, TDI does not intend to move forward with implementation of any of the options presented and is providing this report to assist this committee with its charge.

The ideas presented are not exhaustive or mutually exclusive of other approaches. The report is intended to provide ideas and restructuring options that are based upon an objective assessment of TWIA's operations under the existing statutory framework. The report does not and cannot address important public policy considerations.

I am also enclosing a comparison of other coastal states' "wind pools," or residual markets for hurricane risk.

I look forward to working with this committee, the Legislature, and interested parties to strengthen and stabilize the system of property protection for Texas' coastal residents.

Very truly yours,

A handwritten signature in cursive script that reads "Eleanor Kitzman".

Eleanor Kitzman

Commissioner of Insurance

Enclosures

xc: The Honorable Rick Perry
The Honorable David Dewhurst
The Honorable Joe Straus
Coastal Delegation
Joint Committee on Oversight of Windstorm Insurance



**Texas Department of Insurance
Contract No. 454 12 00135**



RESTRUCTURING OPTIONS REPORT



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BACKGROUND AND REPORT STRUCTURE

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Introduction

The Texas Department of Insurance (TDI) issued Request for Proposals (RFP) No. 12-MVB-TWIA-01 on February 17, 2012, for the provision of an organizational analysis of the Texas Windstorm Insurance Association (TWIA) and related services. TDI executed a contract with Alvarez and Marsal Insurance Advisory Services, LLC (A&M) on March 27, 2012.

TDI retained A&M to analyze the structure and performance TWIA; make recommendations to improve the governance, capital management, and operations; and assess the associated benefits and risks of the suggested recommendations. A&M reviewed TWIA's statutory requirements, actuarial analyses, financial and operational data, and stakeholders' input. A&M concluded that TWIA should be restructured if it is to function as a true insurer of last resort, as set forth in statute, with sufficient capital to support its policyholder obligations. Recommendations include changes to TWIA's mission, governance structure, funding, commission rates, operations, and risk management strategy.



Key Deliverables and Requirements

Deliverable 1 – Proposed Work Plan

A&M was required to prepare a work plan that detailed the approach used to identify and analyze restructuring options for TWIA.

Deliverable 2 – Restructuring Options Report

A&M was required to provide a report that included

- a description and discussion of each option identified
- an evaluation of the merits of each option, including likely participation by existing member companies
- the potential for attracting new insurers and/or capitol to Tier 1
- how each option meets TWIA's restructuring objectives, and
- the potential challenges to implementation.

Initially, the report was intended to only provide options that could be implemented through voluntary participation by TWIA member companies with a preference given to options currently authorized by the Texas Insurance Code. However, TDI and A&M subsequently agreed to expand the scope of the project to include a broader range of options.

TDI instructed that, at a minimum, A&M consider the following options to reduce TWIA's net exposure and improve policyholder service: (i) reinsurance functions, (ii) service carrier functions, (iii) incentives, (iv) operational issues, and (v) other areas that increase the value of the outcome of the services to TDI.

Stakeholder Participation

A&M was required to work with a technical advisory working group of TWIA stakeholders appointed by TDI. The working group did not have decision-making authority, but provided important and valuable insight and perspective on the restructuring of TWIA.



About Alvarez & Marsal Insurance Advisory Services, LLC

A&M is a leading global consulting firm whose roots are steeped in restructuring. As a leader in complex restructurings, A&M has received numerous accolades for its work providing turnaround, restructuring and performance improvement services to underperforming and distressed companies and their constituents, including:

- Winner of the Turnaround Management Association's ("TMA") Best Mega Company Restructuring award for the Chemtura restructuring (2011)
- Winner of the TMA's Best International Restructuring award for the Rossignol restructuring (2010)
- Named #1 among the "Top Crisis Management Chiefs" by *The Deal* (2010)
- Winner of the TMA's "Large Transaction of the Year" award related to the restructuring of Interstate Bakeries Corporation (2009)
- The M&A Advisor – Turnaround Consulting Firm of the Year (2009)
- The M&A Atlas Awards – Turnaround Firm of the Year (2009)
- Turnaround Atlas Awards – Turnaround Consulting Firm of the Year (2009)

A&M also led or had a leading role in such notable restructurings as Lehman Holdings, Inc., Washington Mutual, and Blockbuster, Inc.

A&M senior professionals have extensive experience in the areas of solvency analysis, development and assessment of business plans, valuation, and complex transactions. This experience was developed through A&M's roles in the operational turnarounds and/or financial restructurings of hundreds of companies over nearly three decades since the firm's founding in 1983. In addition to its world class insolvency and restructuring advisory credentials, A&M and its senior professionals have extensive experience in restructuring and improving the performance of insurance companies.

The senior personnel who have worked on the TWIA engagement have more than 100 years of combined experience managing, consulting, and investing in the insurance sector. In addition, team members have deep experience with residual market companies. The experience of the team spans virtually every significant functional area within an insurance company and includes many "C-level" positions such as Chief Executive Officer, Chief Financial Officer, Chief Underwriting Officer, Chief Information Officer, and Chief Marketing Officer, including officer positions with Texas domestic insurance companies.



Common Terms and Themes

TERMS

Stakeholder – Depending on the context, stakeholder can refer to TDI, TWIA, member insurance companies, other insurance companies, policyholders, Legislature, insurance agents, or other affected entities.

Management – refers to TWIA management

Board – refers to TWIA Board of Directors

FNOL – refers to First Notice of Loss

MGA – refers to Managing General Agent

ACV – refers to Actual Cash Value

THEMES

Top Recommendations are shown in **red boldface text**.

Recommendations with significant impact are shown in **red text**.

Other recommendations are shown in blue or black text.

Themes are not discussed in order.



BACKGROUND AND REPORT STRUCTURE



Recommendation and Implementation Legend

Financial Impact	\$	Incidental Financial Benefit
	\$\$	Material Financial Impact \$1 Million
	\$\$\$	Substantial Financial Impact Multi-Million
	\$\$\$\$	Significant Financial Impact \$100 Million
	\$\$\$\$\$	Capital Position Impacting \$1 Billion +
Impact on Stakeholders	☺	Neutral/Slight Impact
	☺☺	Improve Constituent Satisfaction
	☺☺☺	Positive Impact to Multiple Stakeholders
	☹	Detrimental to Certain Stakeholders
	☹☹	Significant Negative Impact to Stakeholders
	☺ ☹	Positive Impact to Some Stakeholders while Detrimental to Others
Implementation Cost	¢	Cost Neutral
	¢¢	Incidental Cost (Under \$100,000)
	¢¢¢	Material Cost (Over \$100,000)
	¢¢¢¢	Significant Investment (Over \$1 Million)
	¢¢¢¢¢	Major Investment (Over \$5 Million)



Recommendation and Implementation Legend, cont.

Implementation Time	⌚	Immediate (Under 30 days)
	⌚⌚	One to Three Months
	⌚⌚⌚	Three to Six Months
	⌚⌚⌚⌚	Six to 12 Months
	⌚⌚⌚⌚⌚	Over One Year

Implementation Risk	Low	The projected implementation risk reflects the overall complexity of the recommendation, the amount of stakeholder involvement and input needed or anticipated, and likely challenges to the execution.
	Moderate	
	High	

Disclaimer and Limiting Conditions



This report was prepared solely for the benefit of TDI pursuant to engagement terms between A&M and TDI. In addition, on page 105 of this report are certain disclaimers and limited conditions which are an integral part of this report and must be read in conjunction with this report.



EXECUTIVE SUMMARY



RESTRUCTURING OF TWIA IS NECESSARY

Actuarial analysis and capital markets indicators point to a high probability that TWIA will be unable to meet its obligations under a range of reasonable assumptions.



- ④ TWIA's current (and expected future) rates are not adequate to provide funding for its exposure.
 - Under the current model, rate increases of 45%+ on residential exposures and 35%+ on commercial exposures would be necessary.
 - Rate increases proposed by TWIA fall far short and will have little impact on TWIA's need to access Class 1 securities.

- ④ With its current rate structure, TWIA will likely need to tap the public financing mechanisms laid out by statute.
 - 1 in 3 chance of having to issue public securities within the next five years.
 - 1 in 2 chance of having to issue public securities within the next 10 years.

- ④ The funding mechanisms available to TWIA are of questionable capacity, are too slow, and are insufficient.
 - Of questionable capacity... Recent capital markets inquiries indicate very low likelihood of obtaining the full \$1 billion of liquidity under Class 1 bonds (current indications are \$500 million); potential for an immediate liquidity crisis.
 - Too slow... it could take several months to bring a sizable bond issue to the markets.
 - Insufficient... Storm model simulations indicate a 1 in 7 chance that over the next 10 years TWIA will need funding in excess of the amounts currently available, according to Merlinos and Associates; there is a shortfall of at least \$1 billion in a 1-in-100-year event under all current funding scenarios.

- ④ TWIA has no funding contingency plan, and policyholders do not have any guidance regarding how TWIA will pay claims if full, timely payment is not possible.



ALTERNATIVES CONSIDERED

A&M has reviewed TWIA’s mission, strategy, and governance and assessed a range of alternatives related to TWIA’s capital management and operations.



Examples of Alternatives Considered

Mission, Strategy, and Governance

- ⚙️ Make public a mission statement
- ⚙️ Change the make up of the Board of Directors
- ⚙️ Develop mission scorecards (Board and management)
- ⚙️ Link compensation and performance
- ⚙️ Develop or rebuild strategic, operational, and catastrophe plans
- ⚙️ Reduce management span of control

Capital Management

- ⚙️ Develop a formal depopulation plan
- ⚙️ Require minimum wind retentions for carriers
- ⚙️ Provide capital relief to new market entrants
- ⚙️ Reduce geographic eligibility
- ⚙️ Change maximum limits
- ⚙️ Modify deductible structures
- ⚙️ Realign member assessments
- ⚙️ Reduce deductible credits
- ⚙️ Exclude certain property types
- ⚙️ Eliminate replacement cost coverage
- ⚙️ Require pre-event funding
- ⚙️ Align or blend coverage with other pools

Operations

- ⚙️ Align service levels with last resort marketplace
- ⚙️ Implement service carrier model
- ⚙️ Utilize an MGA for distribution
- ⚙️ Outsource certain functions
- ⚙️ Establish reinsurance program for member companies
- ⚙️ Change underwriting workflow stream
- ⚙️ Modify commission levels
- ⚙️ Provide direct-to-consumer access
- ⚙️ Modify/enforce risk mitigation practices
- ⚙️ Develop a fronting carrier model
- ⚙️ Modify existing contractual relationships

We evaluated TWIA's restructuring alternatives across two primary and five secondary dimensions.

Expected Impact

- ① Net financial impact with emphasis on long-term capital adequacy
 - Access to capital
 - Exposure
 - Rate adequacy
 - Operating costs
- ① Impact on key stakeholders
 - Solvency/long-term viability
 - Cost
 - Service levels

Implementation Considerations

- ① Cost to implement
 - “Hard” costs such as new technology platform or professional services
 - “Soft” costs such as dedication of internal resources to change management
 - Potential unintended costs caused by inefficiencies during transition
- ① Time to implement
- ① Implementation risks
 - Risk of disruption to TWIA's operations
 - Ability to implement (necessary approvals/processes)
 - Need for buy-in from servicing carriers
 - Need for buy-in from other stakeholders (e.g., agents)

Our evaluation revealed a number of common themes and trends that were generally consistent across our review.



1
Mission

TWIA's **mission** is not widely understood, and different stakeholders describe it differently.

2
Governance

TWIA's existing **governance structure** leads to blurred lines of accountability, weakens the "Executive" function, and impedes the organization's ability to change.

3
Funding Capacity

TWIA's risk pool exposure overwhelms its **funding capacity**.

4
Coverage

TWIA's **coverage terms and conditions** are not consistent with the market for an insurer of last resort.

5
Funding Mechanisms

TWIA's **funding mechanisms** are insufficient to assure post-event liquidity.

6
Service Levels

TWIA's **service levels** are misaligned and result in higher cost and greater "ease" of doing business with TWIA.

7
Commission Rates

TWIA's high **commission rates** and strong agent relationships exasperate TWIA's role as a carrier of last resort.

8
Risk Mitigation

TWIA does not use some best practices for **risk mitigation**.

9
Operational Risk

TWIA's high levels of embedded **operational risk** cause process inefficiencies.



THRESHOLD ISSUES

We have selected our recommendations based on certain key threshold decisions.



Mission

Should TWIA function more like a private carrier or a true insurer of last resort?



Capital Adequacy

Does TWIA's capital need to be sufficient to support its exposure?



Operations

To what extent should TWIA's operations and management functions be outsourced?



Governance

What is the correct balance between a strong executive and checks and balances?





A&M'S TOP RECOMMENDATIONS ADDRESS THRESHOLD ISSUES

Our major recommended changes will fundamentally shift TWIA's position on threshold issues.



		Threshold Issues Addressed			
Theme	Recommendation	Insurer of Last Resort	Support Exposure	Balanced Outsourcing	Balanced Governance
2A Governance	Realign the Board make up to expand involvement of relevant stakeholders.				X
3A Funding Capacity	Develop a formal depopulation program.	X	X		
3F Funding Capacity	Exit commercial market with individual building values above TWIA limits.	X	X		
3H Funding Capacity	Establish online renewal data access for participating take-out carriers.		X		
5A Funding Mechanisms	Realign member assessment capital funding.		X		
5B Funding Mechanisms	Require pre-event funding.		X		
7A Commission Rates	Utilize single managing general agency distribution.	X		X	
7C Commission Rates	Reduce commission levels for TWIA to 10% new/7% renewal.	X			
9A Operational Risk	Employ service carrier model moving all operations to fronting carrier.			X	



ESTIMATED IMPACT AND IMPLEMENTATION CONSIDERATIONS

We have prioritized our top recommendations based on their expected impact on TWIA's capital adequacy and key stakeholders, and their ease and risk to implement.



