

Meeting of the Governing Committee
Texas FAIR Plan Association
Teleconference/Web Conference

December 12, 2022

Omni Hotel
900 North Shoreline Blvd.
Corpus Christi, TX 78401
3:00 p.m.



TEXAS FAIR PLAN
ASSOCIATION

Interested parties can listen to the meeting live by going to www.texasfairplan.org.
Go to "About Us/Board Meetings" and access the video conferencing website with instructions
available on www.texasfairplan.org or may attend the meeting in person at the Omni Hotel.

***Indicates item on which the General Manager believes the TFPA Governing Committee is likely to take action.
However, the Governing Committee may take action on any item that appears on this agenda.**

1. Call to Order – Reminder of the Anti-Trust Statement
 - A. Welcoming Remarks/Introduction of New Member – *Mark Solomon* 5 minutes
 - B. Reminder of Anti-Trust Statement – *Counsel*
 - C. Meeting Format Information – *Kristina Donley*
2. Consideration and Action to:
Approve the Minutes from Prior Governing Committee Meetings
– *Mark Solomon* – **Action/Vote Likely*** 5 minutes
3. TFPA Operational Highlights – *David Durden* 5 minutes
4. Financial 30 minutes
 - A. Report of the Secretary/Treasurer – *David Nardecchia* – **Action/Vote Likely***
 1. Income Statement
 2. Management Discussion and Analysis
 - B. Financial Statement Review by Staff – *Stuart Harbour*
 1. Income Statement and Expense Statement
 2. Balance Sheet
 3. Cash & Short-Term Investments
 4. Cash Flow Statement
 5. Historical Data
5. Actuarial – *Jim Murphy* 55 minutes
 - A. Reserve Adequacy
 - B. Policy Count/Exposures
 - C. Annual Rate Review – **Action/Vote Likely***
 - D. Reinsurance Market Update – *Gallagher Re*
6. Internal Audit – *Bruce Zaret – Weaver* 20 minutes
 - A. Internal Audit Status Update
 - B. Internal Audit Risk Assessment
 - C. Continuity of Operations Review Results

- | | |
|---|--------------------|
| 7. Underwriting – <i>Jessica Crass</i> | |
| A. Weston/FedNat Update | <i>10 minutes</i> |
| B. Operational Review | |
| 8. Claims | <i>15 minutes</i> |
| A. Claims Operations – Overview – <i>Dave Williams</i> | |
| B. Litigation Summary – <i>Cindy Watkins</i> | |
| 9. TFP Operations | <i>30 minutes</i> |
| A. IT System Enhancements – <i>Camron Malik</i> | |
| B. Proposal from Guidewire to Move Guidewire Insurance Systems to the Cloud – <i>Camron Malik</i> | |
| C. Communications and Legislative Update – <i>David Durden</i> | |
| D. Review/Approval of 2023 Budget – <i>Stuart Harbour</i> – Action/Vote Likely* | |
| 10. Closed Session (Governing Committee Only) | <i>20 minutes</i> |
| A. Personnel Issues | |
| B. Legal Advice | |
| 11. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Governing Committee – Action/Vote Likely* | <i>5 minutes</i> |
| 12. Committees – <i>Mark Solomon</i> | <i>5 minutes</i> |
| 13. Future Meetings – <i>David Durden</i> | <i>5 minutes</i> |
| • February 13, 2023 – Moody Gardens Hotel – Galveston | |
| • May 22, 2023 – Marriott South – Austin | |
| • August 7, 2023 – Tremont House – Galveston | |
| 14. Adjourn | |
| Estimated Total Length of Meeting | 3 hours 30 minutes |

1. Call to Order



TEXAS FAIR PLAN
ASSOCIATION

Anti-Trust Statement

The creation and operation of the Fair Access to Insurance Requirements (FAIR) Plan Association is authorized under Article 21.49A (now Chapter 2211) of the Texas Insurance Code. The Governing Committee is authorized to administer the FAIR Plan.

When involved in meetings or other activities of the FAIR Plan, Governing Committee members and insurer and agent participants are bound to limit their discussions and actions to matters relating solely to the business of the FAIR Plan and shall not discuss or pursue the business interests of individual insurers, agents, or others. There should be no discussions of or agreements to act that serve to restrain competition. This prohibition includes the exchange of information concerning individual company rates, coverage, market practices, claim settlement practices and other competitive aspects of individual company operations. Each member is obligated to speak up immediately for the purpose of preventing any discussion of any of the foregoing subjects. Counsel is asked to help us be mindful of these restraints and to alert us when our discussion goes into any of the prohibited subject areas.

2. Approve the Minutes

**Minutes of the Texas FAIR Plan Association
Governing Committee Meeting
Teleconference/Webinar**



Moody Gardens Hotel
Seven Hope Blvd.
Galveston, TX 77554

August 1, 2022

The Following Governing Committee Members were Present, Representing:

- | | |
|---|-----------------------------------|
| 1. Mark Solomon (Chair) | Agent Member |
| 2. Wendy Mueller (Vice Chair) | State Farm |
| 3. Debbie King | AmTrust |
| 4. Frank Baumann | Public Member |
| 5. Georgia Neblett | Public Member |
| 6. Tim McCarthy | Texas Farm Bureau |
| 7. David Nardecchia (Secretary/Treasurer) | Public Member |
| 8. John Milette | Travelers |
| 9. Corise Morrison | USAA |
| 10. E. Jay Sherlock | Public Member |
| 11. Marianne Baker | Ex-Officio Non-Voting Member, TDI |

The Following TFPA Staff, Counsel, and Agents were Present:

- | | |
|---|-------------------------|
| 1. John Polak, General Manager | TFPA |
| 2. Stuart Harbour, Chief Financial Officer | TFPA |
| 3. Jessica Crass, VP Underwriting | TFPA |
| 4. Dave Williams, VP Claims | TFPA |
| 5. David Durden, VP Legal | TFPA |
| 6. Jennifer Armstrong, VP Communications and
Legislative Affairs | TFPA |
| 7. Camron Malik, Chief Information Officer | TFPA |
| 8. JD Lester, VP Human Resources | TFPA |
| 9. Jim Murphy, Chief Actuary | TFPA |
| 10. Amy Koehl, Senior Project Administrator | TFPA |
| 11. Anna Stafford, Legislative and External Affairs
Manager | TFPA |
| 12. Mike Perkins, Association Counsel | Perkins Law Group, PLLC |

The Following Guests Were Present:

- | | |
|-----------------|--------------|
| 1. Jim Conroy | Aon |
| 2. Dan Dick | Aon |
| 3. Minchong Mao | Aon |
| 4. Allen Cashin | Gallagher Re |
| 5. Beaman Floyd | TCAIS |
| 6. Bruce Zaret | Weaver |

The Association's Webinar Tool Attendance Report Indicates the Following Attendees were Online:

- | | |
|----------------------|---------------------|
| 1. Kenisha Schuster | 8. Brian Ryder |
| 2. Aaron Taylor | 9. Ebony Cormier |
| 3. Brian Leventhal | 10. Mavi Harman |
| 4. Angie Cervantes | 11. Luke Bellsnyder |
| 5. David Muckerheide | 12. Clarisse Lilley |
| 6. Matt Diamond | 13. Jesus Guerrero |
| 7. Allen Fulkerson | |

1. Call to Order: Chairman Mark Solomon called the meeting to order at 3:00 p.m. Governing Committee members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the statement by counsel. Anna Stafford provided housekeeping information to the attendees.
2. Approval of the Minutes from Prior Governing Committee Meeting: Ms. Neblett moved to approve the minutes from the May 16, 2022 meeting. Mr. McCarthy seconded the motion. The motion passed.
3. TFPA Operational Highlights: Mr. Polak reported the Association remains below plan on operating expenses and above plan on net gain from operations in Q2 2022. All strategic initiatives are on track to be completed by their scheduled deadlines. Quality standards on underwriting and claim service levels exceeded turnaround time benchmarks. Litigated claims and complaints remain below plan in Q2 2022.
4. Financial:
 - A. Report of the Secretary/Treasurer: Mr. Nardecchia reviewed the Treasurer's Report. Mr. Nardecchia moved to accept the report. Ms. Mueller seconded the motion. The motion passed.
 - B. Financial Statement Review by Staff: Direct written premiums for the six months ended June 30, 2022 were \$39.2 million, a decrease of \$898,000 or 2.2% from the \$40.1 million for the same period in the prior year due to continued declines in policy count. Direct written premium was \$463,000 lower than the budgeted \$39.6 million. Policies in force totaled 62,871 or 747 policies under the budget of 63,618. At year-end 2021, policies in force totaled 66,512.

Direct premiums earned through June 2022 were \$37.2 million or \$1.8 million (4.5%) lower than the same period in 2021 and \$464,000 lower than the budget of \$37.6 million.

TFPA completed the final month of the 2021-2022 reinsurance program, which inceptioned on July 1, 2021. The program provided coverage of \$360 million in excess of a \$30 million initial retention and included a "second event" cover that reduced the net retention to \$10 million. The TFPA 2022-2023 reinsurance program was placed through broker Arthur J. Gallagher and inceptioned on July 1, 2022. The new program

provides coverage of \$335 million in excess of a \$30 million initial retention and includes a “second event” cover that reduces the net retention to \$10 million. Reinstatement premium protection was also purchased with the program. Ceded earned premiums through June 30, 2022 totaled \$13.7 million, which was below budget by \$545,000. Ceded premium is generally written in July of each year and earned throughout the following twelve-month period.

Net premium earned for the six months ended June 30, 2022 was \$23.5 million, which was on budget.

Year to date direct losses and LAE totaled \$13.3 million, which was below budget by \$1.4 million. The June YTD loss & LAE ratio of 35.7% was below the budgeted ratio of 39.1%.

Year to date operating expense of \$5.8 million was under budget by \$520,000. Notable expense items under budget include salaries and wages (\$270,000), other services (\$154,000), postage and telephone (\$73,000) and rental and maintenance (\$72,000).

Commission expense and premium taxes year to date were below budget by a combined \$64,000 or 1.3% due to lower than budgeted written premium.

June 2022 year to date gross investment income was \$25,000, which was above the budgeted amount. Investment yields remain at low levels but have recently moved above 1% for money market mutual funds as the Federal Reserve reacts to the current high levels of inflation.

TFPA’s financial results for the six months ended June 30, 2022 reflect a net loss of \$292,000 versus a budgeted loss of \$2.5 million.

The ending surplus as of June 30, 2022 was \$2.0 million. Surplus was reduced by \$139,000 year to date due to an increase in non-admitted assets related to prepayments.

- C. Selection of Auditors/Accountants for 2022: Each year, the Association retains an accounting firm to conduct an audit of the Association’s financial statements as of and for the year ended December 31. Pursuant to an RFP process in 2021, Calhoun, Thomson + Matza (CTM) was selected to continue in their role as the Association’s independent auditor. The engagement letter from CTM for use in connection with the audit of the Association’s 2022 statutory statements is included in the materials. There are no changes in terms or fee amounts. Staff recommends to the TFPA Governing Committee that the engagement be approved and the letter executed. Ms. Neblett moved that the governing committee of the Association, acting as the audit committee, authorizes and directs that the firm of Calhoun, Thomson + Matza be engaged to conduct the upcoming annual audit of the Association’s financial

statements on the terms set forth in the engagement letter included in the board book. Mr. McCarthy seconded the motion. The motion passed.

5. Actuarial:

- A. Reserve Adequacy: TFPA actuarial staff has completed a review of Texas FAIR Plan loss and loss adjustment expense reserves as of June 30, 2022. Based on this review, the indicated ultimate cost of Hurricane Harvey is \$84.2 million, remaining the same as the indicated ultimate loss and expense estimate based on the review as of June 30, 2022. Due to uncertainties surrounding the adequacy of case reserves and the outcomes of disputed claims, the selected ultimate gross loss & expense statement has been maintained at \$85 million.

As of June 30, 2022, TFPA carried \$15.8 million in total gross loss and loss adjustment expense reserves with \$3.3 million of the total gross loss and expense reserves ceded to reinsurance companies rated A- or better by A.M. Best Company. Collectability risk has been reviewed and found to be immaterial relative to total gross reserve.

In the opinion of the senior actuary, the Association's net reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements.

- B. Policy Count/Exposures: There has been growth of both exposures and premiums.
 C. 2022 Hurricane Season Funding: Earlier this year, the governing committee instructed staff to work with Gallagher Re to secure \$365 million of total funding for the year. Working with Gallagher, staff was able to place the full amount of reinsurance. Allen Cashin from Gallagher Re offered further comments on the placement of reinsurance. Reinsurance rates increased as the year progressed.

6. Internal Audit Status & Update: Mr. Zaret reported the current audit activities include information security, business continuity of operations – information technology, reinsurance, findings follow up audit, model audit rule and continuity of operations – business operations. Upcoming audits include HR and payroll, plan of operation, claims and updating the risk assessment and audit plan.
7. Underwriting Operational Update: Underwriting continues to have consistent turnaround time on all policy transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. Staff is surpassing this standard with over 99% of transactions processed within 10 days and with approximately 90% of new business via straight through processing.

Quality assurance scores on underwriting decisions continue to meet or exceed established goals. Customer service telephone response time and quality results are within established goals. Underwriting operated under budget year to date, primarily driven by managing headcount, reduced inspections and lower call center expense.

A standard sample of agencies were selected for review in the first quarter of 2022 to verify compliance with the declination of coverage requirement and TFPA producer requirements and performance standards. All agents have responded. Proof of declination was received for 94% of the policies selected. Staff is following up for outstanding proof of declinations. Signed applications were provided for 84% of the policies selected. Staff is following up with the agents who have not yet provided signed applications. All agents selected have an active property and casualty insurance license and have the required direct standard market appointments. A standard sample of agencies were selected for review in the second quarter of 2022 to verify compliance with the declination of coverage requirement and TFPA producer requirements and performance standards. Seventy percent of agents have responded. All documents provided thus far are under analysis and staff is continually working with agents as they respond to address any missing documents as well as continuing to contact those agents who have not responded. All agents selected have an active property and casualty insurance license and have the required direct standard market appointments.

8. Claims:

- A. Claims Operations: Mr. Williams reported that first notice of loss to property inspection is at 2.6 days and total cycle time of first notice of loss to payment is 7.1 days. Historical claim volume for 2022 is 1,660. There are only 21 open Harvey claims.
- B. Litigation Summary: Mr. Durden reported that 15 new first party TFPA claims in suit were received in the second quarter of 2022. During that same period, 17 first party claims in suit were closed. Thirty first party and three third party TFPA claims with letters of representation were received in the second quarter. During that same period, 24 first party and two third party claims with letters of representation were closed. The majority of the suits are held by Manuel Solis and the Dick Law Firm.

9. TFPA Operations:

- A. IT Systems Enhancements: The TFPA implementation continues in production support mode and is under budget. The system development/production support releases continue their monthly cadence. The infrastructure and operations team continues to support remote work with excellent quality. All technology support and projects are on track.
- B. Communications Update: On May 19, 2022, TDI approved rate changes for TFPA homeowners, dwelling, condominium and tenant coverage forms. The CLA department sent agent bulletins ahead of the August 1 effective date of the rate changes, which apply to new and renewal TFPA business.

Legislative and External Affairs staff continues to monitor legislative activity for indications of when the Windstorm Insurance Legislative Oversight Board (WILOB) may begin meeting. The WILOB will consider whether to recommend a merger of TWIA and TFPA ahead of next year's legislative session. Staff understands that the Lt. Governor's office is considering whether to update the senate appointees to the

WILOB, which was last done in 2017. The WILOB report on a potential merger is due January 1, 2023.

Most legislative and regulatory inquiries received during the first quarter; April 1 through June 30, 2022 were related to TWIA matters.

- C. General Manager Search Update: A search committee has been established with three members of the TWIA Board of Directors. They will be evaluating candidates shortly.

10. Closed Session: There was no closed session.

11. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, If Any, of the Governing Committee: There were no items to consider.

12. Future Meetings: The next meetings are scheduled to take place on the following dates in the following locations:

- December 12, 2022 – Omni Hotel – Corpus Christi, TX
- February 13, 2023 – Moody Gardens Hotel – Galveston, TX

13. Committees: There was nothing to report.

14. Adjourn: There being no further business the meeting adjourned at 3:45 pm.

Prepared by: Amy Koehl
Senior Project Administrator

Approved by: Mark Solomon
TFPA Chairman

**Minutes of the Texas FAIR Plan Association
Governing Committee Meeting
Teleconference (Webinar)**

5700 South Mopac Expressway
Building A
Austin, TX 78749



November 9, 2022

The Following Governing Committee Members were Present, Representing:

- | | |
|--------------------------|-----------------------------------|
| 1. Mark Solomon (Chair) | Agent Member |
| 2. Wendy Mueller | Agent Member |
| 3. Debbie King | Amtrust |
| 4. Frank Baumann | Public Member |
| 5. Georgia Neblett | Public Member |
| 6. Tim McCarthy | Texas Farm Bureau |
| 7. David Nardecchia | Public Member |
| 8. Edward James Sherlock | Agent Member |
| 9. Danny Pringle | USAA |
| 10. Marianne Baker | Ex-Officio Non-Voting Member, TDI |

Absent: John Miletti

The Following TFPA Staff, Counsel, and Agents were Present:

- | | |
|--|-------------------------|
| 1. David Durden, General Manager | TFPA |
| 2. John Polak, Outgoing General Manager | TFPA |
| 3. Stuart Harbour, Chief Financial Officer | TFPA |
| 4. Jessica Crass, VP Underwriting | TFPA |
| 5. Dave Williams, VP Claims | TFPA |
| 6. Camron Malik, Chief Information Officer | TFPA |
| 7. JD Lester, VP Human Resources | TFPA |
| 8. Jim Murphy, Chief Actuary | TFPA |
| 9. Amy Koehl, Senior Project Administrator | TFPA |
| 10. Kristina Donley, Senior Instructional Designer | TFPA |
| 11. Mike Perkins, Association Counsel | Perkins Law Group, PLLC |

The Association's Webinar Tool Attendance Report Indicates the Following Attendees were Online:

- | | |
|--------------------|----------------------|
| 1. Ebony Cormier | 7. David Muckerheide |
| 2. Rubi Harman | 8. Elisabeth Ret |
| 3. Brian Leventhal | 9. Kenisha Schuster |
| 4. Xiu Li | 10. Anna Stafford |
| 5. Clarisse Lilley | 11. Aaron Taylor |
| 6. Andy MacLaurin | |

1. Call to Order: Chairman Mark Solomon called the meeting to order at 1:31 pm. Governing Committee members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel. Kristina Donley provided housekeeping information to the attendees.
2. Review of 2023 TFPA Budget: Mr. Harbour started the meeting by going over some key assumptions from the budget.
 - Rate level: Includes 2022 rate increase. Does not project future rate increases.
 - The number of policies in force is projected to decrease from a projected 60,352 policies at December 31, 2021 to 54,278 at year end 2023, a decrease of 6,074 policies (a 10.1% decrease).
 - Employee merit increases is set at 4%.
 - Operating expenses: Developed using zero-based detailed departmental budgets.
 - Commissions: Budgeted at \$7.4 million using average rate of 10.47% for new and renewal policies.
 - Premium taxes, licenses and other fees: 1.88%
 - \$30 million line of credit implemented in late August 2021 is in effect for two-year contracted duration. The line of credit will be renewed at the same commitment fee rate of 30 basis points.
 - Loss and loss adjustment expense ratios used are based on actuarial review.