Summary of A&M's Top Recommendations

		Impact		Implementation Considerations		
Theme	Recommendation	Financial	Stakeholders	Cost	Time	Risk
5A Funding Mechanisms	Realign member assessment capital funding.	\$\$\$\$\$	😊 😞	\$\$\$	⌚⌚⌚⌚	Mod.
5B Funding Mechanisms	Require pre-event funding.	\$\$\$\$\$	😊 😞	\$\$\$\$	⌚⌚⌚⌚	Mod.
3A Funding Capacity	Develop a formal depopulation program.	\$\$\$\$	😊 😞	\$\$\$	⌚⌚⌚	Low
3H Funding Capacity	Establish online renewal data access for participating take-out carriers.	\$\$\$\$	😊	\$\$\$\$	⌚⌚⌚⌚	Mod.
7A Commission Rates	Utilize single managing general agency distribution.	\$\$\$\$	😊😊 😞	\$\$\$\$	⌚⌚⌚⌚	High
7C Commission Rates	Reduce commission levels for TWIA to 10% new/7% renewal.	\$\$\$\$	😊😊 😞	¢	⌚⌚⌚⌚	High
3F Funding Capacity	Exit commercial market with individual building values above TWIA limits.	\$\$\$	😞	¢¢	⌚⌚⌚	Low
9A Operational Risk	Employ service carrier model moving all operations to fronting carrier.	\$\$\$	😊	\$\$\$\$	⌚⌚⌚⌚	Mod.
2A Governance	Realign the Board make up to expand involvement of relevant stakeholders.		😊😊😊	¢¢	⌚⌚⌚⌚	Low



A COMPREHENSIVE SOLUTION

In the aggregate, A&M's top recommendations comprise a comprehensive restructuring of TWIA that resolves its major challenges.



Transitional and Ultimate Impact of A&M's Top Restructuring Recommendations on TWIA

	Recommendations	TWIA Current State	TWIA Intermediate State	TWIA Future State
Funding	<ul style="list-style-type: none"> Change assessments Pre-event funding 	<ul style="list-style-type: none"> Clear deficiencies in both funding capacity and liquidity 	<ul style="list-style-type: none"> Reduced deficiency in funding capacity Liquidity sufficient to meet obligations in most scenarios 	<ul style="list-style-type: none"> Funding capacity and liquidity sufficient to meet obligations in all but the most severe situations
Growth, Exposure, and Rate	<ul style="list-style-type: none"> Formal depopulation plan Rating plan Limited commercial business Lower commission rates 	<ul style="list-style-type: none"> Growth in exposure and covered population Exposure far in excess of funding capacity Rate insufficient to cover risk 	<ul style="list-style-type: none"> Reduction in exposure and covered population Exposure still in excess of funding capacity Moving toward rate sufficiency 	<ul style="list-style-type: none"> Smaller covered population Exposure that is fully covered by rate and alternative funding mechanisms
Operations	<ul style="list-style-type: none"> MGA model Service carrier 	<ul style="list-style-type: none"> High service focus Inefficient processes with embedded operational risk and limited flex capacity Poorly aligned incentives Minimal outsourcing 	<ul style="list-style-type: none"> Reduced service levels Improved efficiency and flex capacity Better alignment of incentives Preparation for more significant outsourcing 	<ul style="list-style-type: none"> Service levels "adequate" for an insurer of last resort Efficient and robust operations with sufficient flex capacity Incentives aligned with corporate objectives Outsource significant portion of operations
Governance and Accountability	<ul style="list-style-type: none"> Realign Board 	<ul style="list-style-type: none"> Poorly defined roles and responsibilities Blurred accountability Weak executive function Ineffective decision making 	<ul style="list-style-type: none"> Clearly defined roles and responsibilities Clear lines of accountability Strong executive function Effective decision-making process 	



PRACTICAL CONSIDERATIONS

Certain constraints likely limit the ability to fully and immediately implement A&M's comprehensive restructuring solution, creating a need for a road map outlining a more pragmatic approach.



Legislative support and timing

- ⓘ Additional input from legislative leaders on recommendations requiring statutory change is needed prior to pursuit.
- ⓘ Recommendations requiring statutory change and legislative support will take time, a focused effort to execute, and will be subject to legislative calendar and priorities.

Key stakeholder impact

- ⓘ TWIA Technical Advisory Working Group (Working Group) indicates strong support for a restructuring of TWIA, but time to “air” major changes is recommended.
- ⓘ Feedback also indicated that legislative “shifting sands” and “tweaking” over time are the major concerns.
- ⓘ Working Group noted that clarity with respect to TWIA's ultimate role in the marketplace would provide the greatest likelihood of increased member participation in the wind market, even if it took time to achieve.

Other challenges

- ⓘ TWIA leadership and resources likely limit implementation given current skill sets, personnel, and priorities.
- ⓘ Impact of current wind season losses or events could divert resources and focus.



MISSION, STRATEGY, AND GOVERNANCE

TWIA's mission, strategy, and governance are important to consider in any restructuring plan.



A good mission statement

- ④ Captures an organization's unique reason for being
- ④ Clarifies what the organization is and what it isn't
- ④ Energizes stakeholders to pursue common goals
- ④ Enables the organization to appropriately allocate scarce resources toward activities that support its mission

TWIA's corporate strategy should

- ④ Support its mission statement
- ④ Take into account TWIA's unique strengths and weaknesses
- ④ Focus TWIA's resources
- ④ Provide a roadmap for achieving TWIA's goals, objectives, and targets

Effective governance

- ④ Clarifies roles and responsibilities
- ④ Defines what decisions are made by whom
- ④ Establishes clear accountability
- ④ Provides a reasonable level of checks and balances



AREAS OF FOCUS

A&M's evaluation of TWIA's mission, strategy, and governance was focused on the level of clarity and alignment in the following areas.



- 📈 Clarity of TWIA's mission
- 📈 Alignment of overall strategy with mission
 - As defined in TWIA's Plan of Operation
 - As understood by key stakeholders
- 📈 Organizational structure that ensures leadership and accountability
- 📈 Alignment of business unit plans with overall strategy
- 📈 Relationship with stakeholders



A&M'S TOP RECOMMENDATIONS RELATED TO MISSION, STRATEGY, AND GOVERNANCE

A&M's recommendations are intended to clarify TWIA's mission, better define key roles and responsibilities, and increase accountability throughout the organization.



Summary of A&M's Top Recommendations re: Mission, Strategy, and Governance, Grouped by Key Theme		
Key Theme		Recommendation
1 Mission	TWIA's mission is not widely understood.	1A Establish a mission aligned scorecard for Board and management.
2 Governance	TWIA's existing governance structure leads to blurred lines of accountability, weakens the "Executive" function, and impedes the organization's ability to change.	2A Realign Board make up to expand involvement of relevant stakeholders.
		2C Build effective Strategic, Operational, and Financial Plans based on Mission and Scorecard.

Red boldface text indicates Top Recommendations with the greatest impact.

The recommended changes are expected to yield significant benefits to nearly all of TWIA's key stakeholders.



Summary of A&M's Top Recommendations re: Mission, Strategy, and Governance, Ranked Based on Impact

Theme	Recommendation	Impact		Implementation Considerations		
		Financial	Stakeholders	Cost	Time	Risk
1A Mission	Establish a mission-aligned scorecard for Board and management.	\$\$\$	😊😊	¢	⌚⌚⌚	Mod.
2A Governance	Realign Board make up to expand involvement of relevant stakeholders.		😊😊😊	¢¢	⌚⌚⌚⌚	Low
2C Governance	Build effective Strategic, Operational, and Financial Plans based on Mission and Scorecard.	\$\$	😊😊	¢¢	⌚⌚⌚⌚	Low

Red boldface text indicates Top Recommendations with the greatest impact.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

1A – Establish a mission aligned scorecard for Board and management with Commissioner and Board agreeing on scorecard implementation.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊😊	<u>Impl. Cost</u> ₱	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Development of a scorecard that provides specific guidance on the near-term and long-range goals of TWIA will likely have a material financial impact, especially if the scorecard provides clarity around expectations of (i) rate, (ii) exposure levels, (iii) financing capacity, and (iv) impact on member companies. Scorecard implementation will result in measurable change around mission, strategy, and tactics. Primary scorecard drivers will likely be targeted to reduce TWIA exposure and improve financing capabilities and operational efficiencies. Individually and collectively, scorecard implementation will improve TWIA's financial position.
	Stakeholders:	<ul style="list-style-type: none"> Clarity provided by scorecard approach should be viewed positively by all stakeholders, even if they are not pleased with each of the specific metrics. Transparency should lead to greater understanding and purposeful dialogue amongst all parties.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> TDI, Board, and management will likely need some level of consulting support to develop framework, establish key metrics, and gain initial understanding and support.
	Time:	<ul style="list-style-type: none"> Typical timeframe to implement is 90 - 120 days. Potential for TWIA to take longer to the extent it is necessary to align with the Legislature and preview with other stakeholders.
	Ability:	<ul style="list-style-type: none"> Limited. Current culture and understanding of TWIA's mission do not indicate Board or management have the capacity to implement without a level of outside support.
	Risk:	<ul style="list-style-type: none"> Fundamental culture shift from the Board downwards could result in near-term confusion. Number of parties requires buy-in and support. Weakness in resolve could result in mixed messages and lack of solidarity.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

2A – Realign Board make up to expand involvement of relevant stakeholders.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u>	<u>Impact on Stakeholders</u> 😊😊😊	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> No	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	ⓘ No direct financial impact. Indirect impact will be reduction in friction time to get initiatives through all key stakeholders.
	Stakeholders:	ⓘ TDI – The Commissioner is currently responsible for appointing the Board. ⓘ Will broaden the stakeholders with Board representation.
Implementation Considerations	Cost:	ⓘ Limited as Board members do and will not receive compensation (only expenses) consistent with current practices.
	Time:	ⓘ Probably one year as a result of new required legislation.
	Ability:	ⓘ Outside of management’s direct control. ⓘ Need to work with the Board members and the Legislature to agree on the relevant stakeholders.
	Risk:	ⓘ Little as it would seem this would only improve and broaden communication. ⓘ Some potential “stall” as new Board is configured and governance is established with new players.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

2C – Build effective Strategic, Operational, and Financial Plans based on Mission and Scorecard.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊😊	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Initially, impact will be limited; however, in the long run there should be substantial financial benefit as the organization will be pulling in a consistent direction with clear targets and means to execute.
	Stakeholders	<ul style="list-style-type: none"> Impacts predominantly the internal working of TWIA (TWIA Board and employees); however, the impact of better alignment will be readily apparent to TDI, Legislature, and industry.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Initial costs would be mostly management time. Some consulting support may be necessary initially.
	Time:	<ul style="list-style-type: none"> Should be completely implemented prior to January 1, 2013, as part of the operational planning for 2013.
	Ability:	<ul style="list-style-type: none"> TWIA management should be able to implement. Minor consulting support may be helpful.
	Risk:	<ul style="list-style-type: none"> Change in “business as usual.” Building initial linkage, especially with the direct relationship between scorecard and compensation.



CAPITAL MANAGEMENT

NORTH AMERICA EUROPE MIDDLE EAST LATIN AMERICA ASIA



WHY FOCUS ON CAPITAL MANAGEMENT?

Effective capital management strategies and execution are critical to the ability of TWIA to keep its financial promises.



An insurer has an obligation to its policyholders to pay legitimate claims on a timely basis.

④ To meet its obligations, TWIA must have sufficient funding capacity and liquidity.

- Access to sufficient capital to support its obligations.
- Liquidity when needed to pay the claims.

④ But TWIA has limited funding capacity and no direct backstop if funding needs exceed capacity.

- Approximately \$750 million in immediate funding capacity (includes \$500 million Class 1 pre-event loan).
- Up to approximately \$2.85 billion in additional funding capacity through reinsurance and bond issuance (up to approximately \$3.6 billion in total funding capacity in 2012).
- \$75 billion+ of total exposure; 260,000+ policyholders.
- 1-in-100 year event striking Galveston or Corpus Christi could result in \$4-5 billion in damage (Hurricane Ike was a 1-in-52 year event).



AREAS OF FOCUS

A&M's evaluation of TWIA's Capital Management was focused on its exposure, rate adequacy, funding capacity, and funding mechanisms.



- Existing exposure and rate adequacy
- Policies and procedures to manage future exposure
- Access to capital via existing and alternative funding mechanisms



A&M'S TOP RECOMMENDATIONS RELATED TO CAPITAL MANAGEMENT

A&M's top recommendations are intended to address existing deficiencies in its funding capacity and funding mechanisms.



Summary of A&M's Top Recommendations re: Capital Management, Grouped by Key Theme	
Key Theme	Recommendation
3 Funding Capacity TWIA's risk pool exposure overwhelms its current funding capacity.	3A Develop a formal depopulation program.
	3D Tier TWIA book at account level based on profitability.
	3F Exit commercial market with individual building values above TWIA limits.
	3H Establish online renewal data access for participating take-out carriers.
5 Funding Mechanisms TWIA's funding mechanisms are insufficient to assure post-event liquidity.	5A Realign member assessment capital funding.
	5B Require pre-event funding.

Red boldface text indicates Top Recommendations with the greatest impact.

The recommended changes are expected to yield significant benefits to nearly all of TWIA's key stakeholders.



Summary of A&M's Top Recommendations re: Capital Management

Theme	Recommendation	Impact		Implementation Considerations		
		Financial	Stakeholders	Cost	Time	Risk
3A Funding Capacity	Develop a formal depopulation program.	\$\$\$\$	😊 😞	\$\$\$	⌚⌚⌚	Low
3D Funding Capacity	Tier TWIA book at account level based on profitability.	\$\$	😊	\$\$\$\$	⌚⌚⌚	Low
3F Funding Capacity	Exit commercial market with individual building values above TWIA limits.	\$\$\$	😞 😞	\$\$	⌚⌚⌚	Low
3H Funding Capacity	Establish online renewal data access for participating take-out carriers.	\$\$\$\$	😊	\$\$\$\$	⌚⌚⌚⌚	Mod.
5A Funding Mechanisms	Realign member assessment capital funding.	\$\$\$\$\$	😊 😞 😞	\$\$\$	⌚⌚⌚⌚⌚	Mod.
5B Funding Mechanisms	Require pre-event funding.	\$\$\$\$\$	😊 😞	\$\$\$\$	⌚⌚⌚⌚⌚	Mod.

Red boldface text indicates Top Recommendations with the greatest impact.

* All other recommendations on Capital Management are located in the appendix.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

3A – Develop a formal depopulation program.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$\$	<u>Impact on Stakeholders</u> 😊 😞	<u>Impl. Cost</u> ¢¢¢	<u>Impl. Time</u> ⌚ ⌚ ⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> Carrier Support	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⚠️ Slowdown in TWIA growth and ultimately a reduction in TWIA exposures. ⚠️ Market may require incentive beyond just premium. ⚠️ Potential reinsurance cost impact due to lower quality retained book.
	Stakeholders:	<ul style="list-style-type: none"> ⚠️ Policyholders will transition into a voluntary market. ⚠️ Carriers will have the ability to write additional appropriately priced policies. ⚠️ Minimal impact on other stakeholders. ⚠️ Minimal impact on agents. Companies that write coverage for other perils could be impacted.
Implementation	Cost:	<ul style="list-style-type: none"> ⚠️ Depending on tools and means utilized for the depopulation program, costs could be material. (Use of exchange, MGA, “surplus support,” reinsurance, etc.). ⚠️ Need to develop and make available appropriate policy data.
	Time:	<ul style="list-style-type: none"> ⚠️ Program development should begin immediately (formal plan and process). ⚠️ Implementation could begin after the current storm season (prior to December 1, 2012). ⚠️ Efforts are ongoing.
	Ability:	<ul style="list-style-type: none"> ⚠️ Should be led by TWIA management with support from TDI and the insurance community. ⚠️ Need to develop key elements to advance program, including quality data, bonus program, and rate adequacy.
	Risk:	<ul style="list-style-type: none"> ⚠️ Legislative support. ⚠️ Carrier participation. ⚠️ Financial stability of the “Take Out Companies” (e.g., Florida). ⚠️ Take out carriers are not eligible for protections under HB 3 (82nd Legislature).



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

3D – Tier TWIA book at account level based on profitability.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> No	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⌚ Slower growth or reduced exposure as account-level profitability becomes a tool to identify relative profitability of individual TWIA accounts to help with carrier take out. ⌚ Better pricing of risks through differentiation in underwriting focus, qualification standards, or inspection requirements. ⌚ Provides valuable analysis for reinsurance marketing or targeted take out plans, which could also reduce TWIA total exposure. ⌚ Could be blended with assessment credit differentiation program to support assessment levels.
	Stakeholders:	<ul style="list-style-type: none"> ⌚ Depending on how segmentation is utilized (e.g., take out, rate modification, etc.) it could have varying impacts on policyholders. ⌚ Likely to provide more standard market opportunities for appropriately priced risks. ⌚ Limited impact on all other stakeholders.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⌚ Cost of systems adjustment to calculate rate deficiency at location level and actuarial review. ⌚ Potential support from outside actuarial resources. ⌚ Need to utilize standard USPS addresses for accuracy, not currently required by TWIA.
	Time:	<ul style="list-style-type: none"> ⌚ 90 - 120 days depending on system resources and consulting support.
	Ability:	<ul style="list-style-type: none"> ⌚ Current management team should be able to complete with currently available information.
	Risk:	<ul style="list-style-type: none"> ⌚ Little to no risk of gaining the insight of profitability; low risk for management actions based upon such information. ⌚ Federal privacy law considerations. ⌚ Publicizing redundant rate areas could create public pressure to reduce rates.

3F – Exit commercial market with individual building values above TWIA limits.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> ☹☹	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduction of commercial risks which are disproportionate to the overall risk of TWIA. Reduction in concentrations (often large commercial or governmental). Impact of reducing exposure to these largest accounts is estimated at \$4 billion+. Potential reduction in reinsurance costs.
	Stakeholders:	<ul style="list-style-type: none"> No impact on nonresidential and middle market commercial policyholders. Institutional and governmental agencies, as well as hospitality industry, most negatively impacted. Opportunities for primary carriers to write more risk. Potential for higher retention and higher total cost of risk. More risk placed in the excess and surplus lines market.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Low cost to identify and notify risks above threshold of nonrenewal.
	Time:	<ul style="list-style-type: none"> Immediate identification of accounts and notifications (assuming ability to modify TWIA's Plan of Operation). One year roll-off period of non-renewals.
	Ability:	<ul style="list-style-type: none"> No restrictions around commercial limit application above designated maximum TWIA limit. Easy for management to implement and execute underwriting changes.
	Risk:	<ul style="list-style-type: none"> Elimination of certain governmental structures could be unpopular. Public policy risk due to governmental risks insured.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

3H – Establish online renewal data access for participating take-out carriers.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> Agents

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Reduction in exposure through a depopulation plan and encouraged competition for quality accounts. ⓘ Given the indication of rate adequacy on a significant portion of the current TWIA book, expected impact at 10 - 15% of existing residential book. ⓘ Incentives may be necessary to get carriers to send resources to review (see assessment credits).
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Agents may not want to move from TWIA due to compensation or competitive differences. ⓘ Policyholders positively impacted with move to standard market carriers. ⓘ Carriers would appreciate opportunity to “pick off” good risks at little to no cost.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Technology costs to create a secure and comprehensive solution estimated above \$500,000. ⓘ Costs of securing additional underwriting information required to maximize interest. ⓘ Costs to provide associated third party data, if required (credit scores). ⓘ Personnel required to monitor and interface with participating carriers and agency issues.
	Time:	<ul style="list-style-type: none"> ⓘ 6 - 9 months to complete systems work and begin underwriting data collections.
	Ability:	<ul style="list-style-type: none"> ⓘ Existing management team should be able to implement. ⓘ Additional technology resources and systems may be required. ⓘ As an alternative, exchange could be integrated into MGA technology platform, if implemented, and agency transfer issues would be minimized with MGA centralization.
	Risk:	<ul style="list-style-type: none"> ⓘ Moderate risk due to account transfer and agency issues. ⓘ Privacy concerns and security issues. ⓘ Obtaining sign-off by policyholders that information can be shared.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

5A – Realign member assessment capital funding.

Estimated Impact & Implementation Considerations	Financial Impact \$\$\$\$\$	Impact on Stakeholders 😊 😐 😞	Impl. Cost ☹☹☹	Impl. Time ⌚⌚⌚⌚	Impl. Risk Moderate
Approvals Required to Execute	TWIA Board/Mgt No	TDI/Commissioner Yes	Legislation Required Yes	Members Will impact	Other No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Reduces TWIA writings by motivating member companies to pursue assessment credits due to increased threat of material assessment due to an event. ⓘ Lowering attachment points for certain carriers could provide many positive financial impacts including (i) support for bond funding, (ii) initial first-dollar liquidity through annual assessments or pre-event assessments, and (iii) changing the dynamic of current reinsurance costs and attachment points. ⓘ Provide liquidity options.
	Stakeholders	<ul style="list-style-type: none"> ⓘ Impact member companies by adding assessment exposure. ⓘ Limited to no impact on policyholders, agents, and other carriers writing reasonable amount of wind risk. ⓘ Reduces potential assessment load on coastal policyholders.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Actuarial modeling and support. ⓘ Time to educate key stakeholders.
	Time:	<ul style="list-style-type: none"> ⓘ 180 - 360 days due to legislative approval.
	Ability:	<ul style="list-style-type: none"> ⓘ No action required of management. ⓘ Needs legislative support.
	Risk:	<ul style="list-style-type: none"> ⓘ Risk of reduced market participation due to assessment risk.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

5B – Require pre-event funding.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$\$\$	<u>Impact on Stakeholders</u> 😊 😞	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> No	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Liquidity through pre-event funding, requiring a surcharge from selected groups of policyholders. ⓘ Liquidity through new revenue sources outside policy to increase catastrophe fund (tax on building permits, hospitality in coastal area, etc.). ⓘ Potential reduction in costs of other funding mechanisms (bonding, reinsurance, etc.) due to known level of first dollar support.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ While some will pay additional fees, post-event insured position for coastal policyholders and member companies is improved.
	Implementation Considerations	<ul style="list-style-type: none"> Cost: ⓘ Moderate cost of implementation depending on funding source and collection mechanism. Time: ⓘ Extended timeframe due to carrier impact and required legislative approval. Ability: <ul style="list-style-type: none"> ⓘ Limited management support needed to collect and retain assessments. ⓘ TDI would need to pursue with Legislature. Risk: ⓘ Moderate due to broad constituent impact and public policy concerns.



OPERATIONS

NORTH AMERICA EUROPE MIDDLE EAST LATIN AMERICA ASIA



WHY FOCUS ON OPERATIONS?

TWIA's operational functions and alternatives must be considered in any restructuring plan with the understanding that performance in the face of catastrophe is critical.



TWIA's operations should be...

...Effective in the ordinary course

- 🏠 To appropriately underwrite and price new risks
- 🏠 To monitor overall exposures and adjust capital requirements as needed
- 🏠 To service policyholders and agents
- 🏠 To process and pay claims as needed

...Robust and scalable to handle major catastrophes

- 🏠 Planning to allow seamless execution under the toughest of circumstances
- 🏠 Call center capacity to respond to questions from policyholders and agents
- 🏠 Claims processors to distinguish legitimate from questionable claims
- 🏠 Claims adjusters to accurately assess covered damages
- 🏠 Disbursements systems able to process payments on a timely basis

...Efficient, always

- 🏠 Spend as little as reasonably possible on operations
- 🏠 Maximize every dollar of premium available for claims-paying capacity



AREAS OF FOCUS

A&M focused on the extent of alignment between operations and strategy, operational efficiency and risks.



- 📌 Is TWIA focused on the right activities and priorities?
- 📌 Is TWIA executing as effectively and efficiently as it should be?
- 📌 Are TWIA's operations robust and scalable?



A&M'S TOP RECOMMENDATIONS RELATED TO OPERATIONS

A&M's top recommendations related to Operations are intended to make TWIA policies less attractive to agents and to reduce embedded operational risk.



Summary of A&M's Top Recommendations re: Operations, Grouped by Key Theme		
Key Theme		Recommendation
6 Service Levels	Misaligned service levels result in higher cost and greater "ease" of doing business with TWIA.	6A Require acceptance of a valid offer of coverage.
7 Commission Rates	High commission rates and strong agent relationships exasperate TWIA's role as a carrier of last resort.	7A Utilize single managing general agency distribution.
		7C Reduce commission levels for TWIA to 10% new/7% renewal.
9 Operational Risk	High levels of embedded operational risk cause process inefficiencies.	9A Employ service carrier model moving all operations to fronting carrier.
		9B Establish TWIA as reinsurer for member company wind exposure.
		9C Develop ability for TWIA to reinsure risk to member companies.

Red boldface text indicates Top Recommendations with the greatest impact.

The recommended Operational changes are expected to yield significant benefits to nearly all of TWIA's key stakeholders.



Summary of A&M's Top Recommendations re: Operations, Ranked by Impact

		Impact		Implementation Considerations		
Theme	Recommendation	Financial	Stakeholders	Cost	Time	Risk
6A Service Levels	Require acceptance of a valid offer of coverage.	\$\$\$	☹☹	¢¢	⌚⌚⌚⌚	Mod.
7A Commission Rates	Utilize single managing general agency distribution.	\$\$\$\$	☺☺ ☹☹	¢¢¢¢	⌚⌚⌚⌚	High
7C Commission Rates	Reduce commission levels for TWIA to 10% new/7% renewal.	\$\$\$\$	☺☺ ☹☹	¢	⌚⌚⌚⌚	High
9A Operational Risk	Employ service carrier model moving all operations to fronting carrier.	\$\$\$	☺	¢¢¢¢	⌚⌚⌚⌚	Mod.
9B Operational Risk	Establish TWIA as reinsurer for member company wind exposure.	\$\$\$	☺☺	¢¢¢¢	⌚⌚⌚⌚	Mod.
9C Operational Risk	Develop ability for TWIA to reinsure risk to member companies.	\$\$\$	☺☺	¢¢¢¢	⌚⌚⌚⌚	Mod.

Red boldface text indicates Top Recommendations with the greatest impact.