Mr. Harbour reviewed the budget information with the committee members. He asked if there were any questions. Mr. Solomon asked what is the percentage of employees working in the office. Mr. Harbour said staff has the flexibility to work from home or come into the office if preferred. However, over 90% of staff works remotely on a regular basis. Employees from claims and accounting will work in the office periodically and facilities has a daily presence. Mr. Solomon asked if there is an option for the electronic delivery of documents. Ms. Crass said there is a drive to provide more electronic communication and Elevate will help. There is a capability to electronically notify agents but there is more work to be done to expand the scope of what is offered. There are some legal requirements about what notices must be hard copied to agents and policyholders.

3. Adjourn: There being no further business, the meeting adjourned at 3:05 pm.

Prepared by: Amy Koehl
Senior Project Administrator

Approved by: Mark Solomon
TFPA Chairman

3. TFPA Operational Highlights

2022 TFPA Enterprise Scorecard

Reporting YTD as of September 30, 2022



	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	15.1%		16.5%	-1.4%	
Net Gain from Operations	\$1.1 M		-\$1.2 M	\$2.3 M	
Enterprise Projects	96%		90%	6%	
Policy Administration	92%		90%	2%	
Claims Handling	97%		90%	7%	
Litigated Claims	0.08%		1.00%	-0.92%	
Complaints	7		19	-12	

Reference Data

Policies In-Force	61,976
Exposures In-Force	\$12.0 billion
Written Premiums YTD	\$59.8 million
Claims Received YTD	2,520
Losses Incurred YTD ¹	\$15.2 million

¹ Excludes IBNR

Key Quarterly Activities

- Remain below plan on operating expenses and above plan on net gain from operations in Q3 2022.
- On track to complete all strategic initiatives by the scheduled deadlines.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels.
- Remain well below plan on litigated claims and complaints in Q3 2022.

4. Financial

4A1. Income Statement

4A2. Management Discussion and Analysis

TEXAS FAIR PLAN ASSOCIATION
Statutory Income Statement - Treasurer's Report
for the nine months ended September 30,
(000's omitted)

	2022	2021
Direct Premiums Written	\$ 59,794	\$ 59,896
Premiums Earned:		
Direct Premiums Earned	\$ 56,188	\$ 58,371
Ceded Reinsurance Premiums	(21,529)	(21,581)
Net Premiums Earned	34,658	36,791
Deductions:		
Direct Losses and LAE Incurred	19,993	30,342
Direct Losses and LAE Incurred - Harvey	-	-
Ceded Losses and LAE Incurred - Harvey	-	-
Operating Expenses	8,494	7,865
Commission Expense	6,263	6,248
Ceding commissions / brokerage	(2,138)	(673)
Premium / Maintenance Tax	1,111	1,115
Total Deductions	33,722	44,897
Net Underwriting Gain or (Loss)	936	(8,107)
Other Income or (Expense):		
Investment Income	102	2
Investment Expenses (Line of Credit Commitment Fee)	(68)	(152)
Charge off's /Write off	(237)	(292)
Billing Fees	358	224
Total Other Income or (Expense)	155	(218)
Net Income (Loss)	\$ 1,091	\$ (8,325)
Surplus (Deficit) Account:		
Beginning Surplus (Deficit)	1,955	6,006
Net Income (Loss)	1,091	(8,325)
Change in Provision for Reinsurance	465	141
Change in nonadmitted assets	(140)	(197)
Other	-	-
Ending Surplus (Deficit)	\$ 3,371	\$ (2,376)

Texas FAIR Plan Association
Management's Discussion and Analysis of Financial Results for the
Nine Months Ended September 30, 2022

Direct Written Premium:

- Direct written premiums for the nine months ended September 30, 2022 were \$59.8 million, a decrease of \$102,000 or 0.02% from the same period in the prior year. Direct Written Premium was \$1.7 million higher than the budgeted \$58.1 million.
- Policies in force totaled 61,976 or 28 policies under the budget of 62,004. At year end 2021 policies in force totaled 66,512.

Direct Premiums Earned:

- Direct premiums earned through September 2022 were \$56.2 million or \$2.2 million (3.7%) lower than the same period in 2021, and \$349,000 lower than the budget of \$56.5 million.

Reinsurance Costs:

- The TFPA 2022-2023 reinsurance program was placed through our broker Arthur J. Gallagher and incepted on July 1, 2022. The new program provides coverage of \$335 million in excess of a \$30 million initial retention and includes a "second event" cover that reduces the net retention to \$10 million. Reinstatement premium protection was also purchased with the program.
- Ceded earned premiums through September 30, 2022 totaled \$21.5 million which was above budget by \$431,000. Ceded premium is generally written in July of each year and earned throughout the following twelve-month period. Ceded premium written for 2022-2023 was higher than budget by \$3.9 million and will reduce net earned premium versus budget as this ceded amount is earned over the subsequent year.

Net Premiums Earned

- Net premium earned for the nine months ended September 30, 2022 was \$34.7 million which was below budget by \$781,000.

Loss and Loss Adjustment Expense Incurred:

- Year-to-date Direct losses and LAE totaled \$20.0 million which was below budget by \$759,000. The favorable 2022 spring storm season contributed to the better than expected loss results.
- The September YTD loss & LAE ratio of 35.6% was below the budgeted rate of 36.7%.

Operating Expenses:

- Year-to-date operating expense of \$8.5 million was under budget by \$808,000.
- Notable expense items under budget include Salaries & Wages (\$425,000), Employee Benefits (\$115,000) Other Services (\$131,000), and Rental & Maintenance (\$203,000).

Commissions and Premium Taxes:

- Commission expense and premium taxes year-to-date were above budget by a combined \$222,000 or 3.1%.

Other Income (Expense):

- September 2022 year-to-date gross investment income totaled \$102,000 which was above the budgeted amount. Investment yields have improved rapidly in recent months to 2% and above for money market mutual funds as the Federal Reserve raises interest rates to combat the current high levels of inflation.

Net Income:

- TFPA's financial results for the nine months ended September 30, 2022 reflect a net income of \$1.1 million versus a budgeted loss of \$1.2 million.

Surplus/Deficit:

- The ending surplus as of September 30, 2022 was \$3.4 million.
- Surplus was reduced by \$140,000 year-to-date due to an increase in non-admitted assets related to prepayments.

4B. Financial Statement Review by Staff

4B1. Income Statement and
Expense Statement

4B2. Balance Sheet

4B3. Cash & Short-Term Investments

4B4. Cash Flow Statement

4B5. Historical Data

	TEXAS FAIR PLAN ASSOCIATION				
	Statutory Income Statement (000's omitted)				
	for the nine months ended September 30,				
	Actuals - 2022	Budget - 2022	Variance - 2022	Actuals - 2021	
7 Premiums Written:					
8 Direct	\$ 59,794	\$ 58,092	\$ 1,702	\$ 59,896	
9 Ceded	(31,370)	(27,464)	(3,907)	(28,464)	
10 Net	28,423	30,628	(2,205)	31,432	
12 Premiums Earned:					
13 Direct	\$ 56,188	\$ 56,537	\$ (349)	\$ 58,371	
14 Ceded	(21,529)	(21,098)	(431)	(21,581)	
15 Net	34,658	35,439	(781)	36,791	
17 Deductions:					
18 Direct Losses and LAE Incurred	19,993	20,753	(759)	30,342	
19 Direct Losses and LAE Incurred - Harvey	-	-	-	-	
20 Ceded Losses and LAE Incurred - Harvey	(0)	-	(0)	-	
21 Operating Expenses	8,494	9,302	(808)	7,865	
22 Commission Expense	6,263	6,071	192	6,248	
23 Ceding commissions / brokerage	(2,138)	(623)	(1,515)	(673)	
24 Premium / Maintenance Tax	1,111	1,081	30	1,115	
25 Total Deductions	33,722	36,582	(2,860)	44,897	
27 Net Underwriting Gain or (Loss)	936	(1,143)	2,079	(8,107)	
29 Other Income or (Expense):					
30 Investment Income	102	2	100	2	
31 Investment Expenses (Line of Credit Commitment Fee)	(68)	(68)	-	(152)	
35 Charge offs /Write offs	(237)	(263)	26	(292)	
36 Billing Fees	358	290	68	224	
37 Total Other Income or (Expense)	155	(39)	194	(218)	
39 Net Income (Loss)	\$ 1,091	\$ (1,182)	\$ 2,273	\$ (8,325)	
41 Surplus (Deficit) Account:					
42 Beginning Surplus (Deficit)	1,955	1,955	-	6,006	
43 Net Income (Loss)	1,091	(1,182)	2,273	(8,325)	
44 Change in Provision for Reinsurance	465	50	415	141	
45 Change in nonadmitted assets	(140)	(198)	58	(197)	
46 Other	-	-	-	-	
47 Ending Surplus (Deficit)	\$ 3,371	\$ 625	\$ 2,746	\$ (2,376)	
49 Key Operating Ratios:					
50 Direct:					
51 Loss & LAE Ratio:					
52 Non Hurricane	35.6%	36.7%	-1.1%	52.0%	
53 Hurricane Harvey	0.0%	0.0%	0.0%	0.0%	
54 Loss & LAE Ratio	35.6%	36.7%	-1.1%	52.0%	
55 UW Expense Ratio:					
56 Acquisition	12.3%	12.3%	0.0%	12.3%	
57 Non Acquisition	15.1%	16.5%	(1.3%)	13.5%	
58 UW Expense Ratio	27.4%	28.8%	(1.3%)	25.8%	
59 Combined Ratio	63.0%	65.5%	-2.4%	77.7%	

TEXAS FAIR PLAN ASSOCIATION				
Statutory Expense Report (000's omitted)				
for the nine months ended September 30,				
Description	Actuals - 2022	Budget - 2022	Variance - 2022	Actuals - 2021
Personnel Expenses				
Salaries & Wages - Permanent	\$ 4,334	\$ 4,865	\$ (531)	\$ 4,140
Contractor & Temporary Help	993	952	42	1,817
Payroll Taxes	315	382	(67)	301
Employee Benefits	1,668	1,767	(99)	1,476
Recruiting, Training & Other	72	89	(17)	(5)
Subtotal	7,383	8,055	(672)	7,729
Professional & Consulting Services				
Legal	84	96	(12)	85
Accounting & Auditing	108	100	8	48
Information Technology	247	145	102	11
Actuarial Services	17	24	(7)	23
Surveys & Inspections	300	288	12	283
Disaster Recovery Services	62	97	(35)	96
Other Services (1)	823	1,013	(190)	1,107
Subtotal	1,641	1,763	(122)	1,652
Hardware/Software Purchases & Licensing	1,073	1,075	(3)	1,011
Rental & Maintenance - Office/Equipment	488	692	(203)	516
Travel Expenses	57	48	10	1
Postage, Telephone and Express	250	385	(136)	325
Capital Management Expenses	68	68	-	152
Other Operating Expenses	322	516	(194)	363
Total Operating Expenses	\$ 11,282	\$ 12,603	\$ (1,321)	\$ 11,748
Capitalization of Fixed Assets	0	0	0	0
Allocation To ULAE	(2,720)	(3,233)	513	(3,731)
Allocation To Investing & Other Expense	(68)	(68)	-	(152)
Net Operating Expense - UW Operations	\$ 8,494	\$ 9,302	\$ (808)	\$ 7,865

(1) Summary Details for Other Services:

<u>VENDOR</u>	<u>Amount</u>	<u>Department</u>
Clear Point Claims LLC	294	UNDERWRITING - TFPA
Xactware Solutions Inc	95	CLAIMS
EagleView Technologies Inc	81	CLAIMS
Marshall & Swift/Boeckh	73	UNDERWRITING - TFPA
Insurance Services Office Inc	47	CLAIMS
Insurance Services Office Inc	11	UNDERWRITING - TFPA
LYNX Services LLC	35	CLAIMS
Cornerstone OnDemand Inc	22	HUMAN RESOURCES
Iron Mountain Records Management	22	OPERATIONS
* Other Vendors less than \$20K	144	VARIOUS DEPARTMENTS
Total Other Services	823	

1	TEXAS FAIR PLAN ASSOCIATION			1
2	Statutory Balance Sheet (000's omitted)			2
3				3
4				4
5		<u>September-22</u>	<u>December-21</u>	5
6	Admitted Assets			6
7	Cash and short term investments	\$ 58,630	\$ 49,114	7
8	Premiums receivable	7,378	6,269	8
10	Amounts recoverable from reinsurers	818	1,716	10
11	Other assets	31	0	11
12	Total admitted assets	<u>\$ 66,858</u>	<u>\$ 57,098</u>	12
13				13
14	Liabilities, Surplus and other funds			14
15	Liabilities:			15
16	Loss and Loss adjustment expenses	\$ 12,175	\$ 12,932	16
17	Underwriting expenses payable	1,911	1,854	17
18	Unearned premiums, net of ceded unearned premiums	17,427	23,662	18
19	Ceded reinsurance premiums payable	29,045	12,859	19
22	Provision for reinsurance	19	484	22
23	Other payables	2,909	3,352	23
24	Total liabilities	<u>63,486</u>	<u>55,143</u>	24
25				25
26	Surplus and others funds			26
27	Unassigned Surplus (Deficit)	3,371	1,955	27
28	Total liabilities, surplus and other funds	<u>\$ 66,858</u>	<u>\$ 57,098</u>	28
29				29

TEXAS FAIR PLAN ASSOCIATION
Cash and Short Term Investments (\$ in 000's)
September 30, 2022

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Average Daily Balance for the Quarter	Investment Income during the Quarter	Annual Average Yield	Total Deposit % of TFPA's Portfolio	N.A. Bank Credit Rating	N.A. Tier 1 Capital Ratio	N.A. Regulatory Capital	Are funds in excess of the N.A. Regulatory Capital?
							< 40%	Superior or Strong	> 10%	> \$25B	> .2% of N.A. Reg Capital
Balances as of 9/30/2022:											
Bank of America	\$ 9,411	\$ -	\$ 9,411				16%	Superior	13.5%	\$185	No
Citibank	208	9,222	9,430	9,221	2	0.07%	16%	Superior	14.3%	\$150	No
JPMorgan Chase	18,369	-	18,369				31%	Superior	16.4%	\$264	No
JP Morgan U.S. Treasury Plus Money Market Fund (1)	-	21,420	21,420	16,049	56	1.40%	37%	N/A	N/A	N/A	N/A
Total of all financial institutions	\$ 27,988	\$ 30,642	\$ 58,630	\$ 25,270	\$ 58	0.91%	100%				
Balances as of 6/30/2022:											
Bank of America	\$ 12,216	\$ -	\$ 12,216				24%	Superior	13.1%	\$180	No
Citibank	208	9,220	9,429	9,220	0	0.01%	18%	Superior	13.7%	\$150	No
JPMorgan Chase	14,034	-	14,034				27%	Superior	15.9%	\$264	No
JP Morgan U.S. Treasury Plus Money Market Fund (1)	-	15,364	15,364	15,357	12	0.32%	30%	N/A	N/A	N/A	N/A
Total of all financial institutions	\$ 26,459	\$ 24,584	\$ 51,043	\$ 24,578	\$ 12	0.20%	100%				

(1) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.

(2) Balances in non-interest bearing accounts have increased to reduce bank charges as rates for earnings credits have generally exceeded yields on short-term investments.

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of June 30, 2022. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.

1	TEXAS FAIR PLAN ASSOCIATION	1
2	Statement of Cash Flows (000's omitted)	2
3	for the nine months ended September 30,	3
4		4
5		5
6		6
7	Cash flows from operating activities:	7
8	Premiums collected, net of reinsurance	8
9	Losses and loss adjustment expense paid	9
10	Underwriting expenses paid	10
11	Member assessment	11
12	Other	12
13	Net cash provided by operating activities	13
14	Cash flows from nonoperating activities:	14
15	Other	15
16	Net cash provided by nonoperating activities	16
17	Cash flows from investing activities:	17
19	Net investment income	19
20	Net cash provided by investing activities	20
21	Cash flows from financing activities:	21
22	Borrowed funds	22
23	Borrowed funds repaid	23
24	Net cash provided by financing activities	24
25		25
26	Net increase (decrease) in cash and short-term investments	26
27	Cash and short-term investments, Beginning	27
28	Cash and short-term investments, Ending	28
29		29

TEXAS FAIR PLAN ASSOCIATION
HISTORICAL DATA
2003 - 2022
(\$ with 000's omitted)

YEAR	GROSS					NET					SURPLUS OR (DEFICIT) END OF PERIOD
	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES	WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED	UNDERWRITING GAIN (LOSS)	MEMBER ASSESSMENTS	
2003	\$ 18,272,542	100,223		\$ 82,004	\$ 19,580	\$ 31,287	\$ 19,580	\$ 26,618	\$ (14,911)		\$ (15,948)
2004	22,904,408	134,350		100,666	37,184	85,238	37,184	28,470	19,584		(1,821)
2005	14,165,560	88,512		60,969	31,262	77,389	31,262	18,588	27,539		31,563
2006	13,321,087	81,129		59,873	22,545	45,867	22,545	17,304	6,017		40,063
2007	15,556,965	91,847	3.9%	73,058	24,578	52,955	24,578	19,362	9,015		52,081
2008	14,060,852	84,438		64,488	239,886	48,364	82,774	18,797	(53,208)		209
2009	11,706,721	72,989	10.7%	60,255	32,961	28,136	6,659	18,811	2,666		(9,753)
2010	14,246,999	85,984	5.0%	73,924	86,187	40,905	34,601	17,019	(10,715)		(17,449)
2011	15,979,040	96,710		83,066	78,009	47,063	53,009	15,897	(21,843)		(33,860)
2012	17,966,799	108,637	14.6%	102,383	28,453	56,880	28,453	20,346	8,081		(25,722)
2013	20,594,317	124,222	16.7% (a)	122,683	39,438	75,343	39,438	22,610	13,295		(13,422)
2014	21,944,280	131,376		133,206	45,070	89,405	45,070	24,058	20,277		5,978
2015	22,154,205	132,734		132,879	68,593	90,952	68,593	24,675	(2,316)		4,977
2016	19,883,769	121,413	8.0% (b)	122,486	78,008	84,401	78,008	26,419	(20,026)		(15,203)
2017	18,029,369	110,989	5.0% (c)	112,316	128,666	76,837	84,864	29,739	(37,766)		(54,941)
2018	15,223,344	95,637	8.1% (d)	95,882	26,733	69,239	26,733	29,527	12,979	54,941	15,088
2019	12,299,224	80,923		85,327	38,241	59,625	38,241	25,310	(3,926)		12,133
2020	12,618,291	73,713	9.6% (e)	79,477	36,620	53,092	36,620	22,398	(5,926)		6,006
2021	11,471,201	66,512	9.2% (f)	75,648	34,070	49,414	34,070	19,050	(3,705)		2,105
2022	11,173,027	61,976	7.3% (g)	59,794	19,993	34,658	19,993	13,729	936		3,371
TOTAL				\$ 1,780,383	\$ 1,116,078	\$ 1,197,051	\$ 812,276	\$ 438,727	\$ (53,953)	\$ 54,941	

(a) Effective July 1, 2013

(b) Effective April 1, 2016

(c) Effective June 1, 2017

(d) Effective October 1, 2018 and November 1, 2018 for new business and renewal business, respectively.