* All other recommendations on Operations are located in appendix



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



6A – Require acceptance of valid offer of coverage.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> ☹☹	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> No	<u>Other</u> Agents

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Should slow growth in exposure by assuring that no standard market alternative is available. Reduction in current exposure possible, assuming that there would be no “grandfathering” of existing policyholders. Address weakness in current one-declination model, which stakeholders say is ineffective.
	Stakeholders:	<ul style="list-style-type: none"> Significant impact to agents and policyholders that now have no incentive to continue shopping for voluntary market coverage once a single declination is obtained. Leverages impact of voluntary utilization of MGA that can provide alternatives to captive agents or smaller agents with limited markets. Helps support a more robust marketplace, which may encourage carriers to enter or stay in the market.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Modest system changes to support requirements. Cost of notification, monitoring, and compliance. Potential costs associated with support of the agents through transition and finding other markets.
	Time:	<ul style="list-style-type: none"> Length of time tied to TDI review and/or legislative process.
	Ability:	<ul style="list-style-type: none"> Systems changes and agency changes necessary. Management has ability to implement operational support elements. Requires legislative support. Requires that captive agents access other markets to legitimately place customers in wind pool. Potentially requires MGA/wholesale access available for any agent with limited contracts to attempt to secure wind coverage for customers.
	Risk:	<ul style="list-style-type: none"> Setting realistic parameters of what is “valid coverage.” Confusion by policyholders familiar with a single declination requirement. Lobbying efforts by agents and policyholders, legislative interest.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

7A – Utilize single managing general agency distribution.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u>	<u>Impact on Stakeholders</u>	<u>Impl. Cost</u>	<u>Impl. Time</u>	<u>Impl. Risk</u>
	\$\$\$\$	😊😊 😞😞	¢¢¢¢	⌚⌚⌚⌚	High
Approvals Required to Execute	<u>TWIA Board/Mgt</u>	<u>TDI/Commissioner</u>	<u>Legislation Required</u>	<u>Members</u>	<u>Other</u>
	Yes	Yes	No	Yes	No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⌚ Reduce operational costs by outsourcing underwriting, policy processing, and agency management to MGA. ⌚ Reduce TWIA exposure by utilizing MGA to attract and access new wind carriers and capacity. ⌚ Reduce TWIA exposure through depopulation program utilizing MGA to facilitate take out, and program and information sharing.
	Stakeholders:	<ul style="list-style-type: none"> ⌚ Policyholders can access TWIA through MGA or agents. ⌚ Carriers’ competitors will change due to the need to allow non-admitted carriers access. ⌚ Small retail agents could help effectuate effort to MGA. ⌚ Larger agencies would likely be impacted by potential reduction in coverage.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⌚ Total costs should be within current structure. ⌚ Cost of MGA integration and oversight structure paid out of operational savings at TWIA.
	Time:	<ul style="list-style-type: none"> ⌚ 6 - 12 months to select MGA, negotiate, and implement.
	Ability:	<ul style="list-style-type: none"> ⌚ MGA management resources need to be added as TWIA resource.
	Risk:	<ul style="list-style-type: none"> ⌚ High risk due to extensive outsourcing and agent/policyholder interface. ⌚ Captive agent companies may not approve use of MGA. ⌚ Need other changes to be effective, such as the need for a valid offer to negate the one declination rule. ⌚ Default risk for wind only non-admitted companies. ⌚ Comparison problems for wind only premium.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

7C – Reduce commission levels for TWIA to 10% new/7% renewal.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$\$	<u>Impact on Stakeholders</u> 😊😊 😞😞	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> High
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduce commission to brokers from current market leading levels down to market levels for this type of coverage, resulting in 6 - 9% pick up in risk-free premium. Reduce rate adequacy “gap” by eight percentage points. Reduce agent motivation to place business in TWIA in order to receive compensation beyond other wind markets available, thereby reducing overall TWIA exposure.
	Stakeholders:	<ul style="list-style-type: none"> Significant reduction in commissions to agents. Improved capital adequacy benefits other stakeholders.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Moderate cost to implement, including system adjustments and agency communications.
	Time:	<ul style="list-style-type: none"> 2 - 3 months.
	Ability:	<ul style="list-style-type: none"> Can be done with TWIA/TDI approval.
	Risk:	<ul style="list-style-type: none"> Significant due to agent impact.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9A – Employ service carrier model moving all operations to fronting carrier.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduce TWIA operational footprint by outsourcing all underwriting, processing, and claims operations to a service carrier (member company) under a fee structure.
	Stakeholders:	<ul style="list-style-type: none"> Minor impact to policyholders/agents.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Significant cost to move to an outsourced model (see outsource pages by operation). Cost savings mitigate transition costs based on fronting carrier fees. Forecast retaining complex accounts and administration of outsourced vendor.
	Time:	<ul style="list-style-type: none"> 9 - 12 months to prepare for transition to outsourced vendor.
	Ability:	<ul style="list-style-type: none"> Would require significant support outside TWIA and coordination with service carrier transition team. Could be done with TWIA/TDI approval because it is operational only.
	Risk:	<ul style="list-style-type: none"> Moderate risk due to significant outsourcing and operational transition.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9B – Establish TWIA as reinsurer for member company wind exposure.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊😊	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> Yes	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduce TWIA operational footprint by providing reinsurance to member companies who write current TWIA policyholders' wind coverage as part of their homeowner's package. Provide incentive to member company for providing all underwriting and claims support for chosen policies funded from operational savings (Financial/Assessment). Reduce overall TWIA exposure through some level of retention/quota-share participation by member companies.
	Stakeholders:	<ul style="list-style-type: none"> Positive impact for policyholders now covered by homeowners carrier. Impact to agents generally positive, though may impact commissions versus TWIA standard. Member companies have positive impact from choice to service wind.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Cost to administer reinsurance, systems adjustment, and personnel required to administer. Overall costs neutral as substantial operational savings invested in incentives.
	Time:	<ul style="list-style-type: none"> 6 - 9 months due to required operational and system changes and member company negotiations.
	Ability:	<ul style="list-style-type: none"> Can be done within current statutory authority; would need additional TWIA reinsurance expertise/resources.
	Risk:	<ul style="list-style-type: none"> Risk moderate due to complete operational shift to member companies and reinsurance expertise.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9C – Develop ability for TWIA to reinsure risk to member companies.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊😊	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> Yes	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduce TWIA operational footprint by reinsuring selected policies with member companies. Provide incentive to member company for providing reinsurance, including access to HB 3 (82nd Legislature) claims protections, account servicing fees, and ceding commissions. Reduce overall TWIA exposure.
	Stakeholders:	<ul style="list-style-type: none"> Positive impact for policyholders now covered by homeowners carrier who may be serviced across wind line by same company. Limited agent impact as member company contracts are not required for reinsurance position. Positive impact on member companies from having a choice to service wind and ceding commission opportunity.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Cost to administer reinsurance, systems adjustment, and personnel required to administer. Overall, cost neutral as substantial operational savings would be invested in incentives.
	Time:	<ul style="list-style-type: none"> 6 - 9 months due to operational and system changes required and member company negotiations.
	Ability:	<ul style="list-style-type: none"> Can be done within current statutory authority, would need additional TWIA reinsurance expertise/resources.
	Risk:	<ul style="list-style-type: none"> Moderate due to complete operational shift to member companies and reinsurance expertise.



PRACTICAL STEPS FORWARD



REQUIREMENTS OF AN IMPLEMENTATION ROAD MAP

There is a wide range of recommendations that can be implemented with varying degrees of difficulty, investment, and regulatory or legislative approval.



All steps taken or recommendations implemented should be part of a road map that...

...Is clearly articulated

- ④ Outlines the final outcome, resources assigned, responsibilities, and success measures
- ④ Provides communication across all stakeholders to create alignment in purpose

...Considers the dynamic environment in which TWIA operates

- ④ Monitors and adjusts project goals and timelines due to TWIA's need to respond to potential loss events
- ④ Allows for adjustments if certain recommendations cannot be implemented (i.e. legislative approval)

...Is realistic in its timeframes

- ④ Establishes milestones and final delivery timeframes that align what can be accomplished within the legislative calendar with what can be accomplished by TWIA management, TDI, and member companies
- ④ Reflects renewal cycles, hurricane season impacts, and policyholder needs

...Is constantly advancing the restructuring effort

- ④ Recognizes the cumulative impact of recommendations towards a clear final objective
- ④ Provides for realignment of strategies and tactics, but doesn't change the goals set to overcome TWIA's threshold issues



ROAD MAP – A PHASED IMPLEMENTATION APPROACH

While the goal and ultimate long term solution for TWIA involves a full spectrum of changes, the environmental and resource realities require planning and prioritization.



Short Term Implementation - Phase I

- 🏠 Recommendations that are easy to implement and make general business sense.
- 🏠 Primarily underwriting and operational changes that can be implemented by TWIA to further restructure goals and improve results, but have little impact on the threshold issues (see page 15 for “threshold issues”).

Intermediate Term Implementation - Phase II

- 🏠 Recommendations that require a detailed, premeditated implementation plan to ensure timely and efficient execution while recognizing stakeholder impacts and transition.
- 🏠 Addresses each of the threshold issues, moves TWIA towards the structural changes necessary, requires material investment and strict execution in order to implement, but do not require legislative or rate changes.
- 🏠 Phase II recommendations supported by TDI are listed on page 53.

Long Term/Foundational Implementation - Phase III

- 🏠 Recommendations that are an articulation of TWIA’s ultimate resolution and its role in the marketplace, and which require a “road map” due to the longer-timeframe and dynamic decision tree.
- 🏠 Fundamentally changes the foundation of TWIA and shifts the products and operations, requiring legislative support and broad stakeholder input.
- 🏠 Phase III recommendations, though considered in A&M’s analysis, have not been developed into a final roadmap.

The above grouping of recommendations reflect different levels of effort and coordination to implement. Many recommendations across all phases are contingent upon another, and the order of implementation should be evaluated for impact on other recommendations. Suggested phases for all recommendations can be found in the listing on pages 56- 59.



PHASE II - RECOMMENDATIONS THAT INITIATE A TWIA RESTRUCTURING

Certain of our recommended changes can be implemented without legislative support and will advance the threshold issues.



Theme	Recommendation	Threshold Issues Addressed			
		Insurer of Last Resort	Support Exposure	Balanced Outsourcing	Balanced Governance
1A Mission	Establish a mission aligned scorecard for Board and management.				X
3A Funding Capacity	Develop a formal depopulation program.	X	X		
3D Funding Capacity	Tier TWIA book at account level based on profitability.	X	X		
6A Service Levels	Require acceptance of valid offer of coverage.	X	X		
7A Commission Rates	Utilize single managing general agency distribution.	X	X	X	
9A Operational Risk	Employ service carrier model moving all operations to fronting carrier.			X	
9B Operational Risk	Establish TWIA as reinsurer for member company wind exposure.		X	X	
9C Operational Risk	Develop ability for TWIA to reinsure risk to member companies.		X	X	



APPENDIX

- I. Listing of Recommendations
- II. Detail of Other Recommendations
- III. What We Heard
- IV. Disclaimer and Limiting Conditions



LISTING OF RECOMMENDATIONS



LISTING OF RECOMMENDATIONS

No.	Recommendations	Phase	Financial	Stakeholders	Cost	Time	Risk
Mission, Strategy, and Governance							
<i>TWIA's mission is not widely understood, and different parties describe it differently</i>							
1A	Establish a mission-aligned scorecard for Board and management.	Phase II	\$\$\$	☺☺	¢	☒☒☒	Moderate
1B	Develop and communicate consistent message of mission aligned with legislative definition.	Phase I		☺	¢	☒	Moderate
1C	Make public aware of agreed mission statement.	Phase I		☺	¢¢	☒	Low
1D	Tie management compensation and performance reviews to mission scorecard.	Phase I	\$\$\$	☺☺	¢	☒☒☒	Moderate
Governance Structure							
2A	Realign Board make up to expand involvement of relevant stakeholders.	Phase III		☺☺☺	¢¢	☒☒☒☒	Low
2B	Commissioner/Board need to establish framework to execute mission.	Phase I		☺	¢	☒☒	Low
2C	Build effective Strategic, Operational, and Financial Plans based on Mission and Scorecard.	Phase I	\$	☺☺	¢¢	☒☒☒	Low
2D	Consider reduction in General Manager's direct report span, too broad and varied in skill level.	Phase I	\$	☺	¢¢¢	☒☒	Low
2E	Catastrophe plan should be developed in more detail and be part of TWIA's Plan of Operation.	Phase I	\$\$\$	☺☺	¢¢	☒☒	Low
Capital Management							
Funding Capacity							
3A	Develop a formal depopulation program.	Phase II	\$\$\$\$	☺ ☹	¢¢¢	☒☒☒	Low
3B	Require minimum wind retentions for member carriers.	Phase III	\$\$\$\$	☺☺ ☹☹	¢¢¢	☒☒☒☒	High
3C	Redesign carrier assessment credit program to motivate desired action.	Phase I	\$\$\$\$\$	☺☺ ☹	¢¢¢	☒☒☒☒☒	High
3D	Tier TWIA book at account level based on profitability.	Phase II	\$	☺	¢¢¢¢	☒☒☒	Low
3E	Reduce TWIA geographic eligibility.	Phase III	\$\$\$	☹☹	¢¢	☒☒☒☒	Moderate
3F	Exit commercial market with individual building values above TWIA limits.	Phase III	\$\$\$	☹☹	¢¢	☒☒☒	Low
3G	Reduce maximum limit for residential to \$500,000 and commercial to \$1 million.	Phase III	\$\$\$	☹☹	¢¢	☒☒☒☒	Low
3H	Establish online renewal data access for participating take-out carriers.	Phase II	\$\$\$\$	☺	¢¢¢¢	☒☒☒☒	Moderate
3I	Change Key Deductible Application and Values to Reduce Exposures.	Phase I	\$\$\$	☹	¢¢¢	☒☒☒	Low

Red boldface text indicates Top Recommendations with the greatest impact.

Red text indicates recommendations with significant impact.

Blue or black text indicates other recommendations.



LISTING OF RECOMMENDATIONS

No.	Recommendations	Phase	Financial	Stakeholders	Cost	Time	Risk
Capital Management							
<i>Coverage Terms and Conditions</i>							
4A	Change storm cut-off for binding to 72 hours to expected landfall or cross 80/20.	Phase I	\$\$	☹	¢	⌚	Low
4B	Implement territorial rating plan.	Phase I	\$\$\$\$	☺☺ ☹☹	¢¢¢	⌚⌚⌚	Low
4C	Exit from non-compliant roof business.	Phase I	\$\$\$	☹	¢¢	⌚⌚	Low
4D	Reduce deductible credits.	Phase I	\$\$\$	☹	¢¢	⌚⌚⌚	Low
4E	Limit building code credits to properties that exceed tier construction.	Phase I	\$\$\$	☹☹	¢	⌚	Moderate
4F	Eliminate housing authority credit.	Phase I	\$	☹	¢	⌚	Low
4G	Require detailed photos as part of new submission and every 2-3 years for renewal.	Phase I	\$	☹	¢¢¢	⌚⌚⌚	Low
4H	Implement seasonal home surcharge/vacant property exclusion.	Phase I	\$	☹	¢¢	⌚⌚	Low
4I	Eliminate replacement cost coverage or increase surcharge.	Phase I	\$\$\$	☹☹	¢¢¢	⌚⌚⌚	Moderate
Funding Mechanisms							
5A	Realign member assessment capital funding.	Phase III	\$\$\$\$\$	☺ ☹☹	¢¢¢	⌚⌚⌚⌚⌚	Moderate
5B	Require pre-event funding.	Phase III	\$\$\$\$\$	☺ ☹	¢¢¢¢	⌚⌚⌚⌚⌚	Moderate
5C	Improve reinsurance marketing support and broaden access.	Phase I	\$\$	☺	¢	⌚⌚	Low
5D	Make all TWIA policies fully earned on binding.	Phase III	\$\$	☹	¢¢	⌚⌚⌚⌚	Moderate

Red boldface text indicates Top Recommendations with the greatest impact.
 Red text indicates recommendations with significant impact.
 Blue or black text indicates other recommendations.



LISTING OF RECOMMENDATIONS

No.	Recommendations	Phase	Financial	Stakeholders	Cost	Time	Risk
Operations							
<i>Service Levels</i>							
6A	Require acceptance of valid offer of coverage.	Phase II	\$\$\$	☹☹	¢¢	⌘⌘⌘⌘	Moderate
6B	Enforce certification process WPI-8.	Phase III	\$\$	☹	¢	⌘⌘⌘⌘⌘⌘	Low
6C	Underwriting alignment by process rather than agent.	Phase I	\$\$	☹	¢	⌘⌘	Low
6D	Align FNOL and customer service level requirements with industry standards.	Phase I	\$\$	☺	¢	⌘⌘	Low
6E	Reduce automatic renewal cycle to two years.	Phase I	\$\$	☹☹	¢¢¢	⌘⌘	Moderate
<i>High Commission Rates</i>							
7A	Utilize single managing general agency distribution.	Phase II	\$\$\$\$	☺☺ ☹☹	¢¢¢¢	⌘⌘⌘⌘	High
7B	Exclude captive agents.	Phase III	\$\$\$	☹☹	¢¢¢	⌘⌘⌘⌘⌘⌘	Moderate
7C	Reduce commission levels for TWIA to 10% new/7% renewal.	Phase III	\$\$\$\$	☺☺ ☹☹	¢	⌘⌘⌘⌘	High
7D	Allow direct customer access to TWIA.	Phase III	\$\$\$	☺☺ ☹	¢¢¢¢¢	⌘⌘⌘⌘⌘⌘	High
<i>Risk Mitigation</i>							
8A	Expand TDI certification and TWIA inspection process.	Phase III	\$\$	☹	¢	⌘⌘	Low
8B	Increase frequency of roof inspections to every five years.	Phase I	\$\$	☹	¢	⌘⌘	Low

Red boldface text indicates Top Recommendations with the greatest impact.

Red text indicates recommendations with significant impact.

Blue or black text indicates other recommendations.



LISTING OF RECOMMENDATIONS

No.	Recommendations	Phase	Financial	Stakeholders	Cost	Time	Risk
Operations							
<i>Operational Risk</i>							
9A	Employ service carrier model moving all operations to fronting carrier.	Phase II	\$\$\$	☺	¢¢¢¢	ⓧⓧⓧⓧ	Moderate
9B	Establish TWIA as reinsurer for member company wind exposure.	Phase II	\$\$\$	☺☺	¢¢¢¢	ⓧⓧⓧⓧ	Moderate
9C	Develop ability for TWIA to reinsure risk to member companies.	Phase II	\$\$\$	☺☺	¢¢¢¢	ⓧⓧⓧⓧ	Moderate
9D	Outsource Operations (mail, scan, data entry) group.	Phase III	\$\$	☺	¢¢¢¢	ⓧⓧⓧ	Moderate
9E	Outsource 80% of underwriting workload that is process oriented.	Phase III	\$\$	☺	¢¢¢¢	ⓧⓧⓧ	Moderate
9F	Outsource claims handling for common claim files (80%).	Phase III	\$\$\$	☺	¢¢¢¢	ⓧⓧⓧⓧ	Moderate
9G	Outsource IT.	Phase III	\$\$\$	☺	¢¢¢¢¢	ⓧⓧⓧⓧ	High
9H	Implement HR best practices and controls under appropriate leadership.	Phase I	\$\$	☺	¢¢¢	ⓧⓧⓧ	Low
9I	Reorganize operations unit, separating duties and standardize processes so that they are trainable, measurable, and sustainable.	Phase I	\$\$	☺	¢¢	ⓧⓧ	Low
9J	Finance should facilitate the development of a culture of budget accountability, focused on cost and efficiency.	Phase I	\$\$	☺	¢¢¢	ⓧⓧ	Low
9K	Align finance and accounting with staffing with benchmarks.	Phase I	\$\$	☺	¢¢	ⓧⓧⓧ	Low
9L	Deliver policies electronically to agents, policyholders, and lien holders.	Phase I	\$\$\$	☺☺	¢¢¢	ⓧⓧⓧ	Low

Red boldface text indicates Top Recommendations with the greatest impact.

Red text indicates recommendations with significant impact.

Blue or black text indicates other recommendations.



DETAIL OF OTHER RECOMMENDATIONS

(NOT PROVIDED ELSEWHERE)



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

1B – Develop and communicate consistent message of mission aligned with legislative definition.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u>	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ₱	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	ⓘ Limited financial impact, but critical to setting the framework for the scorecard as well as communication with key stakeholders.
	Stakeholders:	ⓘ Development and communication itself will have limited impact on each of the stakeholders. However, implementation of the mission and its ultimate strategy and tactics will have a material impact on stakeholders. See related 1A and 1C for additional considerations.
Implementation Considerations	Cost:	ⓘ Very little. Predominately management and TDI time.
	Time:	ⓘ TDI, Board, and management will likely need some level of consulting support to develop framework, establish key metrics, and gain initial understanding and support from stakeholders.
	Ability:	ⓘ Management, with support of TDI (and potentially Legislature), should be able to develop message of mission.
	Risk:	<ul style="list-style-type: none"> ⓘ Missing the alignment of strategy, tactics, and the scorecard might result in a negative impact for the Board and management. ⓘ Adoption of an ambiguous or watered-down mission order to satisfy multiple stakeholders.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

1C – Make public aware of agreed mission statement.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u>	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	ⓘ Public awareness itself will not necessarily drive financial impact; however, broad understanding and support of the TWIA mandate should limit impediments to TWIA accomplishing its mission.
	Stakeholders:	ⓘ As noted above, awareness itself will not necessarily have a material impact.
Implementation Considerations	Cost:	ⓘ Limited. Primarily website modification.
	Time:	ⓘ Less than 30 days once mission statement is agreed upon.
	Ability:	ⓘ TWIA has the capability to implement.
	Risk:	<ul style="list-style-type: none"> ⓘ Mission statement that lacks clarity resulting in more confusion for the general public. ⓘ A material disagreement with the posted mission statement results in backlash and a flood of calls to TWIA, agents, Board, and legislators.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



1D – Tie management compensation and performance reviews to mission scorecard

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊😊	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Measurement allows for constant review, feedback, and improvement. Though initial financial returns will likely be modest, for the long-term, a culture of measurement and feedback will result in improved financial performance. Compensation tied to specific performance measures is often the most direct means to drive change.
	Stakeholders:	<ul style="list-style-type: none"> Will provide transparency to Legislature, Board, and TDI regarding the direct linkage of management compensation and TWIA performance. Employees and management likely prefer the clarity provided by the scorecard. Policyholders and other indirect stakeholders have a greater understanding of management’s actions and performance and how it is expected to impact them.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Very modest consulting support or potentially all internal costs.
	Time:	<ul style="list-style-type: none"> Typical implementation would take 90 - 120 days to develop, gain buy-in, and drive throughout the organization.
	Ability:	<ul style="list-style-type: none"> Limited management and human resource skills necessary.
	Risk:	<ul style="list-style-type: none"> Four major risks are involved in modifying compensation and realigning the linkage between performance and compensation (i) lack of clarity and limited use of specific measures in establishing scorecard, (ii) limited buy-in and understanding of fundamental change needed, (iii) management “undermining” when actual compensation levels don’t meet key personnel’s “expectations,” and (iv) if poorly executed, can drive counter-productive behavior. Too much focus on individual performance rather than performance of organization as a whole. Transition from current culture and compensation.

2B – Commissioner/Board need to establish framework to execute mission.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u>	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ₱	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Should be no direct financial impact. Indirect impact of less friction in decision making and execution should be positive.
	Stakeholders:	<ul style="list-style-type: none"> The TWIA Board, TWIA employees, TDI, members, insurance industry (companies and agents), Legislature, executive branch, and general public (especially policyholders and taxpayers) will have a greater understanding of how TWIA's mission impacts them.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Little or no cost other than time of Board to implement. Might need some consulting support as this is new territory for the Board.
	Time:	<ul style="list-style-type: none"> Within 60 - 90 days of finalizing the mission statement.
	Ability:	<ul style="list-style-type: none"> Management would be able to support, but really the responsibility of the Board. Some consulting support might be necessary.
	Risk:	<ul style="list-style-type: none"> Limited risk other than changing dynamic of the culture of TWIA.

2D – Consider reduction in General Manager's direct report span, too broad and varied in skill level.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ☹☹☹	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Limited financial impact, but improvement in overall management effectiveness. GM currently has 10 direct reports, including compliance manager, HR administrator, Director of Operations, and seven VP-level executives. High-level executive focus will improve cost culture/operational impact.
	Stakeholders:	<ul style="list-style-type: none"> Frees GM to focus on strategic initiatives and external communications. Improves public appearance. Little impact on other stakeholders.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Current executive talent can be reorganized to meet needs. Cost may include hiring COO-level executive to lead operational oversight and catastrophe planning. Management reorganizations usually result in modest unproductive time until new roles are sorted out.
	Time:	<ul style="list-style-type: none"> Can be completed immediately. Slight time delay if implementation would include the hire of a COO.
	Ability:	<ul style="list-style-type: none"> Modest reorganization should be able to be executed by management.
	Risk:	<ul style="list-style-type: none"> Initial confusion until new reporting lines and communications are worked out.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

2E – Catastrophe plan should be developed in more detail and be part of TWIA’s Plan of Operation.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊😊	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Though won't be known until a major event, better management planning ahead of a catastrophe could result in material savings on claims costs and other ancillary costs. Improved and more detailed plan reduces execution risk at time of highest stress.
	Stakeholders:	<ul style="list-style-type: none"> All stakeholders would benefit from having a well thought-out and executable catastrophe plan. Ease for policyholders and agents. Limited repercussions to legislators and TDI. Comfort level for employees during a period of frantic activity. Key is selection, implementation, and control of independent adjusters.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> TWIA and TDI resources can be utilized (potentially a role for a new COO, see 2D). Consultant support could be additive to identify best practices.
	Time:	<ul style="list-style-type: none"> 60 - 90 days to complete expanded plan.
	Ability:	<ul style="list-style-type: none"> Can be done at management direction with potential consulting support. Need to have resources that understand the “how” in determining resource utilization, plan action steps and timing, estimated financial impacts, and modeling to catastrophe level scenarios.
	Risk:	<ul style="list-style-type: none"> Better planning can only help to reduce risk. Overreliance on a plan without testing it. Management may not be willing to plan for a 1-in-100 year event which could generate more than 160,000 claims.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

3B – Require minimum wind retentions for member carriers.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$\$	<u>Impact on Stakeholders</u> 😊😊 😞😞	<u>Impl. Cost</u> ¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> High
Approvals Required to Execute	<u>TWIA Board/Mgt</u> No	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> Implied	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⚠️ Setting a minimum percentage of wind exposure that must be retained by companies writing in Texas could materially reduce TWIA’s writings associated with these carriers’ accounts (currently most carriers have less than 10% Tier 1 exposure, and some carriers write no wind risk in Tier 1 but have significant market share in Tier 1 for other perils). ⚠️ Estimated impact of \$4 billion to \$5 billion in reduced TWIA exposure, but analysis would be required on the optimal percentage requirement and the total reduction to TWIA.
	Stakeholders:	<ul style="list-style-type: none"> ⚠️ Minor impact on policyholders who benefit from wind support through their current property carrier. ⚠️ Positive impact for agents representing carriers who are expanding wind capacity. ⚠️ Will impact carriers with additional exposures. ⚠️ Larger carriers take more risk; may force smaller carriers who focus on wind risk out of the marketplace.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⚠️ Cost of additional research and negotiations with target carriers.
	Time:	<ul style="list-style-type: none"> ⚠️ Likely six months or more of implementation time, depending on other legislative priorities and timing to initiate efforts.
	Ability:	<ul style="list-style-type: none"> ⚠️ Management cannot act on its own. ⚠️ Need to coordinate with multiple stakeholders. ⚠️ Need to have a “quarterback” or “champion.”
	Risk:	<ul style="list-style-type: none"> ⚠️ Carriers can decide to participate or exit the market. ⚠️ Legislature and TDI will likely face industry opposition. ⚠️ Carriers with limited exposure leave, resulting in increased exposure for TWIA.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

3C – Redesign carrier assessment credit program to motivate desired action.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$\$\$	<u>Impact on Stakeholders</u> 😊😊😞	<u>Impl. Cost</u> ☹☹☹	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> High
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> Implied	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⌚ Reduce TWIA exposure by motivating member companies to write more wind coverage in the coastal area. ⌚ Provide incentives to remove higher impact accounts from the TWIA policyholder pool. ⌚ Incent increased member company participation regardless of TWIA growth or rate changes. ⌚ Use total insured value for calculation rather than percentage of premium. ⌚ Could differentiate by exposure/proximity to coast.
	Stakeholders:	<ul style="list-style-type: none"> ⌚ Positive impact for policyholders and agents able to obtain wind coverage from the standard market. ⌚ Carriers writing limited wind coverage will be negatively impacted. ⌚ Modification in credit calculation could be viewed positively by some carriers currently writing wind coverage on the coast. ⌚ Costs associated with carrier’s reinsurance. ⌚ Disproportional impact issue with large versus small companies.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⌚ Primarily invested time by management, Board, TDI and Legislature.
	Time:	<ul style="list-style-type: none"> ⌚ Extended timeframe due to carrier impact and required legislation.
	Ability:	<ul style="list-style-type: none"> ⌚ There will be a need to coordinate with multiple stakeholders. ⌚ Need to have a “quarterback” or “champion.”
	Risk:	<ul style="list-style-type: none"> ⌚ Carriers may oppose or exit. ⌚ Increased exposure for TWIA should carriers exit and others not replace them. ⌚ Industry would likely react negatively if there is limited exposure.