(e) Effective August 1, 2020

(f) Effective August 1, 2021

(g) Effective August 1, 2022

*2022 data through 9/30/2022

5. Actuarial

5A. Reserve Adequacy



TEXAS FAIR PLAN
ASSOCIATION

Xiuyu Li, ACAS, MAAA
Senior Actuary

MEMORANDUM

DATE: November 17, 2022

TO: James C. Murphy, FCAS, MAAA
Chief Actuary | Vice President, Enterprise Analytics

FROM: Xiuyu Li, ACAS, MAAA
Senior Actuary | Manager, Actuarial Analysis

RE: Reserve Adequacy

TFPA actuarial staff has completed a review of Texas FAIR Plan Association loss and loss adjustment expense reserves as of September 30, 2022.

Based on this review, the indicated ultimate cost of Hurricane Harvey is \$84.3 million, remaining very close the previous quarterly review. Due to uncertainties surrounding the adequacy of case reserves and the outcomes of disputed claims, the selected ultimate gross loss & expense estimate has been maintained at \$85 million.

As of September 30, 2022, TFPA carried \$17.2 million in total gross loss and loss adjustment expense reserves with \$4.3 million of the total gross losses and expenses reserves ceded to reinsurance companies rated A- or better by A.M. Best Company. Collectability risk has been reviewed and found to be immaterial relative to total gross reserve.

In my opinion, the Association's net reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. My opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectible.

The complete actuarial analysis is available on request.

XL

5B. Policy Count/Exposures

Texas FAIR Plan Association
Liability Report
As of 9/30/22
All Forms Combined



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage
Harris	43,452	38,693	(4,759)	(10.95%)	6,677,474,318	6,161,730,295	(515,744,024)	(7.72%)	42,210,891	41,945,476	(265,414)	(0.63%)
Fort bend	4,678	4,088	(590)	(12.61%)	850,443,081	760,785,921	(89,657,160)	(10.54%)	4,496,181	4,321,150	(175,032)	(3.89%)
Galveston	4,314	4,111	(203)	(4.71%)	1,104,059,956	1,124,752,814	20,692,859	1.87%	1,559,483	1,671,055	111,571	7.15%
Dallas	2,270	1,882	(388)	(17.09%)	394,649,373	329,559,904	(65,089,469)	(16.49%)	1,998,726	1,807,305	(191,421)	(9.58%)
Brazoria	1,802	1,752	(50)	(2.77%)	460,141,834	469,453,246	9,311,412	2.02%	732,085	787,055	54,970	7.51%
Tarrant	1,657	1,437	(220)	(13.28%)	280,398,758	243,123,868	(37,274,890)	(13.29%)	1,620,171	1,518,469	(101,703)	(6.28%)
El paso	1,148	1,275	127	11.06%	262,739,150	315,306,525	52,567,375	20.01%	663,770	867,129	203,358	30.64%
Nueces	1,251	1,131	(120)	(9.59%)	250,480,394	239,812,870	(10,667,524)	(4.26%)	580,367	586,898	6,531	1.13%
Jefferson	1,074	1,174	100	9.31%	245,988,002	289,045,277	43,057,275	17.50%	435,093	536,294	101,200	23.26%
Montgomery	788	699	(89)	(11.29%)	140,941,805	127,584,426	(13,357,379)	(9.48%)	664,805	626,781	(38,024)	(5.72%)
Bexar	602	520	(82)	(13.62%)	104,631,822	95,000,082	(9,631,740)	(9.21%)	460,814	443,634	(17,179)	(3.73%)
Cameron	425	424	(1)	(0.24%)	74,570,680	78,934,190	4,363,510	5.85%	137,839	155,109	17,270	12.53%
Calhoun	379	376	(3)	(0.79%)	92,116,045	94,372,915	2,256,870	2.45%	157,385	170,390	13,005	8.26%
Orange	373	363	(10)	(2.68%)	61,490,158	60,812,608	(677,550)	(1.10%)	472,808	498,108	25,300	5.35%
Chambers	255	272	17	6.67%	71,998,330	83,083,950	11,085,620	15.40%	129,081	160,258	31,178	24.15%
Matagorda	228	253	25	10.96%	49,586,935	58,575,615	8,988,680	18.13%	114,715	136,342	21,627	18.85%
Travis	270	217	(53)	(19.63%)	52,223,328	39,535,220	(12,688,108)	(24.30%)	158,802	129,070	(29,732)	(18.72%)
Liberty	216	198	(18)	(8.33%)	24,752,416	24,780,272	27,856	0.11%	248,402	264,321	15,919	6.41%
Hidalgo	220	172	(48)	(21.82%)	24,645,761	19,786,036	(4,859,726)	(19.72%)	176,133	148,819	(27,314)	(15.51%)
Aransas	181	165	(16)	(8.84%)	39,918,220	35,938,100	(3,980,120)	(9.97%)	75,976	73,517	(2,460)	(3.24%)
San patricio	162	158	(4)	(2.47%)	35,744,276	37,094,926	1,350,650	3.78%	69,385	73,783	4,398	6.34%
Collin	167	156	(11)	(6.59%)	33,229,200	33,205,380	(23,820)	(0.07%)	147,639	184,899	37,260	25.24%
Waller	106	121	15	14.15%	16,427,240	17,907,830	1,480,590	9.01%	105,505	124,669	19,164	18.16%
Denton	120	107	(13)	(10.83%)	29,413,754	29,974,626	560,872	1.91%	135,622	146,818	11,196	8.26%
Brazos	110	83	(27)	(24.55%)	17,391,730	12,484,370	(4,907,360)	(28.22%)	69,392	51,868	(17,524)	(25.25%)
Top 25 Counties	66,248	59,827	(6,421)	(9.69%)	11,395,456,567	10,782,641,266	(612,815,300)	(5.38%)	57,621,072	57,429,217	(191,855)	(0.33%)
All Other Counties	2,293	2,149	(144)	(6.28%)	397,864,230	390,386,054	(7,478,176)	(1.88%)	2,274,856	2,364,362	89,506	3.93%
Tier 1	10,177	9,922	(255)	(2.51%)	2,448,540,712	2,535,449,604	86,908,892	3.55%	4,036,069	4,400,717	364,648	9.03%
Tier 2	49,263	43,822	(5,441)	(11.04%)	7,688,915,131	7,075,715,042	(613,200,089)	(7.98%)	47,978,776	47,552,219	(426,557)	(0.89%)
All Other Counties	9,101	8,232	(869)	(9.55%)	1,655,864,954	1,561,862,675	(94,002,279)	(5.68%)	7,881,083	7,840,643	(40,440)	(0.51%)
Statewide Total	68,541	61,976	(6,565)	(9.58%)	11,793,320,797	11,173,027,320	(620,293,477)	(5.26%)	59,895,927	59,793,579	(102,349)	(0.17%)

Exposure includes Dwelling, Contents, and Loss of Use coverages
Premium totals are not audited and may not match published financial statements

Texas FAIR Plan Association
Liability Report
As of 9/30/22
HO-A Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage
Harris	14,752	13,230	(1,522)	(10.32%)	3,609,005,124	3,364,348,618	(244,656,507)	(6.78%)	23,863,597	23,948,588	84,991	0.36%
Fort bend	1,189	1,040	(149)	(12.53%)	332,494,346	297,374,030	(35,120,316)	(10.56%)	1,935,078	1,840,820	(94,258)	(4.87%)
Galveston	3,071	2,982	(89)	(2.90%)	1,001,170,023	1,024,586,432	23,416,410	2.34%	1,267,144	1,380,970	113,826	8.98%
Dallas	1,044	830	(214)	(20.50%)	266,706,680	215,246,800	(51,459,880)	(19.29%)	1,427,400	1,268,719	(158,682)	(11.12%)
Brazoria	1,352	1,324	(28)	(2.07%)	408,519,330	417,617,970	9,098,640	2.23%	610,327	660,547	50,220	8.23%
Tarrant	880	746	(134)	(15.23%)	199,615,048	170,301,738	(29,313,310)	(14.68%)	1,190,304	1,102,433	(87,871)	(7.38%)
El paso	966	1,084	118	12.22%	243,498,770	293,472,500	49,973,730	20.52%	602,081	788,046	185,965	30.89%
Nueces	712	664	(48)	(6.74%)	204,624,540	196,737,990	(7,886,550)	(3.85%)	448,203	461,013	12,810	2.86%
Jefferson	805	874	69	8.57%	223,345,892	261,352,842	38,006,950	17.02%	365,095	450,195	85,100	23.31%
Montgomery	437	402	(35)	(8.01%)	105,109,270	97,381,390	(7,727,880)	(7.35%)	501,576	479,308	(22,268)	(4.44%)
Bexar	375	327	(48)	(12.80%)	87,770,510	80,128,670	(7,641,840)	(8.71%)	375,810	363,670	(12,139)	(3.23%)
Cameron	247	254	7	2.83%	58,102,030	62,267,230	4,165,200	7.17%	92,575	105,634	13,059	14.11%
Calhoun	312	306	(6)	(1.92%)	86,748,350	88,598,580	1,850,230	2.13%	139,675	150,475	10,800	7.73%
Orange	229	226	(3)	(1.31%)	49,910,608	49,490,908	(419,700)	(0.84%)	380,052	409,251	29,199	7.68%
Chambers	207	229	22	10.63%	66,688,790	78,522,550	11,833,760	17.74%	106,507	141,459	34,952	32.82%
Matagorda	197	211	14	7.11%	47,173,260	55,300,640	8,127,380	17.23%	98,757	119,228	20,471	20.73%
Travis	151	112	(39)	(25.83%)	41,458,140	30,563,000	(10,895,140)	(26.28%)	116,732	93,859	(22,873)	(19.59%)
Liberty	118	116	(2)	(1.69%)	17,490,558	18,623,014	1,132,456	6.47%	166,183	205,465	39,282	23.64%
Hidalgo	78	60	(18)	(23.08%)	10,316,861	8,122,756	(2,194,106)	(21.27%)	79,844	67,227	(12,616)	(15.80%)
Aransas	148	137	(11)	(7.43%)	37,324,800	33,468,040	(3,856,760)	(10.33%)	66,514	64,943	(1,571)	(2.36%)
San patricio	123	126	3	2.44%	32,635,226	34,427,826	1,792,600	5.49%	55,871	61,960	6,089	10.90%
Collin	43	47	4	9.30%	14,018,630	16,965,580	2,946,950	21.02%	61,634	103,339	41,705	67.66%
Waller	62	76	14	22.58%	12,363,060	13,922,250	1,559,190	12.61%	77,656	98,072	20,417	26.29%
Denton	69	66	(3)	(4.35%)	23,470,176	24,705,126	1,234,950	5.26%	105,322	119,921	14,599	13.86%
Brazos	43	32	(11)	(25.58%)	12,356,910	8,969,620	(3,387,290)	(27.41%)	46,568	33,946	(12,622)	(27.10%)
Top 25 Counties	27,610	25,501	(2,109)	(7.64%)	7,191,916,933	6,942,496,100	(249,420,832)	(3.47%)	34,180,504	34,519,089	338,584	0.99%
All Other Counties	1,368	1,273	(95)	(6.94%)	318,575,770	310,896,069	(7,679,701)	(2.41%)	1,766,919	1,800,380	33,461	1.89%
Tier 1	7,252	7,183	(69)	(0.95%)	2,188,341,281	2,274,961,101	86,619,820	3.96%	3,287,139	3,635,971	348,832	10.61%
Tier 2	16,551	14,838	(1,713)	(10.35%)	4,058,637,218	3,774,631,956	(284,005,262)	(7.00%)	26,710,962	26,744,808	33,845	0.13%
All Other Counties	5,175	4,753	(422)	(8.15%)	1,263,514,204	1,203,799,113	(59,715,091)	(4.73%)	5,949,322	5,938,690	(10,632)	(0.18%)
Statewide Total	28,978	26,774	(2,204)	(7.61%)	7,510,492,703	7,253,392,169	(257,100,534)	(3.42%)	35,947,423	36,319,468	372,045	1.03%

Exposure includes Dwelling, Contents, and Loss of Use coverages
Premium totals are not audited and may not match published financial statements

Texas FAIR Plan Association
Liability Report
As of 9/30/22
TDP-1 Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage
Harris	25,134	22,457	(2,677)	(10.65%)	2,886,302,474	2,633,166,477	(253,135,997)	(8.77%)	17,436,172	17,134,142	(302,030)	(1.73%)
Fort bend	3,312	2,901	(411)	(12.41%)	509,153,695	455,900,371	(53,253,324)	(10.46%)	2,526,707	2,450,397	(76,310)	(3.02%)
Galveston	667	626	(41)	(6.15%)	73,884,613	72,403,422	(1,481,191)	(2.00%)	201,194	202,278	1,084	0.54%
Dallas	1,088	948	(140)	(12.87%)	121,555,573	109,721,904	(11,833,669)	(9.74%)	546,118	519,001	(27,117)	(4.97%)
Brazoria	380	373	(7)	(1.84%)	48,826,864	49,383,436	556,572	1.14%	111,886	118,149	6,263	5.60%
Tarrant	726	659	(67)	(9.23%)	79,044,910	71,830,930	(7,213,980)	(9.13%)	423,390	411,152	(12,238)	(2.89%)
El paso	176	187	11	6.25%	18,792,780	21,465,025	2,672,245	14.22%	59,431	77,018	17,587	29.59%
Nueces	309	265	(44)	(14.24%)	28,024,334	24,864,160	(3,160,174)	(11.28%)	71,502	64,627	(6,874)	(9.61%)
Jefferson	232	264	32	13.79%	20,804,310	25,852,475	5,048,165	24.26%	64,370	80,085	15,716	24.41%
Montgomery	295	256	(39)	(13.22%)	33,055,135	27,948,956	(5,106,179)	(15.45%)	152,450	139,169	(13,281)	(8.71%)
Bexar	173	150	(23)	(13.29%)	14,625,112	13,106,212	(1,518,900)	(10.39%)	70,928	67,519	(3,409)	(4.81%)
Cameron	74	74	0	0.00%	6,997,410	7,049,560	52,150	0.75%	18,580	22,779	4,198	22.60%
Calhoun	54	56	2	3.70%	4,803,695	4,928,095	124,400	2.59%	15,401	16,522	1,120	7.27%
Orange	133	126	(7)	(5.26%)	11,285,550	10,967,700	(317,850)	(2.82%)	90,377	86,025	(4,351)	(4.81%)
Chambers	43	37	(6)	(13.95%)	5,191,700	4,393,400	(798,300)	(15.38%)	22,075	18,537	(3,539)	(16.03%)
Matagorda	30	41	11	36.67%	2,400,475	3,261,775	861,300	35.88%	15,755	17,007	1,252	7.94%
Travis	61	52	(9)	(14.75%)	7,748,028	6,067,500	(1,680,528)	(21.69%)	31,108	24,517	(6,590)	(21.19%)
Liberty	95	80	(15)	(15.79%)	7,177,858	6,097,258	(1,080,600)	(15.05%)	81,822	58,353	(23,469)	(28.68%)
Hidalgo	137	103	(34)	(24.82%)	14,136,900	11,171,280	(2,965,620)	(20.98%)	95,210	78,331	(16,879)	(17.73%)
Aransas	14	16	2	14.29%	1,270,300	1,650,100	379,800	29.90%	4,924	5,674	750	15.23%
San patricio	34	31	(3)	(8.82%)	2,960,850	2,589,100	(371,750)	(12.56%)	12,596	11,494	(1,102)	(8.75%)
Collin	99	86	(13)	(13.13%)	17,866,450	15,355,400	(2,511,050)	(14.05%)	80,828	78,348	(2,480)	(3.07%)
Waller	43	41	(2)	(4.65%)	4,046,180	3,796,580	(249,600)	(6.17%)	27,720	26,060	(1,661)	(5.99%)
Denton	49	37	(12)	(24.49%)	5,883,578	4,921,500	(962,078)	(16.35%)	30,014	25,248	(4,766)	(15.88%)
Brazos	29	21	(8)	(27.59%)	2,713,900	2,159,350	(554,550)	(20.43%)	13,659	12,618	(1,041)	(7.62%)
Top 25 Counties	33,387	29,887	(3,500)	(10.48%)	3,928,552,674	3,590,051,966	(338,500,708)	(8.62%)	22,204,218	21,745,050	(459,169)	(2.07%)
All Other Counties	823	797	(26)	(3.16%)	74,718,020	75,604,985	886,965	1.19%	485,675	543,824	58,149	11.97%
Tier 1	1,861	1,811	(50)	(2.69%)	196,827,551	198,530,223	1,702,672	0.87%	545,421	567,054	21,632	3.97%
Tier 2	28,942	25,802	(3,140)	(10.85%)	3,438,602,153	3,128,337,566	(310,264,587)	(9.02%)	20,317,046	19,906,785	(410,261)	(2.02%)
All Other Counties	3,407	3,071	(336)	(9.86%)	367,840,990	338,789,162	(29,051,828)	(7.90%)	1,827,426	1,815,035	(12,391)	(0.68%)
Statewide Total	34,210	30,684	(3,526)	(10.31%)	4,003,270,694	3,665,656,951	(337,613,743)	(8.43%)	22,689,893	22,288,874	(401,020)	(1.77%)