3E – Reduce TWIA geographic eligibility.

Estimated Impact & Implementation Considerations	Financial Impact \$\$\$	Impact on Stakeholders ☹☹	Impl. Cost ¢¢	Impl. Time ⌚⌚⌚⌚	Impl. Risk Moderate
Approvals Required to Execute	TWIA Board/Mgt Yes	TDI/Commissioner Yes	Legislation Required No	Members No	Other No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reducing the designated catastrophe area reduces TWIA’s current and potential exposure base. Exposure reduction may be constrained due to the need for TWIA to be where coverage is “no longer reasonably unavailable to a substantial number of owners.” Potential for modified reinsurance pricing as a result of change in geography.
	Stakeholders:	<ul style="list-style-type: none"> Existing policyholders in certain territories will be non-renewed and required to obtain insurance in the standard market. Opportunity for carriers to potentially write additional appropriately priced risks.
	Cost:	<ul style="list-style-type: none"> Cost to quantify qualification and notice period.
Implementation Considerations	Time:	<ul style="list-style-type: none"> Depending on whether public hearings would be held and finalization of TWIA’s Plan of Operation or modifications thereto, 90 - 240 days.
	Ability:	<ul style="list-style-type: none"> Requires limited management input. Can be done with Commissioner approval subject to statute restrictions.
	Risk:	<ul style="list-style-type: none"> Significant potential public policy considerations/ramifications.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

3G – Reduce maximum limit for residential to \$500,000 and commercial to \$1 million.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> ☹☹	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Recommended limits would impact 1.4% of residential policies, representing 6.7% of TWIA’s residential exposure. Reduction in exposure to TWIA = \$4.4 billion. Commercial limitation would impact 16.8% of commercial policies, representing 83% of values. Reduction in exposure to TWIA = \$10 billion.
	Stakeholders:	<ul style="list-style-type: none"> Material impact to commercial stakeholders and high value homeowners. Allows commercial and higher end property writers to have access to additional policyholders at appropriate rates.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Implementation costs low, primarily cost of achieving legislative change.
	Time:	<ul style="list-style-type: none"> Time dependent on legislative approval.
	Ability:	<ul style="list-style-type: none"> Non-renewal is easy for management to implement. Requires adjustment of maximum limits outlined in statute.
	Risk:	<ul style="list-style-type: none"> Debate on “right level” of maximum risk exposure could result in other modifications as a “trade-off.” Impact of commercial lobby diluting effort. Potential constraints if it can be shown that coverage is otherwise not available.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

3I – Change key deductible application and values to reduce exposures.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> ☹️	<u>Impl. Cost</u> ☹️☹️☹️	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Overall reduction in first-dollar loss. Depending on levels of deductible could reduce exposure by [1 - 3%]. Financial impact of increased deductible mitigated with appropriate premium credit for residential accounts. Could utilize quota share deductible to keep policyholder vested in replacement cost.
	Stakeholders:	<ul style="list-style-type: none"> Policyholders impacted by increased retentions, but more appropriate ownership interest and protection. Commercial policyholders motivated to not use TWIA as deductible funding. Aligns TWIA with standard market terms. Some additional effort by agent to evaluate deductible levels. 2% deductible level on residential and 2 - 5% on commercial would be in line with market. Policyholders would retain more exposure and cost.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Cost to promulgate new appropriate deductible credit tables and system changes (\$100,000 est.). Potential for modest actuarial consulting support.
	Time:	<ul style="list-style-type: none"> 60 -120 days to implement policy form and underwriting changes, then rolled in during annual renewals. Assumes no need to make rate filings.
	Ability:	<ul style="list-style-type: none"> Management should be able to implement. Might need modest actuarial support to assure credible guidelines.
	Risk:	<ul style="list-style-type: none"> Limited risk as aligning with standard market and supported by actuarial analysis. Some risk of deductible change being diluted or modified due to other recommendations to change the level commercial writings. Public policy issue for lower income homeowner impact.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

4A – Change storm cut-off for binding to 72 hours to expected landfall or cross 80/20.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> ☹️	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Financial impact is elimination of adverse selection as a result of being the “last to write” when there is an impending storm. Reduced exposure because even if a small number of policies are written in the days before a storm, the impact of the total values can be significant.
	Stakeholders:	<ul style="list-style-type: none"> Policyholders and agents may be blocked from last-second bindings for previously uninsured locations. Aligns binding cut off procedures with the standard markets.
	Cost:	<ul style="list-style-type: none"> Limited management time to implement guideline change.
Implementation Considerations	Time:	<ul style="list-style-type: none"> Time required to amend TWIA’s Plan of Operation and obtain approval. Notification to the marketplace.
	Ability:	<ul style="list-style-type: none"> Management has capacity to implement.
	Risk:	<ul style="list-style-type: none"> Misunderstanding by the marketplace, resulting in consumers without coverage.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



4B – Implement territorial rating plan.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$\$	<u>Impact on Stakeholders</u> 😊😊 😞😞	<u>Impl. Cost</u> ¢¢¢	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Significant impact on immediate profitability (assuming territorial rate increases, not decreases). ⓘ Assuming targeted rate increases of 10% in highest risk areas, book rate would be impacted by 5%.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Increase in rates to policyholders in high density and coastal locations. ⓘ Provides motivation for new market participation. ⓘ Little impact to standard lines carriers as few participate in high hazard zones.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Includes required systems changes to recognize new rating plan. ⓘ Modest additional actuarial consulting and analysis may be needed.
	Time:	<ul style="list-style-type: none"> ⓘ Actuarial Committee and TDI review. ⓘ Potentially implemented with January 2013 planned rate increase.
	Ability:	<ul style="list-style-type: none"> ⓘ Management has the ability to implement subject to necessary approvals. ⓘ If kept to 10%, can be implemented with Board and TDI approval.
	Risk:	<ul style="list-style-type: none"> ⓘ Opposition of some stakeholders to further rate increases for coastal stakeholders. ⓘ TWIA rates in high-hazard areas still below standard market or actuarial rate need.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

4C – Exit non-compliant roof business.

Estimated Impact & Implementation Considerations	Financial Impact \$\$\$	Impact on Stakeholders ☹️	Impl. Cost ¢¢	Impl. Time ⌚⌚	Impl. Risk Low
Approvals Required to Execute	TWIA Board/Mgt Yes	TDI/Commissioner Yes	Legislation Required No	Members No	Other No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduced exposure of \$650 million (approximately 5,500 policyholders) through changing current guidelines to be more restrictive regarding roof age and condition. Reduced exposure through disqualification of those not meeting roof standards instead of providing coverage through an automatic ACV endorsement and 15% credit.
	Stakeholders:	<ul style="list-style-type: none"> Policyholders who no longer qualify without repairs or improvements. Requirement for additional inspections and standards for qualification.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Management time to modify underwriting guidelines. Actuarial or other expert support.
	Time:	<ul style="list-style-type: none"> 30 - 60 days to propose and approve.
	Ability:	<ul style="list-style-type: none"> Management should be able to implement. Non-legislative underwriting guideline adjustment for which actuarial or other expert support may be helpful.
	Risk:	<ul style="list-style-type: none"> Overcoming the long history of allowing substandard roofing to be underwritten. Public policy issues for lower income policyholders. Ability to effectively and consistently measure the quality of roof.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



4D – Reduce deductible credits.

Estimated Impact & Implementation Considerations	Financial Impact \$\$\$	Impact on Stakeholders ☹️	Impl. Cost ¢¢	Impl. Time ⌚⌚⌚	Impl. Risk Low
Approvals Required to Execute	TWIA Board/Mgt Yes	TDI/Commissioner Yes	Legislation Required No	Members No	Other No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Better rate through reduction in number of deductible options and smaller premium credits for higher deductibles. ⓘ Estimated impact equivalent to 1% additional rate.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Current policyholders will have fewer deductible options, but in line with standard market options. ⓘ Standard market options more attractive. ⓘ Policyholders who choose lower deductibles will see overall increase in cost.
	Cost:	<ul style="list-style-type: none"> ⓘ Cost of actuarial work and analysis, and market survey to choose new deductible options and credits (estimated at under \$25,000).
Implementation Considerations	Time:	<ul style="list-style-type: none"> ⓘ 30 - 60 days to analyze. ⓘ Will likely need to include in operations plan. ⓘ Implementation rolled in over annual renewals.
	Ability:	<ul style="list-style-type: none"> ⓘ Management should be able to complete. ⓘ Most likely to be accomplished within actuarially credible guidelines of operations plan.
	Risk:	<ul style="list-style-type: none"> ⓘ Some impacted policyholders may protest. ⓘ Low risk because this is aligning with standard market and supported by actuarial analysis.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

4E – Limit building code credits to properties that exceed tier construction.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> ☹☹	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Potential for slower exposure growth as a result of higher pricing. ⓘ Move towards rate adequacy through the elimination of significant credits (26 - 28% for meeting location code standards as well as a retrofit credit; 10% is given in all designated catastrophe areas). ⓘ Additional incentives or offsets may be necessary so homeowners can afford to meet requirements (local government, builders, etc.).
	Stakeholders:	<ul style="list-style-type: none"> ⓘ As a result of substantially improved rate adequacy there would be greater standard market participation. ⓘ Current policyholders receiving credit would see significant renewal increases. ⓘ Impact to new homes/more likely to find other coverage. ⓘ Potential impact on builders who can build to IRC + standards.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Limited cost to adjusting credit schedule.
	Time:	<ul style="list-style-type: none"> ⓘ Dependent on whether change is required in TWIA's Plan of Operation. ⓘ Should take 30 days or less to implement.
	Ability:	<ul style="list-style-type: none"> ⓘ Management has resources to implement. ⓘ Potentially subject to Actuarial Committee/Board and TDI approval.
	Risk:	<ul style="list-style-type: none"> ⓘ Impacts a large number of policyholders. ⓘ Material impact to rates which will likely result in customer feedback. ⓘ Discouraging overall achievement of building codes. ⓘ Dependent on enforcement.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

4F – Eliminate housing authority credit.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$	<u>Impact on Stakeholders</u> ☹️	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Improvement in rate due to the elimination of current 40% credit (Commercial Rating Section 7) for “dwelling or apartments of Housing Projects.” (Also applies to private apartment house projects if consist of eight or more units in one or more buildings.) \$1.2 million in total premium.
	Stakeholders:	<ul style="list-style-type: none"> Limited constituent impact for select risks only. Potential opportunity for standard commercial market carriers to pick up risk.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Nominal - Underwriting guideline change.
	Time:	<ul style="list-style-type: none"> Implementation timing dependent on need to modify operations plan. Actual implementation should take 30 days to change guideline and notify agents.
	Ability:	<ul style="list-style-type: none"> Management can execute change. Underwriting guideline change by TWIA and TDI.
	Risk:	<ul style="list-style-type: none"> Some associated public policy considerations.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

4G – Require detailed photos as part of new submission and every 2 - 3 years for renewal.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u>	<u>Impact on Stakeholders</u>	<u>Impl. Cost</u>	<u>Impl. Time</u>	<u>Impl. Risk</u>
	\$	☹	☹☹☹	⌚⌚⌚	Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u>	<u>TDI/Commissioner</u>	<u>Legislation Required</u>	<u>Members</u>	<u>Other</u>
	Yes	No	No	No	No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Potential reduction in claims costs and/or fraud (due to inspection time lag, immediate photos are valuable).
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Agent impact due to additional submission requirement, though front and back photo requirements are common among peer wind pools. ⓘ Limited policyholder impact.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Cost of adjusting underwriting training to utilize photos. ⓘ Any systems modifications necessary to store photos. ⓘ Integration in the claims adjudication process.
	Time:	<ul style="list-style-type: none"> ⓘ 60 - 120 days depending on system modifications. ⓘ Need for training agents.
	Ability:	<ul style="list-style-type: none"> ⓘ Management should have ability to implement.
	Risk:	<ul style="list-style-type: none"> ⓘ Significant change in policy because currently photos are only required for builder’s risk and mobile home coverage or “as needed.” Overall relatively low risk.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



4H – Implement seasonal home surcharge/vacant property exclusion.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$	<u>Impact on Stakeholders</u> ☹	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Helps to move toward rate adequacy and bring vacation and vacant property exclusion in line with standard market rating (recognition of increased claim costs for unoccupied properties). May help reinsurance costs as the markets recognize the additional claims exposures associated with seasonal/vacant properties. 50,000 policies and \$50 million premium impact.
	Stakeholders:	<ul style="list-style-type: none"> Limited impact to seasonal home policyholders as <ul style="list-style-type: none"> general market differentiates and underwrites exposure by occupancy, and tenant versus owner occupied are differentiated by the market. Should help surplus lines carriers as they typically write vacant home exposures. Limited impact on all other stakeholders.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Low cost of underwriting application and systems adjustments.
	Time:	<ul style="list-style-type: none"> 30 - 60 days to verify underwriting process and notify agents.
	Ability:	<ul style="list-style-type: none"> Management has the ability to execute. May need actuarial/underwriting Board approval.
	Risk:	<ul style="list-style-type: none"> Low risk as vacant property exposures are not written by standard markets and are surplus lines risks outside the scope of TWIA's mandate.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