Exposure includes Dwelling, Contents, and Loss of Use coverages
Premium totals are not audited and may not match published financial statements

Texas FAIR Plan Association
Liability Report
As of 9/30/22
HO-CONB Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage
Harris	2,269	1,946	(323)	(14.24%)	154,407,600	142,722,480	(11,685,120)	(7.57%)	743,044	733,951	(9,093)	(1.22%)
Fort bend	86	74	(12)	(13.95%)	6,173,640	5,696,880	(476,760)	(7.72%)	21,554	20,417	(1,137)	(5.28%)
Galveston	238	208	(30)	(12.61%)	18,623,280	18,893,760	270,480	1.45%	50,557	51,769	1,212	2.40%
Dallas	98	77	(21)	(21.43%)	5,077,320	3,967,200	(1,110,120)	(21.86%)	20,029	16,213	(3,816)	(19.05%)
Brazoria	12	9	(3)	(25.00%)	889,200	708,000	(181,200)	(20.38%)	2,917	2,673	(244)	(8.36%)
Tarrant	7	4	(3)	(42.86%)	468,000	240,000	(228,000)	(48.72%)	1,702	1,186	(516)	(30.34%)
El paso	4	2	(2)	(50.00%)	351,600	243,600	(108,000)	(30.72%)	1,920	1,446	(474)	(24.68%)
Nueces	204	180	(24)	(11.76%)	16,941,120	17,323,920	382,800	2.26%	57,713	57,648	(65)	(0.11%)
Jefferson	10	8	(2)	(20.00%)	560,400	622,920	62,520	11.16%	1,851	1,686	(165)	(8.94%)
Montgomery	18	15	(3)	(16.67%)	1,469,280	1,211,280	(258,000)	(17.56%)	5,311	4,189	(1,122)	(21.13%)
Bexar	31	30	(1)	(3.23%)	1,674,000	1,538,400	(135,600)	(8.10%)	11,683	10,729	(954)	(8.17%)
Cameron	101	96	(5)	(4.95%)	9,399,240	9,617,400	218,160	2.32%	26,411	26,563	152	0.58%
Calhoun	5	6	1	20.00%	372,000	534,240	162,240	43.61%	1,667	2,286	619	37.13%
Orange	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Chambers	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Matagorda	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Travis	37	31	(6)	(16.22%)	2,384,160	2,314,320	(69,840)	(2.93%)	7,987	8,286	299	3.75%
Liberty	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Hidalgo	2	7	5	250.00%	132,000	456,000	324,000	245.45%	739	2,904	2,165	293.00%
Aransas	14	10	(4)	(28.57%)	1,094,760	735,600	(359,160)	(32.81%)	3,700	2,638	(1,062)	(28.71%)
San patricio	1	1	0	0.00%	78,000	78,000	0	0.00%	319	330	11	3.45%
Collin	21	14	(7)	(33.33%)	1,224,120	656,400	(567,720)	(46.38%)	4,637	2,098	(2,539)	(54.76%)
Waller	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Denton	1	2	1	100.00%	36,000	300,000	264,000	733.33%	149	1,377	1,228	823.99%
Brazos	30	13	(17)	(56.67%)	2,197,920	1,070,400	(1,127,520)	(51.30%)	8,539	3,483	(5,056)	(59.21%)
Top 25 Counties	3,189	2,733	(456)	(14.30%)	223,553,640	208,930,800	(14,622,840)	(6.54%)	972,429	951,872	(20,558)	(2.11%)
All Other Counties	26	18	(8)	(30.77%)	2,038,440	1,463,760	(574,680)	(28.19%)	10,139	8,101	(2,038)	(20.10%)
Tier 1	585	518	(67)	(11.45%)	47,958,000	48,513,840	555,840	1.16%	145,135	145,593	458	0.32%
Tier 2	2,357	2,027	(330)	(14.00%)	160,713,240	148,875,360	(11,837,880)	(7.37%)	765,437	757,272	(8,165)	(1.07%)
All Other Counties	273	206	(67)	(24.54%)	16,920,840	13,005,360	(3,915,480)	(23.14%)	71,996	57,107	(14,888)	(20.68%)
Statewide Total	3,215	2,751	(464)	(14.43%)	225,592,080	210,394,560	(15,197,520)	(6.74%)	982,568	959,972	(22,595)	(2.30%)

Exposure includes Dwelling, Contents, and Loss of Use coverages
Premium totals are not audited and may not match published financial statements

Texas FAIR Plan Association
Liability Report
As of 9/30/22
HO-BT Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage	09/30/21	09/30/22	Actual	Percentage
Harris	1,297	1,060	(237)	(18.27%)	27,759,120	21,492,720	(6,266,400)	(22.57%)	168,077	128,795	(39,282)	(23.37%)
Fort bend	91	73	(18)	(19.78%)	2,621,400	1,814,640	(806,760)	(30.78%)	12,842	9,515	(3,326)	(25.90%)
Galveston	338	295	(43)	(12.72%)	10,382,040	8,869,200	(1,512,840)	(14.57%)	40,588	36,037	(4,551)	(11.21%)
Dallas	40	27	(13)	(32.50%)	1,309,800	624,000	(685,800)	(52.36%)	5,178	3,372	(1,806)	(34.88%)
Brazoria	58	46	(12)	(20.69%)	1,906,440	1,743,840	(162,600)	(8.53%)	6,956	5,686	(1,270)	(18.25%)
Tarrant	44	28	(16)	(36.36%)	1,270,800	751,200	(519,600)	(40.89%)	4,775	3,698	(1,077)	(22.56%)
El paso	2	2	0	0.00%	96,000	125,400	29,400	30.63%	339	619	280	82.60%
Nueces	26	22	(4)	(15.38%)	890,400	886,800	(3,600)	(0.40%)	2,949	3,610	661	22.42%
Jefferson	27	28	1	3.70%	1,277,400	1,217,040	(60,360)	(4.73%)	3,778	4,328	551	14.58%
Montgomery	38	26	(12)	(31.58%)	1,308,120	1,042,800	(265,320)	(20.28%)	5,468	4,115	(1,353)	(24.74%)
Bexar	23	13	(10)	(43.48%)	562,200	226,800	(335,400)	(59.66%)	2,393	1,716	(677)	(28.29%)
Cameron	3	0	(3)	(100.00%)	72,000	0	(72,000)	(100.00%)	273	134	(139)	(51.03%)
Calhoun	8	8	0	0.00%	192,000	312,000	120,000	62.50%	641	1,107	466	72.70%
Orange	11	11	0	0.00%	294,000	354,000	60,000	20.41%	2,380	2,832	452	19.01%
Chambers	5	6	1	20.00%	117,840	168,000	50,160	42.57%	498	263	(236)	(47.26%)
Matagorda	1	1	0	0.00%	13,200	13,200	0	0.00%	203	107	(96)	(47.29%)
Travis	21	22	1	4.76%	633,000	590,400	(42,600)	(6.73%)	2,976	2,408	(568)	(19.09%)
Liberty	3	2	(1)	(33.33%)	84,000	60,000	(24,000)	(28.57%)	397	503	106	26.62%
Hidalgo	3	2	(1)	(33.33%)	60,000	36,000	(24,000)	(40.00%)	340	356	16	4.71%
Aransas	5	2	(3)	(60.00%)	228,360	84,360	(144,000)	(63.06%)	838	262	(576)	(68.74%)
San patricio	4	0	(4)	(100.00%)	70,200	0	(70,200)	(100.00%)	600	0	(600)	(100.00%)
Collin	4	9	5	125.00%	120,000	228,000	108,000	90.00%	540	1,114	574	106.30%
Waller	1	4	3	300.00%	18,000	189,000	171,000	950.00%	129	537	408	316.28%
Denton	1	2	1	100.00%	24,000	48,000	24,000	100.00%	137	272	135	98.54%
Brazos	8	17	9	112.50%	123,000	285,000	162,000	131.71%	626	1,821	1,195	190.89%
Top 25 Counties	2,062	1,706	(356)	(17.26%)	51,433,320	41,162,400	(10,270,920)	(19.97%)	263,920	213,207	(50,713)	(19.22%)
All Other Counties	76	61	(15)	(19.74%)	2,532,000	2,421,240	(110,760)	(4.37%)	12,124	12,057	(66)	(0.55%)
Tier 1	479	410	(69)	(14.41%)	15,413,880	13,444,440	(1,969,440)	(12.78%)	58,373	52,100	(6,273)	(10.75%)
Tier 2	1,413	1,155	(258)	(18.26%)	30,962,520	23,870,160	(7,092,360)	(22.91%)	185,331	143,354	(41,976)	(22.65%)
All Other Counties	246	202	(44)	(17.89%)	7,588,920	6,269,040	(1,319,880)	(17.39%)	32,339	29,810	(2,529)	(7.82%)
Statewide Total	2,138	1,767	(371)	(17.35%)	53,965,320	43,583,640	(10,381,680)	(19.24%)	276,043	225,264	(50,779)	(18.40%)

Exposure includes Dwelling, Contents, and Loss of Use coverages
Premium totals are not audited and may not match published financial statements

5C. Annual Rate Review



MEMORANDUM

DATE: November 17, 2022
TO: David Durden, General Manager
FROM: Jim Murphy, Chief Actuary
RE: TFPA 2022 Rate Review

TFPA actuarial staff has updated its analysis of TFPA indicated rate needs. The methodology used in this analysis is consistent with that used in previous rate analyses. The analysis incorporates the most current data for loss experience and operating expenses as of December 31, 2021. Modeled catastrophe exposures as of March 31, 2022, projected 2023 operating expenses, and the projected cost of the 2023-2024 reinsurance program have also been incorporated.

Following is a summary of rate indications from 2021 and 2022 by product form, capped at $\pm 10\%$:

Product	<u>2021 Analysis</u>		<u>2022 Analysis</u>	
	Indicated	Filed	Indicated	Capped
Homeowners	10.1%	7.6%	18.2%	10.0%
Tenants	18.0%	9.0%	28.0%	9.8%
Condo	10.4%	9.0%	29.9%	10.0%
Dwelling (Fire)	0.7%	0.7%	14.2%	10.0%
Dwelling (EC)	17.2%	9.5%	21.1%	9.5%

Primary drivers of indicated rates are adverse loss experience in the most recent accident period, an increased allocation to operating expense provisions, and an expected increase in reinsurance costs for the 2023-2024 reinsurance program.

I recommend the Governing Committee file for the full actuarial indications for all policy forms, limited to no more than a 10% change in any territory, to be effective August 1, 2023.

Indications by territory are shown on the following pages. The complete actuarial analysis is available on request.

JM



Homeowners	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	3,454,701	38.30%	10.00%
Central North - Remainder	297,533	19.40%	10.00%
Central South	3,360,644	24.50%	10.00%
North/Northwest	305,646	27.80%	10.00%
Seacoast - Tier 1	4,226,121	13.80%	10.00%
Seacoast - Tier 2	33,440,180	15.90%	10.00%
Overall Statewide	45,084,825	18.20%	10.00%

Tenants	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	11,664	27.1%	10.0%
Central North - Remainder	4,508	5.8%	5.8%
Central South	16,683	8.0%	8.0%
North/Northwest	509	6.6%	6.6%
Seacoast - Tier 1	63,092	40.1%	10.0%
Seacoast - Tier 2	203,841	26.5%	10.0%
Overall Statewide	300,297	28.0%	9.8%

Condos	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	35,241	36.5%	10.0%
Central North - Remainder	2,012	172.6%	10.0%
Central South	49,793	40.0%	10.0%
North/Northwest	727	27.2%	10.0%
Seacoast - Tier 1	170,622	20.0%	10.0%
Seacoast - Tier 2	994,694	30.6%	10.0%
Overall Statewide	1,253,089	29.9%	10.0%

Dwelling (Fire)	Indicated	Proposed
Overall Statewide	15.0%	10.0%

Dwelling (EC)	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	1,336,890	60.2%	10.0%
Central North - Remainder	147,208	45.2%	10.0%
Central South	777,948	40.0%	10.0%
North/Northwest	73,105	29.5%	10.0%
Seacoast - Tier 1	691,173	-34.3%	-10.0%
Seacoast - Tier 2	25,502,615	20.7%	10.0%
Overall Statewide	28,528,939	21.9%	9.5%

5D. Reinsurance Market Update



Texas FAIR Plan Association

Meeting of the Governing Committee

December 2022



Gallagher Re

2022 Property Cat Reinsurance Market Conditions

Commentary as of May 2022

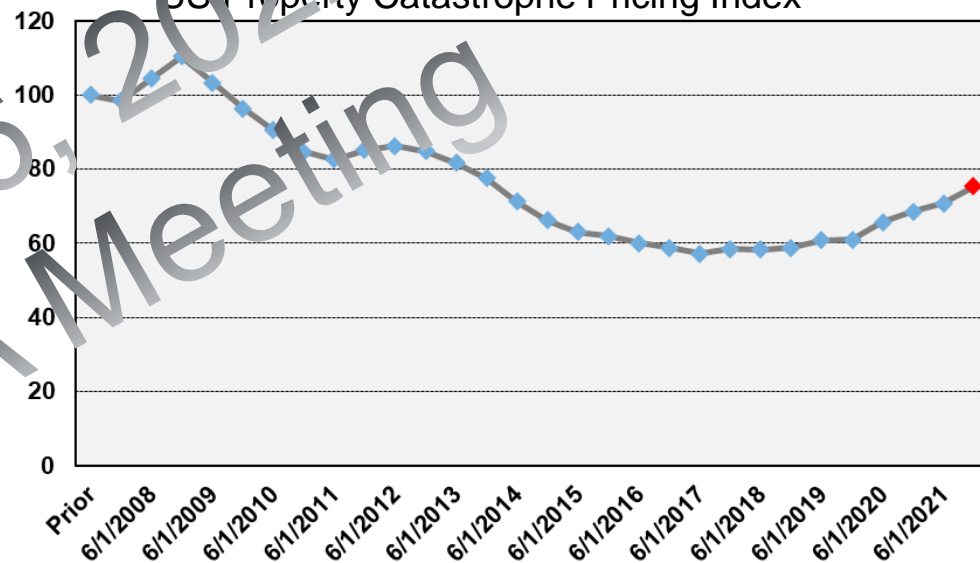
Still a “reasonably favorable” market for reinsurance buyers relative to the last 15 years

- Competing market with traditional vs. ILS (Cat Bonds)
- Loss-free deals are viewed favorably, but still faced with rate increases

An abundance of headwinds in 2022:

- Record cat losses in 2020 & 2021, a trend since 2017
- Large buyers of Cat....buying more at June 1, 2022
- Inflation on loss trend
- Retrocession rate increases
- All major reinsurers have reduced net PML in 2022
- Interest rates: risk free assets are now competing against risk assets

US Property Catastrophe Pricing Index



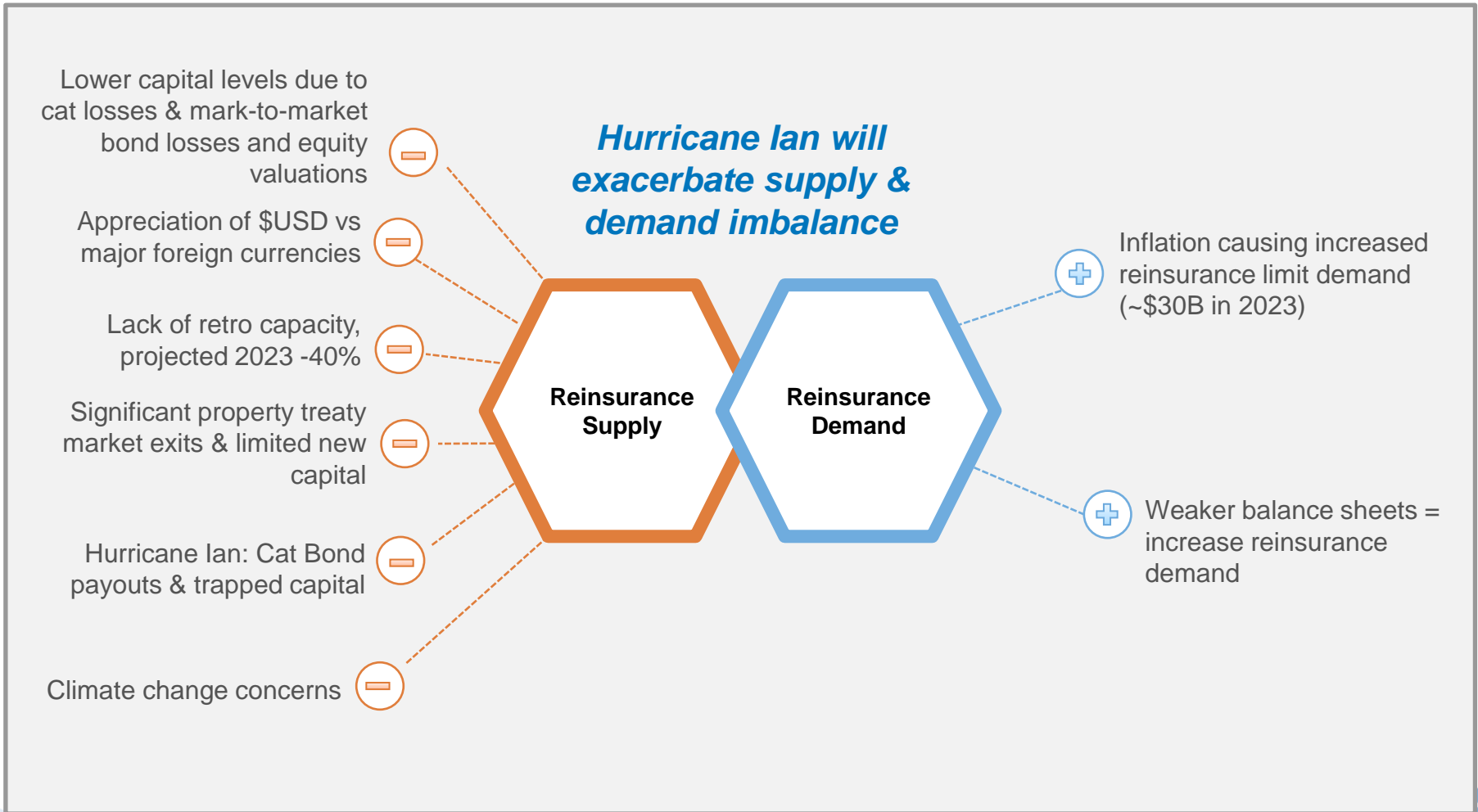
* Projected on June 1, 2022, excluding Florida weighted programs



Gallagher Re

Property Reinsurance Market

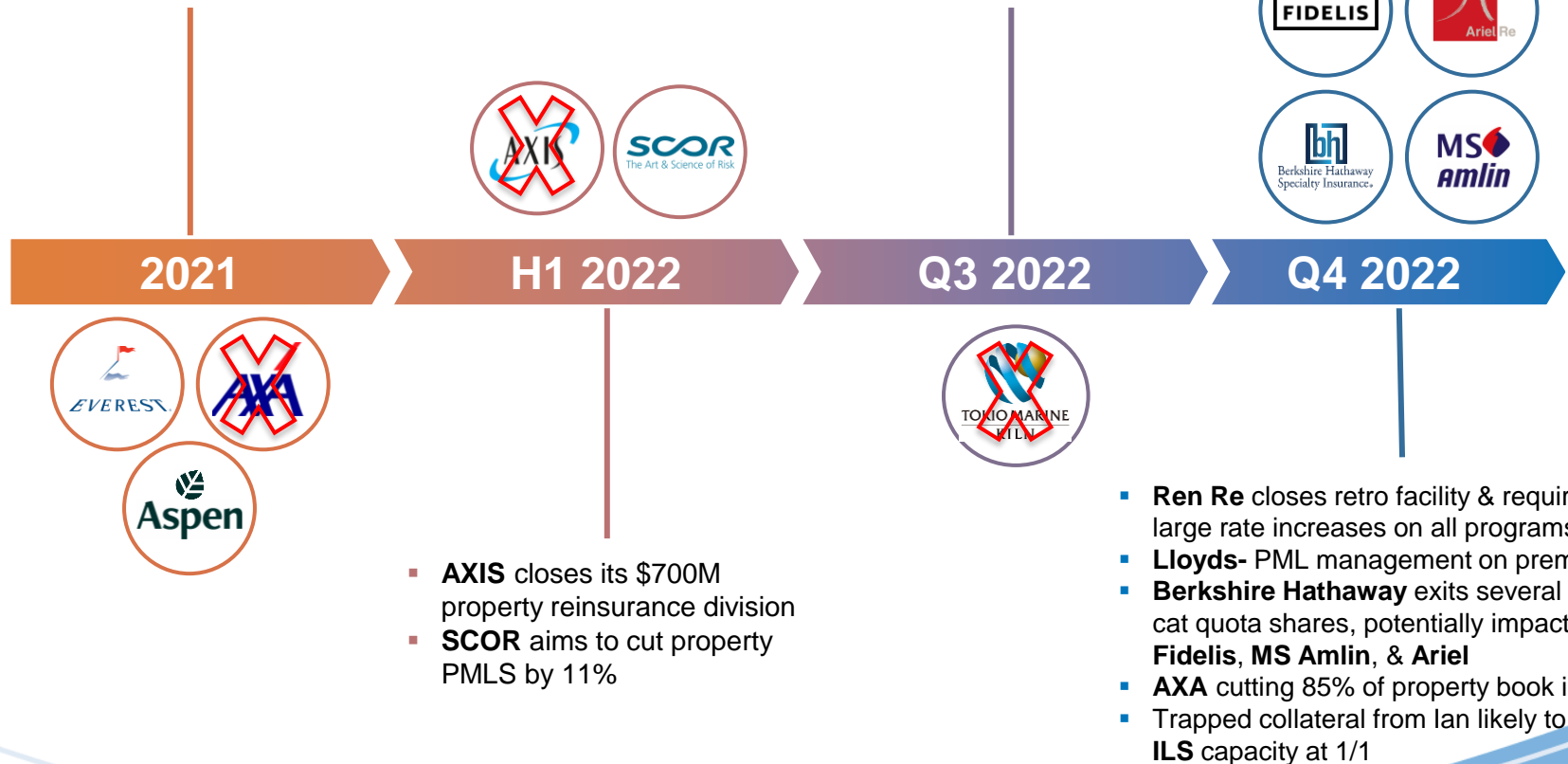
Historic Imbalance of Reinsurance Supply and Demand



Headline Reinsurance Capacity Reductions

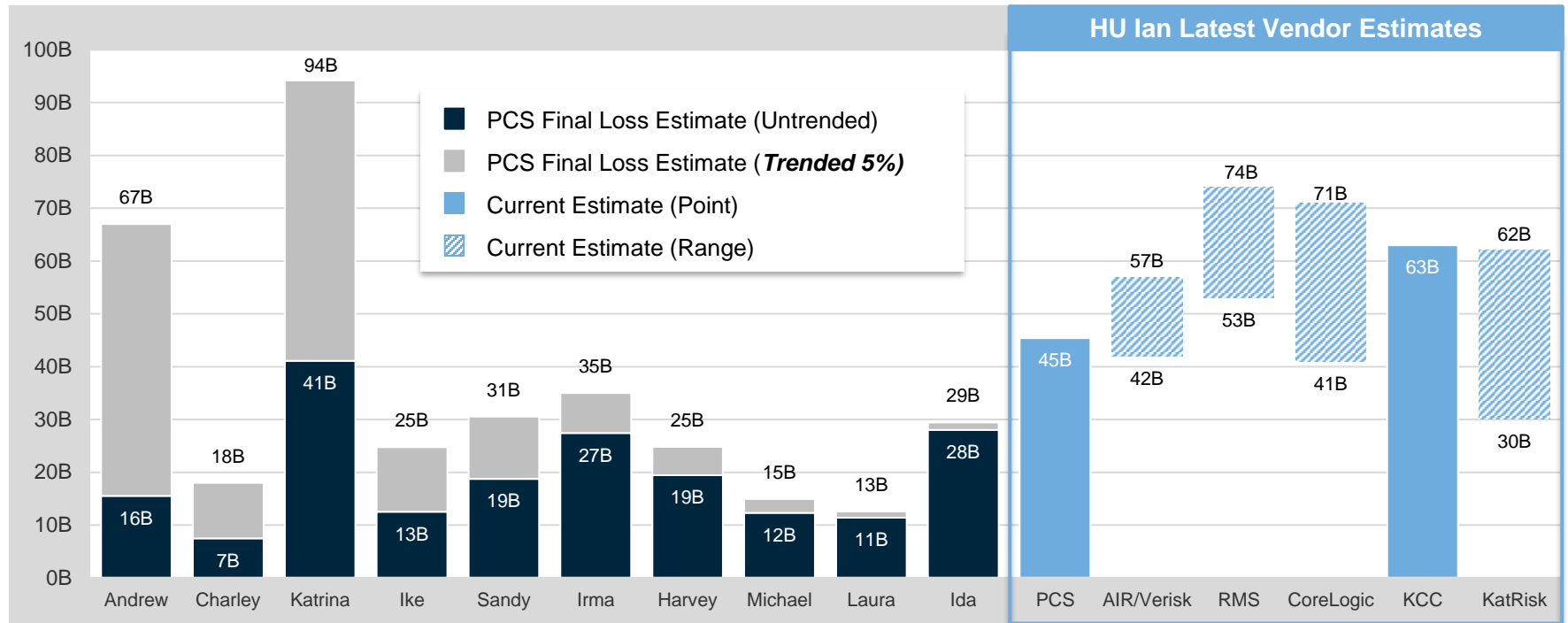
- **Aspen**: removes ~\$500M of property capacity
- **Everest** scales back cat XOL premium to 17% of reinsurance premium, down from 26% in 2017
- **AXA Group** exits property treaty in Lloyd's. Plans to cut Cat exposure by 40% in 2022

- **Kiln**, historically a leader in the London property market, exits property treaty reinsurance



Hurricane Ian

Historical Event Comparison and Latest Estimates



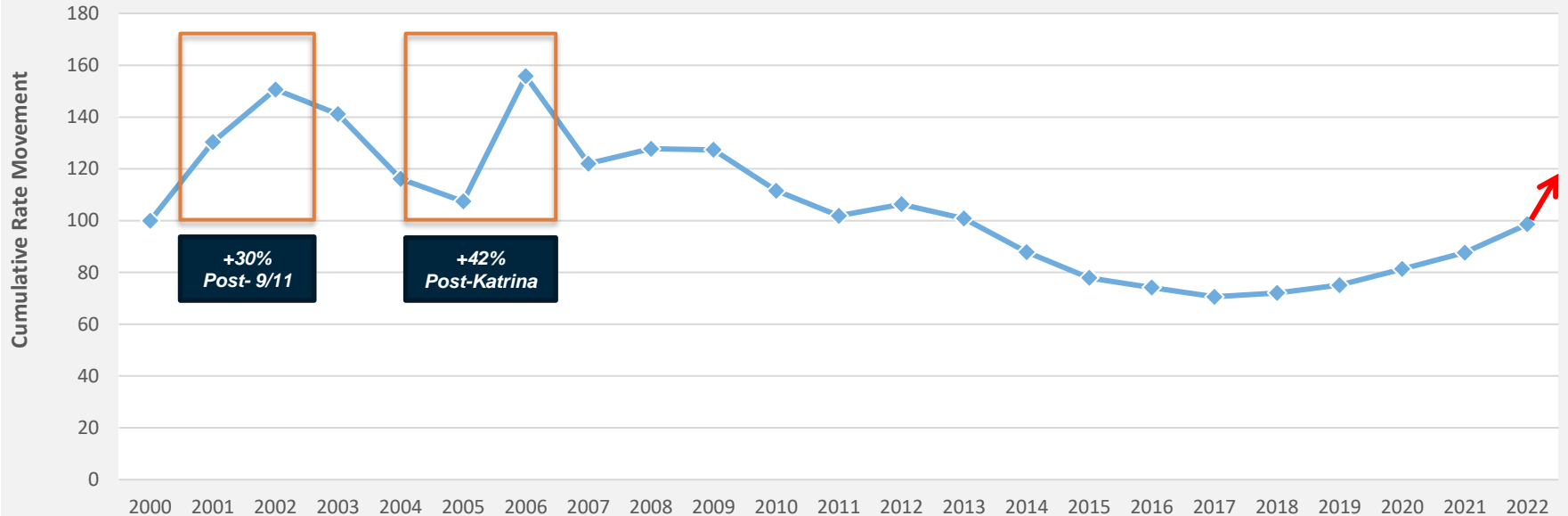
*PCS loss estimate expected to develop over time by the time the claim is closed. Prior event development suggest potential for 20% growth in loss estimate.

- Based on latest vendor model estimates, Hurricane Ian may surpass the nominal (untrended) insured loss witnessed in all major hurricane events
- On a trended basis, Ian expected to match the insured loss of Hurricane Andrew (FL 1992)
- Significant variability around vendor model loss estimates with uncertainty being driven by factors such as social and economic inflation and litigation costs

U.S. Property Cat Historical Rate Change

2000 through “Early 1/1/23 Estimates”

Gallagher Re – U.S. Property Cat Historical Rate Change



- Following Katrina and 9/11, rate movements varied between +30% and +42% in the year to follow
- Heading into 2023, pricing levels are now back to levels witnessed in 2011 with the expectation of further significant rate movement driven by supply demand imbalance and exacerbated by the impact of Hurricane Ian

6. Internal Audit

6A. Internal Audit Status Update

MEMORANDUM

TO: The Governing Committee - Texas FAIR Plan Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: December 12, 2022

SUBJECT: Status of Internal Audit Activities

The following is our internal audit update representing current and planned activities:

➤ **Current Activities:**

Activity Description	Status
Information Security	Report issued
Business Continuity of Operations – Information Technology	Report issued
Findings Follow-up Audit	Report issued
Reinsurance	Reporting phase
Continuity of Operations Plan – Business Operations	Reporting phase
HR and Payroll	Fieldwork in review
Claims Audit	Fieldwork in review
Risk Assessment and Audit Plan Update	Completed

➤ **Upcoming Audits and Activities:**

Activity Description	Timing
Plan of Operation	1 st / 2 nd Quarter 2023
Accounts Payable and Expense Processing	1 st /2 nd Quarter 2023
Accounts Receivable	1 st /2 nd Quarter 2023

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

Texas FAIR Plan Association

Internal Audit Plan – Lookback (2020 - 2021) and Prospective (2022-2024)

Process Area	Last Report Date	2021 Inherent Risk Rating	2020	2021	2022	2023	2024
Information Security	May 2018	High		x		x	
Claims Processing	Nov 2020	High	x		x		x
Reinsurance	Nov 2020	High	x		x		x
Database and Application Administration	Oct 2020	High	x			x	
Communications	Mar 2021	High		x		x	
Actuarial (Pricing and Reserving)	Sept 2021	High		x		x	
Legal & Compliance	Mar 2021	Moderate	x			x	
Underwriting	Jun 2020	Moderate	x			x	
Plan of Operation	N/A	Moderate			x		
Business Continuity of Operations	Feb 2020	Moderate			x		
Governance	May 2021	Moderate		x			x
Financial Close and Reporting ⁽¹⁾	Dec 2020	Moderate	x				x
Disaster Recovery	Feb 2020	Moderate	x	x			x
Accounts Payable and Expense Processing ⁽¹⁾	Oct 2019	Moderate				x	
Application Development	Sept 2019	Moderate			x		
Information Technology Services	N/A	Moderate			x		
Vendor Management	Nov 2021	Moderate		x			x
Accounts Receivable ⁽¹⁾	May 2020	Moderate				x	
Payroll	Jun 2019	Moderate			x		
Facilities and Services	Oct 2020	Low	x			x	
Cash Management	Aug 2021	Low		x			x
Premium Taxes	Jul 2021	Low		x			x

Note 1: The audit frequency has been modified to every 48 months due to the area's risk level and the fact the Model Audit Rule includes procedures that address this area annually.

6B. Internal Audit Risk Assessment



Texas FAIR Plan Association Risk Assessment and Internal Audit Plan Update

December 12, 2022



Risk Assessment Process

- ✓ **Purpose:** The accompanying risk assessment has been completed for the purpose of developing an internal audit plan. This risk assessment, therefore, is not an enterprise wide risk assessment, which may consider other risk characteristics.
- ✓ Risk Assessments:
 - Are required by professional internal audit standards
 - Allow internal audit to focus its resources on the areas of greatest risk
 - Result in a comprehensive internal audit plan that identifies the specific areas of internal audit focus over a period of time
 - The frequency of internal audits performed is based on the over risk assessed, risk trends and other qualitative factors

Risk Assessment Update Process



- Reviewed results of prior risk assessments as benchmark criteria for the update
 - Received input from the Executive Leadership Team
 - Reviewed financial risks, process documentation, and strategic initiatives
 - Considered industry best practices
-
- Evaluated inherent risk of probability and impact
 - Considered current and anticipated business changes
 - For key operating areas, evaluated financial/transaction significance and risk trends
 - Considered the current control environment: staffing, policies, culture, anticipated changes in the environment
 - Assessed the degree of legal/regulatory compliance requirements
-
- Summarized risk ratings by business process area
 - Developed internal audit plan for 2023, 2024 and 2025 to monitor and mitigate process risks

Risk Culture Observations

Weaver observed the following organizational culture characteristics while developing the Risk Assessment and Audit Plan:

- ✓ Tone-at-the-top fosters strong control-focused culture
- ✓ Management thoughtfully discussed the risk assessments with Weaver for each business process area
- ✓ Policyholder communications – the Association is proactive in outreach to Texas communities about coverage and protecting property from loss
- ✓ Prior audits indicate internal control awareness and effectiveness:
 - 2022 audits and internal control activities include: Reinsurance, Business Continuity of Operations, HR & Payroll, Claims, and Follow-Up Procedures
 - Financial statements are audited annually by an independent CPA firm

Risk Assessment Definitions

Risks were evaluated based on inherent versus residual risk

Inherent Risk: The natural risk (exposure) in the significant activities of the organization ***without consideration of internal controls*** or other actions that mitigate risk.



Vs.



*The Inherent Risk Assessment was used in developing the proposed areas of the internal audit plan. The plan is subject to review and approval of the Board.