4I – Eliminate replacement cost coverage or increase surcharge.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> ☹☹	<u>Impl. Cost</u> ☹☹☹	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduction in average limits exposed. Support of rate adequacy through an increase surcharge for replacement costs. Reduce claim complications/cost with ACV-only valuation. \$38 million premium with approximately \$200,000 content coverage policies.
	Stakeholders:	<ul style="list-style-type: none"> Motivate policyholders toward standard market to receive replacement cost coverage. Opportunity for standard carriers to pick up business. Agents impacted due to client coverage change. Policyholders materially impacted if contents move to ACV or not covered at all.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Moderate cost to transition underwriting and systems to ACV-only or rate adjustment. Potential need for actuarial support for rate modification.
	Time:	<ul style="list-style-type: none"> Likely to be included in modification to TWIA's Plan of Operation. 90 - 180 days to verify actuarial rate, adjust systems, and notify agents.
	Ability:	<ul style="list-style-type: none"> Management would have the ability to execute. Underwriting coverage change would need approval through TWIA's Plan of Operation.
	Risk:	<ul style="list-style-type: none"> Material change that will likely result in policyholder feedback.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

5C – Improve reinsurance marketing support and broaden access.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Best available expertise and representation in the reinsurance market is critical. Specialized expertise in state sponsored catastrophic carriers is required to achieve best terms. Continuous exploration of capital funding and reinsurance models is needed to maximize funding levels. Conducting a bid process for leading reinsurance brokers provides updated information and analysis of TWIA's capital options, as well as creates competition to improve performance and pricing.
	Stakeholders:	<ul style="list-style-type: none"> No impact to stakeholders, internal service.
	Cost:	<ul style="list-style-type: none"> Low cost of conducting bid process with existing staff and support. Some modest consulting support may be helpful.
Implementation Considerations	Time:	<ul style="list-style-type: none"> 60 - 90 days to complete entire process and analyze options.
	Ability:	<ul style="list-style-type: none"> Management has the capacity to execute. Board will most likely need to approve any change.
	Risk:	<ul style="list-style-type: none"> Limited risk in going through bid process. Some transitional risk should a new broker be selected.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

5D – Make all TWIA policies fully earned on binding.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> ☹	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Provides rate support. Note: HB 3 (82nd Legislature) provided for 90-day minimum earned premium for TWIA policies. Slows potential exposure growth as policyholders will have a hard choice to make. Helps to eliminate adverse selection.
	Stakeholders:	<ul style="list-style-type: none"> Minimal impact to valid policyholders, though there could be premium finance or other additional costs for policyholders. Alignment of TWIA policy to be more consistent with market.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Limited expense to make system/accounting changes required and notifications on renewal/issuance.
	Time:	<ul style="list-style-type: none"> 180 - 360 days due to required legislation. Company implementation time would likely be 60 - 90 days.
	Ability:	<ul style="list-style-type: none"> Management cannot unilaterally implement. Requires legislative action.
	Risk:	<ul style="list-style-type: none"> Moderate risk as all policyholders are impacted. May be difficult for Legislature to reverse a recent change (see above).



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

6B – Enforce certification process WPI-8.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> ☹️	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Reduce TWIA renewals through enforcement of the regulation as renewals fail to meet required standard. ⓘ Policyholders meeting the standard improve their risk profile and reduce TWIA aggregate risk.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Impact to those noncompliant policyholders and new applicants (approximately 35,000 written under alternative eligibility plan).
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Cost to communicate change in regulation and enforcement.
	Time:	<ul style="list-style-type: none"> ⓘ 16 months until regulatory impact.
	Ability:	<ul style="list-style-type: none"> ⓘ Management would have the ability to execute mandate.
	Risk:	<ul style="list-style-type: none"> ⓘ Limited policyholder base impacted.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

6C – Underwriting alignment by process rather than agent.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> ☹️	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> Implied

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> 🔗 Cost savings through streamlined operations (less manual input) including personnel, print, and mail.
	Stakeholders:	<ul style="list-style-type: none"> 🔗 Policyholder will benefit from more consistent and timely turnaround of new applications. 🔗 Agent account sign-up (enabling e-mail correspondence) will allow for more streamlined and cost effective communication.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> 🔗 Additional time and resources will be necessary to further document and evaluate current processes. 🔗 Some outside consulting support may be necessary. 🔗 Re-training on new applications and renewal procedures will also require some investment.
	Time:	<ul style="list-style-type: none"> 🔗 The majority of the changes can likely be accomplished in 60 - 90 days. 🔗 Documentation of processes will take some time, but would allow for more process-centric outsource options in the future.
	Ability:	<ul style="list-style-type: none"> 🔗 With some facilitation and subject matter expert guidance, the current staff should be able to document and find streamlining opportunities in the current processes. 🔗 Cost “take out” is not natural for the current management team.
	Risk:	<ul style="list-style-type: none"> 🔗 Developing a culture of process and cost conscious environment that isn’t very strong at the moment. 🔗 Organization has had continuous improvement focus. 🔗 Support of agents.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

6D – Align FNOL and customer service level requirements with industry standards.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> Yes	<u>Agent</u> Yes

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Expense reductions through better establishment of service level requirements with Crawford & Co (TWIA currently has higher service levels than expected or required by the industry). Reduction in outsource costs (over providing service levels/little or no call audit currently performed). Contact center expenses by an estimated 5 - 10% (governance and oversight model).
	Stakeholders:	<ul style="list-style-type: none"> By aligning the contract to standard service levels, agents and the policyholders would experience little impact. TWIA would benefit from an overall lower cost per call.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Potential cost of training or hiring experienced manager to lead negotiations and manage outsourcer. No expected long-term costs other than limited monitoring (see below).
	Time:	<ul style="list-style-type: none"> Negotiations could be accomplished in 2 - 4 weeks with existing service provider. Auditing of calls and monitoring of adherence to service levels should be an ongoing focus.
	Ability:	<ul style="list-style-type: none"> Current manager of call center lacks experience in managing a call center or an outsource partner.
	Risk:	<ul style="list-style-type: none"> No significant experience with outsource operations and requirements.



6E – Reduce automatic renewal cycle to two years.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> ☹☹	<u>Impl. Cost</u> ¢¢¢	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Motivate policyholders to search for standard market solutions by reducing automatic renewal frequency from five years to two years. Improves “bind it and forget it” mentality of agents and policyholders, though it increases costs to increase full submission frequency. Reduces rewards to agents for keeping accounts in TWIA at full commissions with few requirements during automatic renewal phase.
	Stakeholders:	<ul style="list-style-type: none"> Increases work for agents and policyholders. Declinations would need to be required to have an impact. Lack of automation is major pushback from agents for this additional work.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Increases TWIA’s operating costs but helps verify quality of risks and encourages standard market access to reduce writings.
	Time:	<ul style="list-style-type: none"> Can be done in 1 - 3 months with agency notification and systems adjustments.
	Ability:	<ul style="list-style-type: none"> TWIA approval needed.
	Risk:	<ul style="list-style-type: none"> Moderate risk due to agent and policyholder impact and operations transition. Effectiveness of declination process is in question.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

7B – Exclude captive agents.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> ☹☹	<u>Impl. Cost</u> ¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> Yes	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Significantly reduce TWIA writings and require multi-carrier marketing of wind risks. Reduce the risks of book transfer from single company agents who are rewarded for TWIA placements both in account retention and commissions.
	Stakeholders:	<ul style="list-style-type: none"> High impact to agents and policyholders due to disruption in distribution. Positive impact to independent agents receiving more TWIA opportunities.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Moderate cost due to legislative appeal and carrier communications.
	Time:	<ul style="list-style-type: none"> 9 - 12 months due to industry and legislative processes.
	Ability:	<ul style="list-style-type: none"> Requires legislative approval.
	Risk:	<ul style="list-style-type: none"> Moderate risk due to impact to agents and policyholders.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

7D – Allow direct customer access to TWIA.



Estimated Impact & Implementation Considerations	Financial Impact \$\$\$	Impact on Stakeholders 😊😊😞	Impl. Cost ¢¢¢¢¢	Impl. Time ⌚⌚⌚⌚	Impl. Risk High
Approvals Required to Execute	TWIA Board/Mgt Yes	TDI/Commissioner Yes	Legislation Required Yes	Members No	Other No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Direct access to place coverage with TWIA could have both positive and negative impact. ⓘ Costs would increase for underwriting and inspection. ⓘ Reduced acquisition costs.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Members, agents, and TWIA management and staffing will be affected. TWIA does not currently have all required skills.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Significant up-front investment will be required to perform web development, process engineering, and staff training and support, as well as an expansion of contact center capacity and resources, which could include an addition to the current outsource call center contract. ⓘ Substantial distribution cost savings will quickly pay back initial investment and run costs.
	Time:	<ul style="list-style-type: none"> ⓘ Total time 9 - 12 months. Developing the direct online options will require 3 - 6 months of design and development time. Expanding the call center capabilities will also require process and script development, system integration and access, training and staffing coordination, and contract negotiations.
	Ability:	<ul style="list-style-type: none"> ⓘ TWIA does not appear to have the skills in-house to undertake this initiative.
	Risk:	<ul style="list-style-type: none"> ⓘ High due to significant impact to current workflows, systems, and stakeholders.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

8A – Expand TDI certification and TWIA inspection process.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> ☹️	<u>Impl. Cost</u> ¢	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Other</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Provides more extensive TDI building certification program and more frequent building inspections. Improves risk quality of covered risks and improves adequate rate application by risk.
	Stakeholders:	<ul style="list-style-type: none"> Minor impact to agents and policyholders due to inspection scheduling and process. Provides additional data for member companies to review during take out process. Policyholders may see increased premiums based on inspection results.
	Cost:	<ul style="list-style-type: none"> Expected net cost to be positive, more than covering cost of additional inspections with revenue from adequate premium adjustments based on other plan's experience.
Implementation Considerations	Time:	<ul style="list-style-type: none"> Program implementation, communication with agents, and hiring qualified inspectors, 2 - 3 months.
	Ability:	<ul style="list-style-type: none"> TWIA staff and outside TDI authorized inspectors.
	Risk:	<ul style="list-style-type: none"> Low risk.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



8B – Increase frequency of roof inspections to every five years.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u>	<u>Impact on Stakeholders</u>	<u>Impl. Cost</u>	<u>Impl. Time</u>	<u>Impl. Risk</u>
	\$\$	☹️	¢	⌚⌚	Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u>	<u>TDI/Commissioner</u>	<u>Legislation Required</u>	<u>Members</u>	<u>Other</u>
	Yes	No	No	No	No

Estimated Impact and Implementation Considerations

Impact	Financial:	👍 Positive impact because of proper premiums and improved risk quality.
	Stakeholders:	👍 More frequent inspection process of agents and policyholders.
Implementation Considerations	Cost:	👍 Positive as improved risk quality and proper prices would overcome inspection costs.
	Time:	👍 Could be implemented in 60 days.
	Ability:	👍 Could be implemented with TWIA staff.
	Risk:	👍 Some public impact because of tighter underwriting requirements and higher prices.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



9D – Outsource Operations (mail, scan, data entry) group.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Reduction in labor costs (depending on the outsourcer and locations should decrease by 25 - 35%. ⓘ Outsource costs expected to be 15 - 35% of current costs, depending on location (offshoring has higher cost savings since the majority of savings is wage differential). ⓘ Improved productivity and reduction in labor costs; separation of duties (input, scanning, mailing) will decrease employee time to productivity. ⓘ Reduction in turnover costs and HR (operations represents the highest area of employee turnover and HR issues).
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Employee base will be reduced. ⓘ Other stakeholders will not feel impact (assuming service levels are maintained).
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ There will be an upfront cost to document and baseline current processes, prepare the requirements and the bid document, make the selection, and set up the new governance model. Such costs should be recouped in 6 - 12 months. ⓘ Two in-house FTEs will be necessary to manage the partnership and be the “face of TWIA” to the agents. ⓘ Potential need for consulting bridge due to perceived lack of outsourcing capabilities.
	Time:	<ul style="list-style-type: none"> ⓘ Approximately 30 - 60 days to document baseline of current processes and costs. ⓘ Outsourcer requirements, selection, negotiation, contracting, setting up a governance model, and implementation will take 120 -180 days.
	Ability:	<ul style="list-style-type: none"> ⓘ Currently, TWIA does not have resources experienced in selecting, implementing, or managing an outsource partner.
	Risk:	<ul style="list-style-type: none"> ⓘ Proper preparation and negotiation of contracts. ⓘ Some implementation and knowledge transfer risk. ⓘ Recruiting capable resources of handling outsourced environment.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9E – Outsource 80% of underwriting workload that is process-oriented.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢¢	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Cost and efficiency savings (~ 80% of underwriting is “box checking”). ⓘ Costs are estimated to be reduced by 15 - 20%.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ There should be little external constituent impact (assuming proper execution). ⓘ Employee base will not like the reduction in force associated with outsourcing.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Corresponding and similar costs to recommendation 9D. There will be an upfront cost to document and baseline current processes, prepare the requirements and the bid document, make the selection, and set up the new governance model; such costs should be recouped in 6 - 12 months. ⓘ 2 - 3 in-house FTEs will be necessary to manage the outsource relationship. These skills currently do not exist within TWIA.
	Time:	<ul style="list-style-type: none"> ⓘ Current processes and costs will need to be baselined. This will take approximately 60 - 90 days. ⓘ Outsourcer requirements, selection, negotiation, contracting, setting up a governance model, and implementation will take about 120 - 180 days.
	Ability:	<ul style="list-style-type: none"> ⓘ Currently TWIA does not have resources experienced in selecting, implementing, or managing an outsource partner.
	Risk:	<ul style="list-style-type: none"> ⓘ Proper preparation and negotiation of contracts. ⓘ Some implementation and knowledge transfer risk. ⓘ Recruiting resources capable of handling outsourced environment. ⓘ Adverse effect on morale within Underwriting department. ⓘ TWIA public relations may initially face challenge from targeted FTEs and stakeholders.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS



9F – Outsource claims handling for common claim files (80%).

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> Moderate
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Claims handling is currently operating at service levels that are beyond those required for an “insurer of last resort.” ⓘ Estimated claims servicing cost savings would be in the 25 - 35% range for non-catastrophe servicing (total cost per claims analysis has not been completed).
	Stakeholders:	<ul style="list-style-type: none"> ⓘ If properly implemented, there should be minor external stakeholder impact.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ See other outsourced recommendations (9D/E). There will be an upfront cost to document and baseline current processes and costs, prepare the requirements and the bid document, make the selection, and set up the new governance model/costs should be recouped in 3 - 6months. ⓘ In-house FTE will be necessary to manage the outsource relationship, complex claims, and escalations. ⓘ Potential need for consulting bridge due to perceived lack of outsourcing capabilities.
	Time:	<ul style="list-style-type: none"> ⓘ Approximately 30 - 60 days to document baseline of current processes and costs. ⓘ Outsourcer requirements, selection, negotiation, contracting, setting up a governance model, and implementation will take 120 - 180 days.
	Ability:	<ul style="list-style-type: none"> ⓘ Currently TWIA does not have resources experienced in selecting, implementing, or managing an outsource partner.
	Risk:	<ul style="list-style-type: none"> ⓘ Proper preparation and negotiation of contracts. ⓘ Some implementation and knowledge transfer risk. ⓘ Recruiting resources capable of handling outsourced environment. ⓘ Ability to reduce customer expectations from contacting customers within 24 hours of first notice of loss and turn around time goal of 12 days. ⓘ Reduction in headcount and potential of additional outsourcing may have adverse effect on morale within Claims Department.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9G – Outsource IT.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢¢¢¢	<u>Impl. Time</u> ⌚⌚⌚⌚	<u>Impl. Risk</u> High
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> Yes	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ IT is considerably overstaffed (24% of headcount instead of industry benchmark of 12%) due to disparate systems, tools, and the accompanied necessary skill sets. ⓘ IT spending is anticipated to be 37% of total operating budget vs. 7% benchmark. ⓘ Reducing internal FTEs via outsourcing is expected to result in 50 - 75% cost reductions.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Reduction in headcount and potential of additional outsourcing may have adverse effect on morale within IT department. ⓘ If properly implemented, outsourcing will have no negative impact on external stakeholders.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ There will be considerable upfront costs to select/modify systems, prepare the requirements and the bid document, make the selection, and set up the new governance model. ⓘ Stay bonuses may also be necessary and contribute to costs. ⓘ These costs should be recouped in 6 - 12 months. ⓘ 5 - 10 FTEs will be necessary to manage the outsource relationship.
	Time:	<ul style="list-style-type: none"> ⓘ Current processes and costs will need to be baselined and systems will need to be evaluated and then improved or terminated. This will take approximately 6 - 8 weeks. ⓘ Outsourcer requirements, selection, negotiation, contracting, setting up a governance model, and implementation will take 4 - 6 months.
	Ability:	<ul style="list-style-type: none"> ⓘ Currently, TWIA does not have resources experienced in selecting, implementing, or managing an ongoing outsource partner relationship.
	Risk:	<ul style="list-style-type: none"> ⓘ High.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9H – Implement HR best practices and controls under appropriate leadership.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢¢	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ TWIA would benefit from less exposure to HR violations/risk. ⓘ More HR controls and standard processes could positively impact financial performance by no longer relying on department managers for hiring, manually tracking absenteeism and vacations, and handling employee issues including terminations. ⓘ Use of in-house imaging technology could be leveraged to eliminate paper files and enhance the ability to store and share files as necessary.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ TWIA will benefit from better HR controls (increased productivity with lower absenteeism and lower risk). ⓘ Managers will be better supported and spend more time making decisions and developing current staff, resulting in actual higher job productivity. ⓘ TDI will be exposed to less risk.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Even though the projected 2012 budget indicates that HR expenses per employee may be slightly high, this is most likely due to misallocations (\$129,000 is budgeted here for Board meetings). ⓘ Hiring an HR professional would be a worthwhile investment and may result in higher salary costs. However, this person could then drive the project to develop the processes and controls required.
	Time:	<ul style="list-style-type: none"> ⓘ Designing and developing the HR processes and incorporating scanning and imaging of paper files would take 3 - 6 months. ⓘ TWIA is currently working to bring an HR generalist on board.
	Ability:	<ul style="list-style-type: none"> ⓘ The ability to drive this project as described does not exist today within TWIA.
	Risk:	<ul style="list-style-type: none"> ⓘ Low.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9I – Reorganize operations unit, separating duties and standardize processes so that they are trainable, measurable, and sustainable.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ⌘⌘	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⓘ Increased emphasis on formalized, specialized training will enable the department to operate with a smaller team (est. 3 - 5 FTE reduction). ⓘ Process-centric focus will lead to lower replacement and absentee costs. ⓘ Quality control improvements will reduce time and money spent correcting mistakes and increase Underwriting productivity. ⓘ Overall focus on efficiency will drive transformation to budget discipline.
	Stakeholders:	<ul style="list-style-type: none"> ⓘ Policyholders and agents will benefit from fewer mistakes. ⓘ TWIA as a whole will realize significant cost savings through the elimination of redundancies and reduced personnel requirements. ⓘ Claims and Underwriting will benefit from more transparent and efficient front-end and back-end processes. ⓘ Allows for more process-centric outsource options.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⓘ Time and resources required to develop standardized processes and update policies and procedures. ⓘ Minimal upfront costs required to implement new standardized training efforts. ⓘ Quality control improvements should come at no cost since resources can be diverted once specialization occurs.
	Time:	<ul style="list-style-type: none"> ⓘ The majority of the changes can likely be accomplished in an 8 - 10 week timeframe. ⓘ This area should strive for continuous improvement even after the initial transformation.
	Ability:	<ul style="list-style-type: none"> ⓘ Given the level of experience, the success of this initiative will be contingent upon the ability to drive change management. Resistance is likely at the onset, but with appropriate oversight the current team is fully capable.
	Risk:	<ul style="list-style-type: none"> ⓘ Low.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9J – Finance should facilitate the development of a culture of budget accountability, focused on cost and efficiency.

Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ⌘⌘⌘	<u>Impl. Time</u> ⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> By making true costs and budget management by area of responsibility a priority, TWIA would be able to directly link management compensation with cost containment/reduction performance. In order to maximize the financial impact, managers must receive timely updates of fully-allocated departmental budgets vs. actuals. More transparency around cost-to-serve (cost per claim, application, etc.) will re-balance efficiency vs. quality pendulum.
	Stakeholders:	<ul style="list-style-type: none"> All departments would benefit from access to reliable, timely budget information with comparisons that reflect financial performance. TWIA personnel would be rewarded for contributing to initiatives that lower cost and/or increase efficiency. In the long-term, deserving policyholders would benefit from fewer rate hikes (often resulting from TWIA's poor cost management).
Implementation Considerations	Cost:	<ul style="list-style-type: none"> Additional finance/accounting resources will need to be diverted from cleaning up the general ledger to aligning costs by department and area of responsibility. Some IT costs may be a worthwhile upfront investment to help align a cost-conscious culture.
	Time:	<ul style="list-style-type: none"> With appropriate resource dedication, accurate actuals to budget comparisons by department may be created in 4 - 6 weeks. Cost management and cultural transformation would require ongoing, concerted efforts.
	Ability:	<ul style="list-style-type: none"> TWIA and TDI should be capable of implementing this recommendation, with the possible exception of Great Plains development. However, a manual implementation of budget management is not a task with a high level of difficulty.
	Risk:	<ul style="list-style-type: none"> Low.



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9K – Align finance and accounting with staffing benchmarks.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$	<u>Impact on Stakeholders</u> 😊	<u>Impl. Cost</u> ¢¢	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> No	<u>Agent</u> No

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> Reduction of finance department costs. TWIA currently comprises 13% finance and accounting FTEs, compared with benchmarks of approximately 2 – 5%. Reduction of billing and commission payment costs.
	Stakeholders:	<ul style="list-style-type: none"> Reductions in finance FTEs will need to be carefully planned and executed so that there is no loss of continuity and service to TWIA staff. External stakeholders should not be impacted by finance personnel changes.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> The costs will be minimal (training efforts may occur simultaneously with staffing reductions). Will most likely include some severance.
	Time:	<ul style="list-style-type: none"> Timing would occur after budget overhaul and would ideally coincide with outsourcing efforts to minimize company disruption.
	Ability:	<ul style="list-style-type: none"> Unclear whether or not CFO position is to be filled, but Controller could potentially drive this change.
	Risk:	<ul style="list-style-type: none"> Reductions in force can result in loss of “company specific and unique knowledge.” Maintaining staff morale (given the other potential outsourcing opportunities).



FINAL RECOMMENDATION PROCESS – DETAILED ANALYSIS

9L – Deliver policies electronically to agents, policyholders, and lien holders.



Estimated Impact & Implementation Considerations	<u>Financial Impact</u> \$\$\$	<u>Impact on Stakeholders</u> 😊😊	<u>Impl. Cost</u> ☹☹☹	<u>Impl. Time</u> ⌚⌚⌚	<u>Impl. Risk</u> Low
Approvals Required to Execute	<u>TWIA Board/Mgt</u> Yes	<u>TDI/Commissioner</u> No	<u>Legislation Required</u> No	<u>Members</u> Yes	<u>Agent</u> Yes

Estimated Impact and Implementation Considerations

Impact	Financial:	<ul style="list-style-type: none"> ⌚ Reduced printing, labor, and mailing costs. Every policy is printed as many as three times, each policy is then inserted into a “jacket” manually, and each policy is then mailed to the policyholder, the agent, and the lien holder, if applicable. ⌚ Estimated to cut costs in the operations area by 15 - 20%. (Need baseline costs as many components are not currently tracked separately.)
	Stakeholders:	<ul style="list-style-type: none"> ⌚ If done via an “opt-in” the policyholder, agents, and lien holders will receive electronically as requested. ⌚ Helps TWIA eliminate the number of “lost” policy requests, and re-print and mail requests. ⌚ For all other stakeholders – business as usual.
Implementation Considerations	Cost:	<ul style="list-style-type: none"> ⌚ Small one-time cost of getting policyholders and agents to opt in. ⌚ Costs for gathering lien information and storing e-mail addresses for agents, lien holders, and policyholders. ⌚ One-time cost for time and resources to develop processes. However, this allows for more process-centric outsource options, which will result in cost savings over the long term.
	Time:	<ul style="list-style-type: none"> ⌚ Initial campaign and gathering of opt-in responses and e-mail addresses should take 6 - 8 weeks. ⌚ Design and development of future processes for electronic delivery can be completed in the same timeframe.
	Ability:	<ul style="list-style-type: none"> ⌚ With some assistance in developing the initial campaign and processes, the current staff and systems can administer the future processes.
	Risk:	<ul style="list-style-type: none"> ⌚ Current assessment does not have “full costing” which would need to be completed. ⌚ Confusion over split processes (some stakeholders get paper and others “e-file”).



WHAT WE HEARD



Interviews with management drew our focus to the lack of clearly defined processes and sustainable continuity, as well as mission misalignment.

What we heard...

"I'm probably the only guy left with institutional knowledge."

"It takes a **year** to get someone to be fully productive."

"Legacy systems are *difficult to maintain, outdated, hard to find programmers...* only two people here have the development knowledge required for changes."

"We don't hire a lot of people who need to be trained."

"All the *bad actors* are gone."

"The problem was not the size of Ike, just *the culture and mentality*."

"We are the **market of last resort** and serve those not able to afford insurance in the commercial market."

"provide the best service to customers at the right price."

"We are the **safety valve** for property insurance."

"We try to do the right things to be customer and agent oriented."

"Market of last resort means **not in competition** with anyone."

"I wouldn't say that we do more or less for the agents than other companies."

"TDI is here to make sure that the message about TWIA is that it's a **lousy organization and we need to shut it down**."



Our interviews also identified inconsistencies with regard to budget and cost management, as well as inefficiencies largely due to a lack of communication and systems integration.



What we heard...

“Set it [the budget] and forget it and think about it next year.”

“I do not have costs per unit on anything.”

“I know there's limits [to the budget] but I think that as long as I'm providing what is needed, unless he tells me it's too much...”

“We are lean and mean, total operating costs are very low compared to anyone else.”

“We are buried in day-to-day things.”

“All my people try to do everything.”

“I have good data to do analysis, but no time.”

“Changes don't happen fast enough.”

“We find ourselves constantly in a defensive position.”



INTERVIEW QUOTES

Our discussions with Board member stakeholders including agents and carrier executives, as well as our discussion with the Independent Agents Association and our preliminary discussions with legislators, provided varied and enthusiastic responses.

What we heard...

“Commercial companies know they only have to offer limits above TWIA, \$1M, \$4M whatever.”

“The gulf coast subsidizes the rest of Texas in many ways, we’re not asking for too much.”

“Of course the board is going to keep raising rates, they are all industry and agents.”

“In my area, it’s not whether we want to use TWIA, it’s our only option.”

“No one from TWIA has come to see me in over a year.”

“TWIA needs to educate people on the coast about the risk and issues.”

“TWIA doesn’t have the online support I get from Hartford.”

“We are going to move to rates that the middle class can’t afford.”

“If you’re a Texas Insurer why would you decide to write wind on the coast?”



We interviewed key stakeholders and interested parties in the Texas Legislature on the subject of TWIA and heard some of the following comments.

What we heard...

“TWIA evolved into a ‘battle of politics’ rather than a battle of public policy.”

“Board members need to have more accountabilities or ‘skin in the game’ to effectively govern.”

“There must be some hard choices for TWIA to survive and become a ‘true’ residual pool for windstorm.”

“The real question today is whether TWIA is a business organization or a political organization?”

“It is easier to blow-up TWIA and start all over.”

“The Legislature gambled and created an agency without the financial ability to pay claims.”

“TWIA has evolved into an ‘entitlement program’ for coastal residents.”

“TWIA needs to be shut down. The state government should not be in the insurance business.”

“The challenges are just too political. The rates are too suppressed and the politics are way too difficult to overcome.”



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