Risk Assessment Results

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Reinsurance and Funding	<ul style="list-style-type: none">• Execution of Agreements• Billing and Recoverables• Risk Transfer• Reinsurer Credit Risk Monitoring• Buying and Placement	High	High	High	↑	X	X		X			Risk is trending higher due to hardening market and probable decline in reinsurance capacity for catastrophic risks. As a result, reinsurance rates are expected to increase in 2023 and most likely beyond. This will also put additional pressure on loss/LAE ratios.
Information Security	<ul style="list-style-type: none">• Mobile Security• Logical Access (Database, OS, Application)• Physical Access• Cybersecurity	High	High	High	↑		X		X	X	X	Risk is trending higher due to the velocity and evolution of cyber threats. Threat has also increased due to remote working. TFPA is phasing out the Bring Your Own Device (BYOD) policy and rolling out Association-issued devices to mitigate risk.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Emergency Planning	<ul style="list-style-type: none"> • Continuity of Operations Plans (COOP) • CAT (Operations) and Business Continuity Planning • Disaster Recovery Planning (IT) • Safety Planning 	High	High	High	↑		X		X		X	Risk is trending higher due to challenges with executing the Continuity of Operations Plan ("COOP") in a consistent and seamless manner. These challenges also extend to COOP testing and training of a remote workforce. While emergency planning has always been a focus of the Association, more demands on emergency resources throughout the U.S. could impact response time should multiple events occur simultaneously.
Customer Experience	<ul style="list-style-type: none"> • Customer Experience • Policy Services • Communications • Claims • Agent Services 	Not Rated	Not Rated	High	↑		X	X	X		X	Risk is trending higher as management is completing implementation of Project Elevate (policy application) across the Association. Customer experience feedback from policyholders, agents and across the Association will help with a culture of self-assessment and continuous improvement.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Underwriting	<ul style="list-style-type: none">• Application & Quoting Process• Policy Issuance Process (includes Billing)• Agent Registration• Policy Eligibility Determination Process• Fraud Reporting Process• Inspection Process• Agent Commissions• Association merger• Risk Evaluation and Pricing Process• QA/Audit Process• Policyholder/Agent Complaint Process• Appeal Process• Customer increase from insolvent insurance companies	Moderate	Moderate	High	↔	X	X	X	X	X	X	Risk trend remains stable as management is projecting a decrease in policy count of 6.25% and a decrease in exposure of 7.60% for 2023.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Claims Processing	<ul style="list-style-type: none"> • Intake/FNOL Process • Triage/Assign Claim • Investigate Claim • Evaluate Claim • Resolve Claim • Recover Damages • Compliance (Legislative & TDI Regulations) • Litigation/Disputed Claims • Quality Assurance • Vendor Management 	High	High	High	↔	X		X	X	X		<p>Claims are processed in accordance with TDI regulatory and TFPA guidelines. Claims have a heavy dependency on system applications for processing. There may also be a dependency on third-party adjusters in the event of a named storm or hurricane, whereby these resources may not be available should more than one weather event occur in the Gulf or Atlantic seaboard. The recent impact of inflation and labor and material shortages have resulted in longer claims processing times and have increased the financial and legal risks. Overall risk remains high with a stable trend.</p> <p>Additionally, there has been an increase in suspected fraud referrals to TDI over the past two years.</p>

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Legislative & External Affairs	<ul style="list-style-type: none"> • Media Relations • Legislative Affairs • Implementation of Legislative Changes 	High	High	High	↔			X	X			The department is well staffed and its functions and responsibilities are well defined. Though risk is considered stable, there is a current period of transition due to the exit of the VP of Communications.
Strategic Communications	<ul style="list-style-type: none"> • Agent/Policyholder Communications • Internal Communications and Coordination • Branding (Reputation Management) • Organizational Change Management • Digital Media • Community Outreach • Website Updates 	High	High	High	↔			X	X			Communication requirements are demanding, though processes are stable and adequately meet demands of stakeholders.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Actuarial (Pricing and Reserving)	<ul style="list-style-type: none">• Case Reserving• Data Capture and Accuracy• IBNR Estimation• Premium Rate Changes• Reporting and Analytics	High	High	High	↑	X	X		X	X	X	Reserves have heavy reliance on data accuracy and assumptions used in determining final estimates. Risk trend is increasing due to pricing challenges and the complexity in the assumptions used in the reserve estimation processes.
Executive Management, Management Planning and Reporting	<ul style="list-style-type: none">• Plan of Operation• Operational Planning and Reporting• Board Reporting• Strategic Planning and Execution• Pandemic• Talent Retention• Customer Communications and Service Delivery• Succession Planning	Moderate	Moderate	High	↑		X		X			Higher risk trend due to the transition to a new General Manager and exit of the VP of Communications. Additionally, due to strong job market, there is increased risk in retaining top talent and succession planning.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Database and Application Administration	<ul style="list-style-type: none">• Database Administration• Application Management• Systems Administration• Report Administration• Software Licensing and Usage	High	High	Moderate	↔		X		X	X	X	Risk is stable as management implemented Project Elevate across the association in April 2022, and is working to resolve any preliminary issues.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Legal & Compliance	<ul style="list-style-type: none">• Complaint Process (Administrative Code)• Contracts Management Process (New or Renewal)• Conflict Disclosures / Ethics Process• 3rd Party (Vendor, Policy Holder) Fraud Reporting Process• Records Retention Process• Public Information / Open Records• E-discovery• Association Policy Management• Filings (Policy Forms & Endorsements, TDI, non-financial statement)• Sanctions Checking Process-FCPA/OFAC Compliance• Vendor Management Process (Including Due Diligence)• Legislative Changes	High	Moderate	Moderate	↔			X	X			Risk is stable as meeting legal and compliance demands is not over burdensome. However, the department is in a period of transition, due to an executive position vacancy.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary

Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Financial Close and Reporting	<ul style="list-style-type: none"> • Period End Closing Process • Expense Allocation • Statutory Financial Statement Preparation • GASB Compliance • TDI / Statutory Data Calls • General Ledger Recording and Maintenance • Account Reconciliations • Fixed Assets • Escheatment/Unclaimed Property • Debt Arrangements • Revenue Recognition • Model Audit Rule 	Moderate	Moderate	Moderate	↔	X		X	X	X	X	Though changes have occurred with accounting staff, key accounting personnel remain in place and stable. There have been no significant changes in accounting standards. The department is adequately staffed to perform required controls. Additionally, the Association is in the early phase of transitioning to a Corporate Performance Management system for reporting and budgeting to further reduce financial reporting risk.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Accounts Payable and Expense Processing	<ul style="list-style-type: none"> • Vendor Management (Set-up & Payments) • Accounts Payable Processing (Invoice Routing and Approval) • Check Disbursements • Expense Coding • Employee Expense Reimbursement • Company Credit Card Processing • One Time Payments via Company Credit Cards 	Moderate	Moderate	Moderate	↔	X	X		X	X	X	Vendor management software has been implemented to centralize controls over contract monitoring. The Association is currently in the process of moving all software systems onto third party vendor servers.
Application Development	<ul style="list-style-type: none"> • System Development Life Cycle • Project Management Office / Life Cycle 	Moderate	Moderate	Moderate	↔		X		X		X	Risk is stable as management implemented Project Elevate across the association in April 2022.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Information Technology Services	<ul style="list-style-type: none">• Network Security/Operations (including Monitoring, Tools, Data Security)• Help Desk• Change Management• Website Maintenance• Hardware Management• IT Vendor Management	Moderate	Moderate	Moderate	↔		X		X	X	X	Risk remains stable given the information technology environment, including age of existing software and hardware.

¹ Risk trend includes both internal and external factors.

Risk Assessment Results – cont.

2022 Risk Assessment Summary												
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend ¹	Risk Category						Risk Trend ¹
		2020	2021	2022		Financial Stability	Operations	Legal & Compliance	Reputational	Fraud	IT	
Accounts Receivable	<ul style="list-style-type: none">• Billing• Collections and Deposits• Customer Account Maintenance• Past Due A/R, Non-admitted and write-offs• Refunds• System Reconciliation	Low	Moderate	Moderate	↑	X	X		X	X	X	Risk is slightly elevated as management works to complete the transition to the Elevate system. During this time of transition and phasing-out of the Legacy system, TFPA will be using two separate systems. Risk will reduce once all claims have been transferred to the Elevate system. Risk is currently trending higher due to plans to replace the Payconnexion (Chase Bank) payment system in 2023.
Facilities and Services	<ul style="list-style-type: none">• Building Access & Physical Security• Mail and Routing• Facilities Maintenance• Events/Training Management• Premises Insurance (COVID)	Moderate	Low	Moderate	↔		X					The overall risk level is moderate due to the upcoming office relocation. The risk trend is currently considered stable.

¹ Risk trend includes both internal and external factors.

Risk Category Definitions



Financial Stability Risks –

- The risk the Association will fail to adequately forecast and plan to achieve necessary cash flow, manage liquidity, receive adequate funding and accurately report financial results.



Operations Risks –

- The risk that internal operations do not adequately identify and provide for the needs of the Association's policyholders.
- The risk the Association's daily processes are not effectively designed to prevent and detect errors or adequately process claim volumes.
- The risk that the diverse nature of the Association's operations, processes, and/or underlying mechanics mitigate the economies of scale to efficiently execute transactions and processes.



Legal and Compliance Risks –

- The risk that legislative and political activities and decisions will have an adverse impact on the Association and inhibit its ability to achieve strategic objectives, or that regulatory changes impair operations and the ability to conduct business.

Risk Category Definitions Cont.



Reputational Risks –

- The risk of an event generating poor public opinion and/or reduced employee commitment. Considers policyholder relations, agent relations, internal and external communications, data privacy, headline risk, etc.



Fraud Risks –

- The risk of the occurrence of illegal acts characterized by deceit, concealment, or violation of trust. Risks associated with dollar volume, non-conformance with ethical standards, and complexity of operations making detection more difficult.

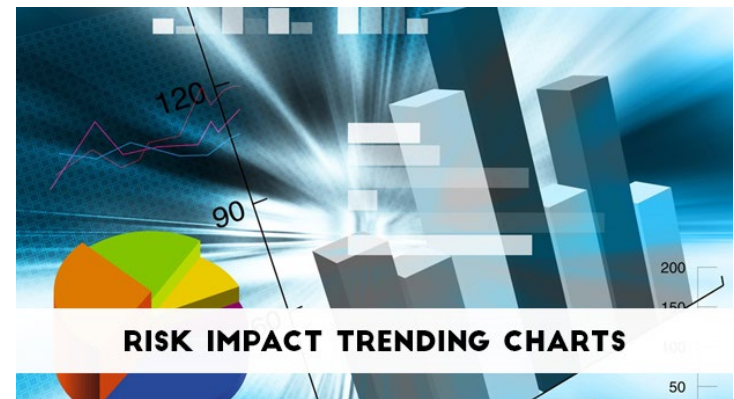


Information Technology Risks –

- The risk the Association's IT strategy is not aligned with the business model to embrace and rely on technology. Also includes the risk the Association is highly dependent on technology to execute strategic operations and that IT infrastructure and systems are not consistently available and reliable.

Audit Plan 2023-2025

- The proposed **audit plan has been** developed using results of the Risk Assessment and considered:
 - Risk trend
 - Results of past audits
 - Changes in the control environment
 - New software applications
 - Other qualitative factors



Proposed Three Year Audit Plan



Process Area	Last Report Date	2022 Inherent Risk Rating	2021	2022	2023	2024	2025
Reinsurance and Funding	Nov. 2020	High		x		x	
Information Security	Apr. 2022	High		x		x	
Emergency Planning/COOP	Nov. 2022	High		x			x
Customer Experience	N/A	High				x	
Underwriting	June 2020	High			x		x
Claims Processing	Dec. 2022	High		x		x	
Strategic Communications	Mar. 2021	High	x		x		x
Actuarial (Pricing and Reserving)	Sept. 2021	High	x		x		x
Governance	May 2021	High	x			x	
Database and Application Administration	Oct. 2020	Moderate			x		
Legal & Compliance	Mar. 2021	Moderate	x		x		
Plan of Operation	N/A	Moderate			x		
Financial Close and Reporting	Dec. 2020	Moderate				x	
Accounts Payable and Expense Processing	Oct. 2019	Moderate			x		
Application Development	N/A	Moderate			x		x
Information Technology Services	Apr. 2022	Moderate		x			x
Vendor Management	Nov. 2021	Moderate	x			x	
Accounts Receivable	May 2020	Moderate			x		
Facilities and Services	Oct. 2020	Moderate				x	
Cash Management	Aug. 2021	Low	x			x	
Premium Taxes	July. 2021	Low	x				x

Note: The annual risk assessment will be performed in 2023. Audit frequency is generally the following based on risk assessed: High 12-24 months; Moderate 24-36; Low 36-48.

Discussion



6C. Continuity of Operations Review Results



Texas FAIR Plan Association Assessment of Continuity of Operations and Business Continuity Planning

December 12, 2022



Continuity of Operations Plan (COOP) Assessment Objectives

- Determine whether the COOP aligns with industry and/or other practices over Business Continuity Management and verify the following elements are sufficiently incorporated into the COOP document:
 - Management support
 - Risk Assessment and Risk Mitigation
 - Business Impact Analysis
 - Business Recovery and Continuity Strategy
 - Plan Awareness and Training
 - Maintenance
 - Approval by Senior Management and/or the Board

The International Professional Practices Framework - Practice Guide Business Continuity Management (BCM) maintains that the tone at the top should be established by executive leadership and the board to include:

1. Board and senior management support the BCM initiatives
2. Senior executives should ensure successful implementation, maintenance, and update of plans supporting BCM
3. A BCM policy/charter should be in place and updated periodically
4. BCM-related plans, including BCP, should be approved by the board and appropriate levels of management

Governance of the COOP/BCP can be strengthened by:

- Developing a policy/charter that defines roles and responsibilities of the and Board
- Having the Board review and approve COOP/BCP on an annual basis
- Codifying the requirements for the roles and responsibilities of the ELT within the policy/charter
- Ensuring the policy/charter allows the ELT the ability to empower proxies as departmental representatives to work with the *Senior Business Continuity and Catastrophe Plan Analyst* during the annual update process
- Ensuring there are attestations received from ELT Members or empowered proxies on an annual basis stating that they have read and understand departmental BCPs

Discussion



7. Underwriting

7A. Weston/FedNat Update



TEXAS WINDSTORM
INSURANCE ASSOCIATION

TWIA Response to Weston & FedNat (Maison) Insolvencies

Summary of Weston Activity

- **12,089 total policies issued**
 - 248 commercial
 - 11,841 residential
- **Approximately \$4.5B in insured value and \$29.6M in written premium**
- **3,205 policies on Weston Receivership Pay Plan**

Summary of FedNat (Maison) Activity

- **58 total policies issued – all residential**
 - We do not anticipate receiving any commercial policy applications from former FedNat (Maison) policyholders as the policy data we were provided did not appear to include any commercial policies.
- **Approximately \$21.1M in insured value and \$131,600 in written premium**
- **10 policies on FedNat Pay Plan**

7B. Operational Review

MEMORANDUM

DATE: November 22, 2022
TO: David Durden, General Manager
FROM: Jessica Crass, Vice President, Underwriting
RE: Update on Underwriting Operational Highlights

Third Quarter 2022 Highlights

I. Service Results:

- a. Underwriting continues to have consistent turnaround time on all policy transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 99% of transactions processed within 10 days and with approximately 90% of new business via straight through processing.
- b. Quality Assurance scores on underwriting decisions continue to meet or exceed established goals.
- c. Customer Service telephone response time and quality results are within our established goals.
- d. Underwriting operated under budget during the third quarter, primarily driven by open positions we are in the process of filling.

II. TFPA Agent Audit Results:

- a. A standard sample of agencies were selected for review in the third quarter of 2022 to verify compliance with the declination of coverage requirement and TFPA Producer Requirements and Performance Standards. Ninety-five percent of selected agents have now responded. The statistics below reflect analysis of documents provided to date.
 - i. Proof of declination was received for eighty-three percent of the policies selected. Staff is following up for outstanding proof of declinations.
 - ii. Signed applications were provided for eighty-two percent of the policies selected. Staff is following up with the agents who have not yet provided signed applications.
 - iii. Signed eligibility requirement statements were provided for eighty-two percent of the policies selected. Staff is following up with the agents who have not yet provided signed applications.



- iv. All agents selected have an active property & casualty insurance license and have the required direct standard market appointments.

8. Claims

8A. Claims Operations – Overview

TFPA Claims Operations 2022

TFPA Claims - 2022 Results (through Q3)					
Key Cycle Times (In days)	Industry Average, TX	TFPA	TFPA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	5.5	2.7	<3	-0.3	-10%
Inspect Property to Receipt by TFPA	4.2	1.8	<8	-6.2	-78%
Total Cycle Time FNOL to Payment - Daily	N/A	7.3	<12	-4.7	-29%
Total Cycle Time FNOL to Payment - Cat	N/A	7.2	<12	-4.8	-30%
TDI Complaint Ratio					
2021	0.17% - 16 complaints from 9,471 new claims				
2022	0.24% - 5 complaints from 2,520 new claims				

Year	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Actual Volume	517	513	484	418	330	829	360	302	200	253	210	321	302	314	260	236	354	270
Actuarial Projected	727	724	331	329	470	610	353	211	210	338	203	203	667	667	306	302	434	565
Staffing Plan	342	342	342	342	342	342	342	342	342	315	315	315	315	315	315	315	315	315
Open Inventory	1,246	1,244	1,134	1,072	934	1,318	1,009	893	768	773	768	793	780	790	734	682	691	595

Historical TFPA Claim Volume	
Year	Claims
2005	5,581
2006	3,067
2007	4,039
2008	27,777
2009	3,640
2010	3,200
2011	4,200
2012	5,886
2013	5,974
2014	5,498
2015	9,387
2016	11,509
2017	24,096
2018	5,720
2019	6,950
2020	2,931
2021	9,471
2022	2,520

TFPA - Claim Severity by Accident Year and Peril

Reported Claims by Peril

Year	Fire		Liability		Theft		Water		Wind / Hail		All Perils	
	Claims	% Δ	Claims	% Δ	Claims	% Δ	Claims	% Δ	Claims	% Δ	Claims	% Δ
2018	211	-	114	-	184	-	1,007	-	2,933	-	4,778	-
2019	232	10.0%	84	-26.3%	156	-15.2%	727	-27.8%	4,947	68.7%	6,503	36.1%
2020	114	-50.9%	95	13.1%	111	-28.8%	627	-13.8%	3,614	-26.9%	4,987	-23.3%
2021	131	14.9%	67	-29.5%	79	-28.8%	4,039	544.2%	3,177	-12.1%	9,137	83.2%
2022	77	-41.2%	43	-35.8%	45	-43.0%	421	-89.6%	1,302	-59.0%	2,107	-76.9%

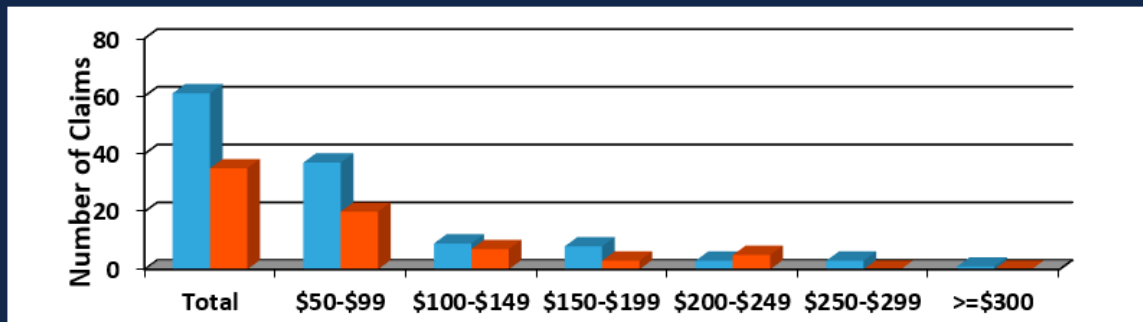
Incurred Amounts by Peril

Year	Fire		Liability		Theft		Water		Wind / Hail		All Perils	
	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ
2018	\$9,524,538	-	\$661,762	-	\$512,246	-	\$967,647	-	\$8,941,099	-	\$21,183,407	-
2019	\$9,749,964	2.4%	\$567,045	-14.3%	\$398,281	-22.2%	\$551,611	-43.0%	\$20,714,334	131.7%	\$32,573,431	53.8%
2020	\$5,813,971	-40.4%	\$650,149	14.7%	\$206,387	-48.2%	\$477,163	-13.5%	\$15,209,768	-26.6%	\$25,193,633	-22.7%
2021	\$8,522,429	46.6%	\$105,290	-83.8%	\$132,140	-36.0%	\$3,640,567	663.0%	\$11,431,215	-24.8%	\$25,071,947	-0.5%
2022	\$4,493,642	-47.3%	\$72,799	-30.9%	\$62,606	-52.6%	\$357,677	-90.2%	\$6,195,187	-45.8%	\$11,458,643	-54.3%

Incurred Claim Severity by Peril

Year	Fire		Liability		Theft		Water		Wind / Hail		All Perils	
	Severity	% Δ	Severity	% Δ	Severity	% Δ	Severity	% Δ	Severity	% Δ	Severity	% Δ
2018	\$45,140	-	\$5,805	-	\$2,784	-	\$961	-	\$3,048	-	\$4,434	-
2019	\$42,026	-6.9%	\$6,751	16.3%	\$2,553	-8.3%	\$759	-21.0%	\$4,187	37.4%	\$5,009	13.0%
2020	\$51,000	21.4%	\$6,844	1.4%	\$1,859	-27.2%	\$761	0.3%	\$4,209	0.5%	\$5,052	0.9%
2021	\$65,057	27.6%	\$1,571	-77.0%	\$1,673	-10.0%	\$901	18.4%	\$3,598	-14.5%	\$2,744	-45.7%
2022	\$58,359	-10.3%	\$1,693	7.7%	\$1,391	-16.8%	\$850	-5.7%	\$4,758	32.2%	\$5,438	98.2%

TFPA - Large Loss Based On Paid Indemnity



(\$ Paid in Thousands)

2021 2022

Date	Total	\$50-\$99	\$100-\$149	\$150-\$199	\$200-\$249	\$250-\$299	>=\$300
2021 (complete year)	61	37	9	8	3	3	1
Liability	0	0	0	0	0	0	0
2022 (year-to-date)	35	20	7	3	5	0	0
Liability	0	0	0	0	0	0	0
Variance	-26	-17	-2	-5	2	-3	-1

8B. Litigation Summary



TFPA Litigation Tracking Activity

Litigation Quarter Summary Third Quarter 2022

3rd Quarter 2022	Summary of TFPA Claims in Suit						
		New		Settled		Closed	
		1st Party	3rd Party	1st Party	3rd Party	1st Party	3rd Party
	July	4	0	0	0	9	0
	August	0	1	0	0	11	0
	September	1	0	0	0	8	0
		5	1	0	0	28	0

3rd Quarter 2022	Summary of TFPA Claims with LORs						
		New		Settled		Closed	
		1st Party	3rd Party	1st Party	3rd Party	1st Party	3rd Party
	July	3	2	0	0	9	4
	August	9	9	0	0	7	9
	September	5	2	0	0	15	1
		17	13	0	0	31	14



TEXAS FAIR PLAN
ASSOCIATION

TFPA Claims Litigation September 2022

Sep-22	TFPA Claims in Suit						
		Beginning Inventory	New	Closed	Ending Inventory		
					1st Party	3rd Party	TOTAL
	Wind/Hail	46	0	(8)	38	0	38
	Other Perils	8	1	0	9	0	9
	Bodily Injury	5	0	0	0	5	5
	Property Damage	0	0	0	0	0	0
	TOTAL	59	1	(8)	47	5	52

Sep-22	TFPA Claims with LORs							
		Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory		
						1st Party	3rd Party	TOTAL
	Wind/Hail	65	3	(12)	0	56	0	56
	Other Perils	18	2	(3)	(1)	16	0	16
	Bodily Injury	1	2	(1)	0	0	2	2
	Property Damage	0	0	0	0	0	0	0
	TOTAL	84	7	(16)	(1)	72	2	74

Sep-22	TFPA Claims with Suits/LORs: Detail of Ending Inventory											
	Category	Active Unsettled Claims					Settled & Funded (Awaiting closing documents and final invoices)					GRAND TOTAL
		Suits		LORs			Suits		LORs			
		1st	3rd	1st	3rd	Total	1st	3rd	1st	3rd	Total	
	TOTAL	47	5	72	2	126	0	0	0	0	0	126



TEXAS FAIR PLAN
ASSOCIATION

Sep-22	TFPA Active Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	Total
	Manuel Solis, P.C.	32
	Dick Law Firm	30
	Zar Law Firm	9
	Chad T. Wilson Law Firm	5
	Daly & Black, PC	5
	Law Offices of Willie McAllen	3
	Palker Law Firm	3
	Buzbee Law Firm/Manuel Solis	3
	Galindo Law	3
	Arguello Law Firm	2
	Omar Ochoa Law Firm	2
	Brasher Law Firm	2
	Joe Gibson	2
	Lane Law Firm	2
	Remaining 23 firms	23
	TOTAL	126



TEXAS FAIR PLAN
ASSOCIATION

Sep-22	TFPA Active Claims with Suits/LORs: County of Loss Location			
	County	1st Party	3rd Party	Total
	Brazoria	1	0	1
	Chambers	1	0	1
	Dallas	1	0	1
	Ft. Bend	7	0	7
	Galveston	1	1	2
	Harris	98	4	102
	Hidalgo	4	0	4
	Johnson	0	1	1
	Maverick	1	0	1
	Nueces	0	1	1
	Orange	2	0	2
	San Jacinto	1	0	1
	Tarrant	1	0	1
	Waller	1	0	1
	TOTAL	119	7	126

9. TFPA Operations

9A. IT System Enhancements



MEMORANDUM

DATE: December 12, 2022

TO: David Durden, General Manager

FROM: Camron Malik, CIO / VP IT

RE: TFPA Information Technology status

The TFPA implementation continues in Production Support mode. The Systems Development/Production Support releases continue their monthly cadence. The Infrastructure and Operations team continues to support remote work with excellent quality and all technology efforts are on-track.

We have a proposal from Guidewire, our insurance technology vendor, to move to a cloud-based implementation and we are in negotiations with them. The proposal and details are in the attached presentation.

9B. Proposal from Guidewire to Move Guidewire Insurance Systems to the Cloud



TEXAS WINDSTORM
INSURANCE ASSOCIATION



TEXAS FAIR PLAN
ASSOCIATION

Guidewire Cloud systems consideration

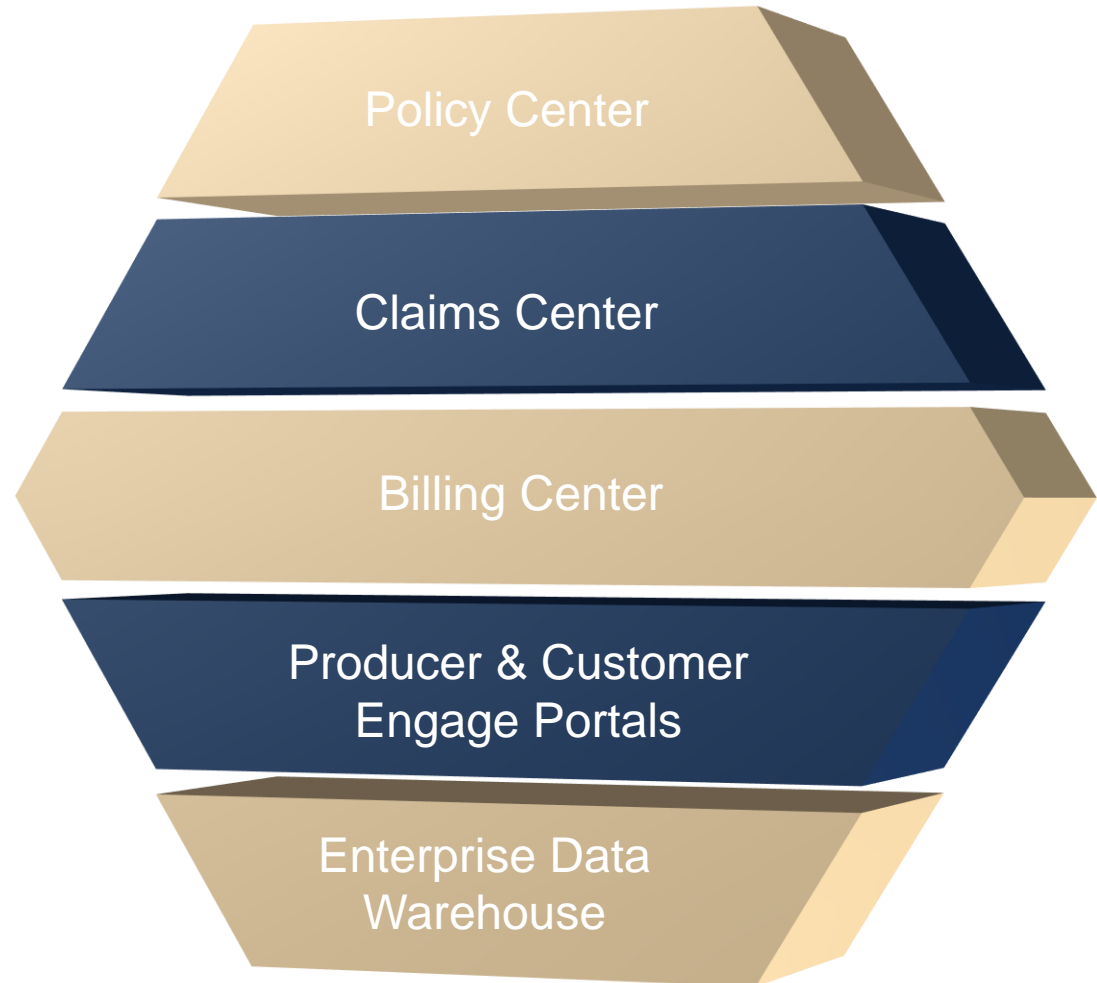
Background

The recent upgrade of TWIA production systems to **Guidewire Version 9** provided new functional features, integrations and efficiencies.

TWIA agents are logging in to the new agent portal.

Policyholders are now able to set up an account in the policyholder portal.

A new enterprise data warehouse is supporting improved reporting.



Guidewire Cloud Proposal

Move TWIA/TFPA to the Cloud if terms are favorable

- **What is the cloud? What does it mean?**
- **What are the benefits?**
- **Why move to the cloud now?**
- **What is the financial view?**

On-premises vs Cloud

TWIA/TFPA are currently an **On-premises** implementation of the Guidewire applications. We buy software/hardware, build the applications and maintain/upgrade ourselves

Alternate approach is to use the **Cloud**. Lease and use based on need. Vendor develops features and maintains hardware/software. TWIA/TFPA is responsible only for our customizations

On-Premises (Buy)	Cloud (Lease)
Hardware, Guidewire Applications, Security, Performance/Capacity, Disaster Recovery and Upgrades are TWIA/TFPA responsibilities	Hardware, Guidewire applications, Security, Performance/Capacity, Disaster Recovery and Upgrades are Guidewire's responsibility
Hosted in TWIA/TFPA Data Center	Hosted at Guidewire Data Center (Amazon Web Service)
New features/capabilities are TWIA/TFPA responsibility	New features/capabilities are Guidewire's responsibility
Takes TWIA/TFPA 2-3 years to do an upgrade. Always playing catch-up	Upgrades done by Guidewire
TWIA/TFPA needs to upgrade hardware every 3-5 years	Guidewire responsible for hardware
TWIA/TFPA needs to integrate 3 rd party applications individually for our version	Access to 3 rd party applications integrated with Guidewire in Guidewire Marketplace



Benefits of Cloud, What We Gain

- No major upgrades to perform in future such as TFPA implementation or Elevate
 - With move to Guidewire Cloud, we immediately get latest versions and new features
- Reduce On-Premises expenses (hardware, software, services, etc)
 - No need for hardware/software for Development and Quality Assurance (QA) systems
 - Non-Production Environments available on need basis in cloud for development and QA
- Get new features developed by Guidewire without investing our resources
 - Guidewire developing new features for cloud; not adding to on-premises version
 - With each cloud release, code base between on-premises and cloud will diverge. Future costs will increase
 - Access to 3rd party applications which have integrations with Guidewire Cloud, if needed
- Access to Guidewire features beneficial for business
 - Detailed property data using Hazard Hub tool
 - Predictive Analytics built into Policy and Claim systems
 - Visualize and click-through for map-based access to locations using Canvas
 - Claims Automation using Autopilot
- Guidewire shared responsibility model saves on standard IT responsibilities

Guidewire Cloud: Responsibility Transfer and Sharing

Guidewire Cloud: Shared Responsibility Model

On the Guidewire Cloud, customers will save (or avoid) on several standard IT responsibilities that are required for on-premises Guidewire systems.

Item	Self-managed		Guidewire Cloud	
	Customer	Guidewire	Customer	Guidewire
Compliance Audits ⁽¹⁾				
Vulnerability Scanning ⁽²⁾				
Penetration Testing ⁽²⁾				
Firewall Management				
Configuration Management ⁽³⁾				
Data Encryption				
Access Management ⁽⁴⁾				
Logging and Monitoring				
Performance and Capacity Monitoring				
Intrusion Detection				
Incident Response				
Business Continuity				
Disaster Recovery				
Information Security Program ⁽¹⁾				
Upgrades				

(1) As applicable to Guidewire Cloud environment
(2) Scans and Tests may be requested through Guidewire for Customer specific extensions

(3) Customer specific implementation configuration is controlled by Customer
(4) Customer user access is managed by the customer, administrative/back-office access managed by Guidewire

Why move to cloud now?

- **Allow us to lock-in cloud subscription fees at current prices**
 - Guidewire on-premises license fee increases in 2024 and beyond. Increase from \$2.9M (2023) to \$5.1M over 2024-2026 period with future increases possible
 - Move to Guidewire cloud with current, favorable terms if we commit in 2022
- **Opportunity to move at today's pricing with favorable terms**
 - Fixed price for implementation (contract in 2022 for implementation in 2024)
 - Current pricing for Guidewire and terms locked for 7 years
 - Systems (Development, Test) and helpful features (Hazard Hub) bundled in pricing with discount
- **Guidewire business model has moved to be a cloud vendor**
 - Guidewire developing features for Cloud, not adding to on-premises implementation
 - Access to new features now without having to develop ourselves (e.g. Predictive analytics, Autopilot, etc)
- **Other insurance companies have moved to Guidewire cloud or are actively in negotiations**

Cloud Terms from Guidewire with 2022 Commitment

Locked in subscription
(baseline) at current pricing with 7-year term

Fixed price for Implementation and transition to the Cloud

Bundled pricing for Systems (Dev and Test) and Hazard Hub feature access (discounted)

No budget impact for 2023.
Zero net new spend.

- Locked in baseline Cloud Subscription at current pricing with 7-year term
- Fixed-fee Statement of Work is locked in 2022 with technical upgrade in 2023. No impact to TWIA
- Fixed fee Statement of Work for System Integrator locked in 2022. Inception and implementation to start in January 2024
- HazardHub Application Programming Interface (API) allocation increased from 25K (starter kit) to 500K API calls annually to account for our book of business (\$1/call - \$500K value)
- NPE (Non-Production Environments) credits of 3,500 credits annually (\$300/credit - \$1,050,000 value for 3500 credits)
- First year of Guidewire Cloud at zero net new spend. No budget impact for 2023

High Level Cost Benefit Analysis (7-Year)

Benefits	2023	2024	2025	2026	2027	2028	2029	Grand Total
IT Net Benefits	\$0	\$0	\$5,789,400	\$7,703,680	\$4,113,320	\$4,294,560	\$4,479,400	\$26,380,360
Expense Reduction	\$0	\$0	\$1,629,400	\$3,383,680	\$3,542,120	\$3,702,960	\$3,867,400	\$16,125,560
Upgrade Avoidance	\$0	\$0	\$4,160,000	\$4,320,000	\$571,200	\$591,600	\$612,000	\$10,254,800
Total Net Costs	\$175,143	(\$6,241,834)	(\$448,404)	(\$857,620)	(\$1,096,820)	(\$1,345,588)	(\$1,604,307)	(\$11,420,000)
Cloud Subscription	(\$2,770,773)	(\$3,500,000)	(\$5,480,000)	(\$5,980,000)	(\$6,219,200)	(\$6,467,968)	(\$6,726,687)	(\$37,145,000)
Guidewire Licensing	\$2,945,916	\$4,258,166	\$5,031,596	\$5,122,380	\$5,122,380	\$5,122,380	\$5,122,380	\$32,725,000
Implement Costs	\$0	(\$7,000,000)	\$0	\$0	\$0	\$0	\$0	(\$7,000,000)
Net Benefits	\$175,143	(\$6,241,834)	\$5,340,996	\$6,846,060	\$3,016,500	\$2,948,972	\$2,875,093	\$14,960,360
Aggregate Net Benefits	\$175,143	(\$6,066,691)	(\$725,695)	\$6,120,365	\$9,136,865	\$12,085,837	\$14,960,930	

- Assume two upgrades in 10 years at \$8M/each upgrade(CBA shows first upgrade); maintenance of \$510K/year; with 4% CPI
- Cloud pricing locked for 7 years with clause to control CPI
 - Future increase to be lower of then prevailing CPI or 4%
 - No increase or impact in 2023
- Fixed price for upgrade. Locked in 2022 for 2024 implementation
 - Hazard Hub – 500K calls included at \$1/call
 - Non-Production Environments (NPE) of 3500 credits (@ \$300/credit = \$1,050,000)
- *Guidewire on-premises licensing reaches \$5,122,380 in 2027, currently no projection of increases past 2027

On-premises expenses (7-Year)

Costs	2023	2024	2025	2026	2027	2028	2029	Grand Total
IT Net Costs	\$0	\$0	\$4,160,000	\$4,320,000	\$571,200	\$591,600	\$612,000	\$10,254,800
Upgrade	\$0	\$0	\$4,160,000	\$4,320,000	\$571,200	\$591,600	\$612,000	\$10,254,800
Total Net Costs	\$2,945,916	\$4,258,166	\$5,031,596	\$5,122,380	\$5,122,380	\$5,122,380	\$5,122,380	\$32,725,000
Guidewire								
Licensing	\$2,945,916	\$4,258,166	\$5,031,596	\$5,122,380	\$5,122,380	\$5,122,380	\$5,122,380	\$32,725,000
Net Expense	\$2,945,916	\$4,258,166	\$9,191,596	\$9,442,380	\$5,693,580	\$5,713,980	\$5,734,380	\$42,979,800
Aggregate Net Expense	\$2,945,916	\$7,204,082	\$16,395,678	\$25,838,058	\$31,531,638	\$37,245,618	\$42,979,998	

- Guidewire solution related expenses for upgrade and licensing

- *Guidewire Licensing reaches \$5,122,380 in 2027, currently does not increase.

Request to Board

Seeking approval to commit to a locked-in price and contract with Guidewire for a Cloud implementation with a start date of January 2024 as described in this presentation

9C. Communications and Legislative Update



TWIA & TFPA Legislation Status 88th Texas Legislature

Updated 11/28/2022

[SB 230](#)

Sen. Juan “Chuy” Hinojosa (Nueces County)

Filed 11/15/2022

Relating to the recusal from a vote of a member of the board of directors or a subcommittee of the board of the Texas Windstorm Insurance Association based on the member's financial interest.

TWIA Impact: Requires Board and Actuarial & Underwriting Committee members to recuse themselves from votes that may financially benefit their employer or an entity in which they have a financial interest.

Status: *Filed.*

[HB 597](#)

Rep. Jacey Jetton (Fort Bend County)

Filed 11/14/2022

Relating to an appraisal procedure for disputed losses under certain property and casualty insurance policies.

TFPA Impact (TWIA excluded): Requires an appraisal process if demanded by either the insurer or insured and outlines appraisal procedures.

Status: *Filed.*

[HB 601](#)

Rep. Jacey Jetton (Fort Bend County)

Filed 11/14/2022

Relating to deceptive, unfair, or prohibited practices by an insurer.

TFPA Impact (TWIA excluded): Defines "compelling" a policyholder to retain a public adjuster by offering substantially less than the amount ultimately recovered in a settlement as an unfair claim settlement practice.

Status: *Filed.*

Other bills impacting Association operations on next page.

Other Bills Impacting Association Operations

[HB 287](#)

Rep. Julie Johnson (Dallas County)

Filed 11/14/2022

Relating to payment of the replacement cost of damaged property under a homeowner's, renter's, or condominium owner's insurance policy.

Association Impact: Requires initial payment of at least 80 percent of a claim on replacement cost coverage property insurance policies regardless of whether the insured has made or provided proof of repairs or replacement to the property.

Status: Filed.

MEMORANDUM

DATE: November 28, 2022
TO: TFPA Governing Committee
FROM: David Durden, General Manager
RE: Communications & Legislative Affairs Operational Highlights

Legislative & Regulatory Affairs

- a) Changes to Coastal Delegation and Committees: All members of the coastal delegation, the House Insurance Committee, and the Senate Business & Commerce Committee who ran for re-election won their contests in the midterm elections held on November 8.

Newly elected members of the coastal delegation are:

- i. Senate District 11 (Galveston County): Rep. Mayes Middleton replaces retiring Sen. Larry Taylor.
- ii. Senate District 27 (Cameron County): Morgan LaMantia replaces retiring Sen. Eddie Lucio, Jr.
- iii. House District 22 (Jefferson County): Retiring Rep. Joe Deshotel is replaced by his chief of staff, Christian "Manuel" Hayes.
- iv. House District 23 (Galveston County): Former State Board of Education member Terri Leo Wilson replaces Rep. Mayes Middleton.
- v. House District 37 (Cameron County): Local school board member Janie Lopez replaces retiring Rep. Alex Dominguez.

Other coastal delegation changes include:

- i. Due to redistricting, Senate District 21, held by Sen. Judith Zaffirini, will no longer include any coastal counties.
 - ii. Senate District 3, represented by Sen. Robert Nichols, will include part of Jefferson County and be included in the coastal delegation.
- b) 88th Legislative Session and Bill Filing: The 88th Legislative Session will begin on January 10. Elected legislators began pre-filing bills for the session on November 14. Bills may continue to be filed until the 60th day of the session, March 10.

An exhibit tracking legislation filed to date with impacts on the Association is enclosed.

- c) Legislative Engagement: TWIA staff met with Senate Business & Commerce Committee (SBCC) staff to brief them on Association activities, including updates on the Weston/FedNat insolvencies. SBCC is chaired by Sen. Charles Schwertner (Williamson County). By law, he is also

the Windstorm Insurance Legislative Oversight Board (WILOB) co-chair, the legislative committee tasked with studying a potential merger of TWIA and Texas FAIR Plan Association.

- d) Office of Public Insurance Counsel: Melissa Hamilton resigned from her position with the Office of Public Insurance Counsel (OPIC). The Texas legislature created OPIC to represent consumers' interests related to insurance matters. Deputy Public Counsel David Bolduc is serving as Acting Public Insurance Counsel following her departure. Mr. Bolduc previously served in TDI's Office of Policy Development Counsel, as an Assistant Texas Attorney General, and in the counsel's offices of two other state agencies.
- e) Stakeholder Inquiries: From July 1 through September 30, 2022, we received and responded to an inquiry about a TFPA policyholder from the TDI TWIA Ombudsman.
- f) Operational Updates: We continue to provide regular email updates to the Board, the Texas Department of Insurance (TDI), legislative staff, and coastal elected officials and stakeholders about TFPA's operational activities.

9D. Review/Approval of 2023 Budget



Texas FAIR Plan Association

2023 Budget Summary to

Governing Committee

December 12, 2022



2022 Forecasted Income Statement w/ Reconciliation to Workshop

(In 000s)

	A			B			C			D		E	
	For the twelve months ended December 31,									November Budget Workshop			
	Forecast - 2022			Budget - 2022			Variance - 2022			Forecast 2022		Change	
1	Premiums Written:												
2	Direct	\$	75,553	\$	72,770	\$	2,783		\$	75,553	\$	-	
3	Ceded		(31,370)		(27,464)		(3,907)			(31,370)	\$	-	
4	Net		44,183		45,306		(1,123)			44,183		0	
5	Premiums Earned:												
6	Direct	\$	75,214	\$	75,005	\$	209		\$	75,214	\$	-	
7	Ceded		(29,372)		(27,964)		(1,408)			(29,372)		0	
8	Net		45,842		47,041		(1,199)			45,842		0	
9	Deductions:												
10	Losses and LAE Incurred		26,082		26,663		(581)			26,082		0	
11	Operating Expenses		12,523		12,111		412			12,506		17	
12	Commission Expense		7,913		7,604		308			7,913		0	
13	Ceding commissions / brokerage		(2,138)		(623)		(1,515)			(2,138)		0	
14	Premium / Maintenance Tax		1,423		1,354		70			1,423		0	
15	Total Deductions		45,802		47,108		(1,306)			45,785		17	
16	Net Underwriting Gain or (Loss)												
			39		(67)		106			56		(17)	
17	Other Income or (Expense):												
18	Investment Income		155		3		152			155		0	
19	Investment Expenses (LOC Fees)		(91)		(91)		0			(91)		0	
20	Charge off's /Write off		(308)		(330)		22			(308)		0	
21	Billing Fees		437		363		74			437		0	
22	Total Other Income or (Expense)		193		(55)		248			193		0	
23	Net Income (Loss)												
		\$	232	\$	(122)	\$	354			\$	249	\$	(17)

Discussion Notes

- No changes in premiums and reinsurance 2022 forecasts
- No changes in Losses & LAE forecasts
- Net Operating expenses forecast increased by \$17,000 from previous estimate for the year ending December 2022 which led to a corresponding decrease in Net Income for the same amount.

2022 Revised Forecast – Expense Summary

(000's)

	A	B	C	D	E
	For the twelve months ended December 31, Forecast - 2022 Budget - 2022 Variance - 2022			November Budget Workshop Forecast 2022	Change
1 Personnel Expenses					
2 Salaries & Wages - Permanent	5,986	6,492	(506)	5,994	(8)
3 Contractor & Temporary Help	1,425	1,178	247	1,635	(210)
4 Payroll Taxes	437	494	(57)	437	(1)
5 Employee Benefits	2,105	2,360	(255)	2,108	(3)
6 Recruiting, Training & Other	116	125	(9)	116	0
7 Subtotal	10,069	10,649	(580)	10,290	(221)
8					
9 Professional & Consulting Services					
10 Legal	120	126	(6)	120	0
11 Accounting & Auditing	131	122	9	133	(3)
12 Information Technology	651	209	441	651	0
13 Actuarial Services	17	24	(7)	17	0
14 Surveys & Inspections	375	375	(0)	375	0
15 Disaster Recovery Services	147	115	32	147	0
16 Other Services	1,160	1,218	(59)	1,152	8
17 Subtotal	2,599	2,190	410	2,594	5
18					
19 Hardware/Software Purchases & Licensing	1,571	1,363	208	1,571	0
20 Rental & Maintenance - Office/Equipment	827	862	(35)	827	0
21 Travel Expenses	113	78	35	113	0
22 Postage, Telephone and Express	382	489	(106)	447	(65)
23 Capital Management Expenses	91	91	0	91	0
24 Other Operating Expenses	468	663	(195)	468	0
25 Gross Operating Expenses	16,121	16,385	(264)	16,401	(280)
26					
27 Capitalization of Fixed Assets	0	0	0	0	0
28 Allocation To ULAE	(3,506)	(4,183)	676	(3,804)	297
29 Allocation To Investing	(91)	(91)	0	(91)	0
30 Net Operating Expense	12,523	12,111	412	12,506	17

DISCUSSION NOTES

Decrease in Salaries & Wages Retirement and resignation of employees during the latter part of the year.

Decrease in Contractors This is due to the revised Claims forecasts on TFPA allocations of contractors.

Decrease in Accounting Professional Services Attributed to the reduction of forecast in consulting services for the implementation and integration of Adaptive Software and apply portion of the estimated charges in early 2023 budget.

Increase in Other Services Added budget for Escheat outsourcing services

Decrease in Postage: Increased allocation of postage charges to TWIA due to anticipated increase in volume vs TFPA.

2023 Budget - Income Statement w/ reconciliation to Workshop

(In 000's)

4

	A	B	C	
	FINAL	November		
	Budget - 2023	Budget Workshop	Change	
		Budget 2023		
1 Premiums Written:				1
2 Direct	\$ 70,829	\$ 70,829	\$ -	2
3 Ceded	(32,846)	(32,846)	0	3
4 Net	37,983	37,983	0	4
5 Premiums Earned:				5
6 Direct	\$ 73,852	\$ 73,852	\$ -	6
7 Ceded	(32,108)	(32,108)	0	7
8 Net	41,744	41,744	0	8
9 Deductions:				9
10 Losses and LAE Incurred	24,498	24,498	0	10
11 Operating Expenses	13,836	13,398	439	11
12 Commission Expense	7,416	7,416	0	12
13 Ceding commissions / brokerage	(2,300)	(2,300)	0	13
14 Premium / Maintenance Tax	1,334	1,334	0	14
15 Total Deductions	44,784	44,346	439	15
16 Net Underwriting Gain or (Loss)	(3,041)	(2,602)	(439)	16
17 Other Income or (Expense):				17
18 Investment Income	174	174	0	18
19 Investment Expenses (LOC Fees)	(91)	(91)	0	19
20 Charge off's /Write off	(319)	(319)	0	20
21 Billing Fees	354	354	0	21
22 Total Other Income or (Expense)	117	117	0	22
23 Net Income (Loss)	\$ (2,924)	\$ (2,485)	\$ (439)	23

Discussion Notes

- No changes in premiums and reinsurance budgets
- No changes in Losses & LAE budgets
- Net Operating Expenses in 2023 budget increased by \$439,000 from previous version presented in the Budget Workshop. This resulted in a corresponding decrease in Net Income for the same amount.

2023 Budget – Expense Summary

(In 000's)

	A	B	C
	FINAL	November	
	Budget - 2023	Budget Workshop	Change
	Budget 2023	Budget 2023	
1 Personnel Expenses			
2 Salaries & Wages - Permanent	7,121	7,128	(8)
3 Contractor & Temporary Help	1,481	1,656	(174)
4 Payroll Taxes	542	543	(1)
5 Employee Benefits	2,170	2,170	(0)
6 Recruiting, Training & Other	220	220	(0)
7 Subtotal	11,534	11,717	(183)
8			
9 Professional & Consulting Services			
10 Legal	127	127	0
11 Accounting & Auditing	112	106	6
12 Information Technology	737	737	0
13 Actuarial Services	24	24	0
14 Surveys & Inspections	436	436	0
15 Disaster Recovery Services	5	5	0
16 Other Services	1,190	1,182	8
17 Subtotal	2,632	2,617	14
18			
19 Hardware/Software Purchases & Licensing	1,597	1,597	0
20 Rental & Maintenance - Office/Equipment	560	560	0
21 Travel Expenses	158	158	0
22 Postage, Telephone and Express	462	589	(127)
23 Capital Management Expenses	91	91	0
24 Other Operating Expenses	644	644	0
25 Gross Operating Expenses	17,678	17,973	(295)
26			
27 Capitalization of Fixed Assets	0	0	0
28 Allocation To ULAE	(3,750)	(4,484)	734
29 Allocation To Investing	(91)	(91)	0
30 Net Operating Expense	13,836	13,398	439

DISCUSSION NOTES

Decrease in Salaries & Wages Retirement of 1 employee in mid-January 2023.

Decrease in Contractors Revised Claims allocations of contractors to TWIA.

Increase in Accounting Professional Services Revised budget to reflect the continuance of consulting services for the implementation and integration of Adaptive Budgeting and Financial Planning Software in early 2023. This is related to the corresponding decrease in 2022 forecast.

Increase in Other Services Added budget for Escheat outsourcing services

Decrease in Postage Increased allocation of postage charges to TWIA due to anticipated higher volume compared to TFPA.

2023 Budget – Surplus and Key Ratios

(In 000's)

	A	B	C	D	E	F	
	For the twelve months ended December 31,			FINAL	November Budget Workshop		
	Forecast - 2022	Budget - 2022	Variance - 2022	Budget - 2023	Budget 2023	Change	
Surplus (Deficit) Account:							
1 Beginning Surplus (Deficit)	1,955	(927)	2,882	2,985	3,002	(17)	1
2 Net Income (Loss)	232	(122)	354	(2,924)	(2,485)	(439)	2
3 Change in Provision for Reinsurance	465	0	465	0	0	0	3
4 Change in nonadmitted assets	332	55	278	332	332	0	4
5 Ending Surplus (Deficit)	\$ 2,985	\$ (994)	\$ 3,979	\$ 393	\$ 849	\$ (456)	5
Key Operating Ratios:							
7 Direct:							7
8 Loss & LAE Ratio	34.7%	35.5%	-0.9%	33.2%	33.2%	0.0%	8
9 UW Expense Ratio:							9
10 Acquisition	12.4%	12.3%	0.0%	12.4%	12.4%	0.0%	10
11 Non Acquisition	16.6%	16.1%	0.5%	18.7%	18.1%	0.6%	11
12 UW Expense Ratio	29.0%	28.5%	0.5%	31.1%	30.5%	0.6%	12
13 Direct Combined Ratio	63.7%	64.0%	-0.3%	64.3%	63.7%	0.6%	13
14							14
15 Net Combined Ratio	108.6%	107.7%	0.9%	120.1%	119.0%	1.1%	15

Final 2023 Operating Expenses Budget

(In 000's)

	A	B	C	D	E	F	
	For the twelve months ended December 31, Forecast - 2022 Budget - 2022 Variance - 2022 Budget - 2023				B2023 vs B2022 \$	B2023 vs F2022 \$	
1 Personnel Expenses							1
2 Salaries & Wages - Permanent	5,986	6,492	(506)	7,121	628	1,134	2
3 Contractor & Temporary Help	1,425	1,178	247	1,481	304	57	3
4 Payroll Taxes	437	494	(57)	542	49	105	4
5 Employee Benefits	2,105	2,360	(255)	2,170	(190)	64	5
6 Recruiting, Training & Other	116	125	(9)	220	95	104	6
7 Subtotal	10,069	10,649	(580)	11,534	885	1,465	7
8							8
9 Professional & Consulting Services							9
10 Legal	120	126	(6)	127	1	7	10
11 Accounting & Auditing	131	122	9	112	(10)	(19)	11
12 Information Technology	651	209	441	737	528	86	12
13 Actuarial Services	17	24	(7)	24	0	7	13
14 Surveys & Inspections	375	375	(0)	436	61	62	14
15 Disaster Recovery Services	147	115	32	5	(110)	(141)	15
16 Other Services	1,160	1,218	(59)	1,190	(29)	30	16
17 Subtotal	2,599	2,190	410	2,632	442	32	17
18							18
19 Hardware/Software Purchases & Licensing	1,571	1,363	208	1,597	234	26	19
20 Rental & Maintenance - Office/Equipment	827	862	(35)	560	(301)	(266)	20
21 Travel Expenses	113	78	35	158	79	45	21
22 Postage, Telephone and Express	382	489	(106)	462	(27)	79	22
23 Capital Management Expenses	91	91	0	91	0	0	23
24 Other Operating Expenses	468	663	(195)	644	(19)	176	24
25 Gross Operating Expenses	16,121	16,385	(264)	17,678	1,293	1,557	25
26							26
27 Capitalization of Fixed Assets	0	0	0	0	0	0	27
28 Allocation To ULAE	(3,506)	(4,183)	676	(3,750)	432	(244)	28
29 Allocation To Investing	(91)	(91)	0	(91)	0	0	29
30 Net Operating Expense	12,523	12,111	412	13,836	1,726	1,313	30

Final 2023 Income Statement Budget

(In 000's)

		A	B	C	D
		For the twelve months ended December 31,			FINAL
		Forecast - 2022	Budget - 2022	Variance - 2022	Budget - 2023
1	Premiums Written:				
2	Direct	\$ 75,553	\$ 72,770	\$ 2,783	\$ 70,829
3	Ceded	(31,370)	(27,464)	(3,907)	(32,846)
4	Net	44,183	45,306	(1,123)	37,983
5	Premiums Earned:				
6	Direct	\$ 75,214	\$ 75,005	\$ 209	\$ 73,852
7	Ceded	(29,372)	(27,964)	(1,408)	(32,108)
8	Net	45,842	47,041	(1,199)	41,744
9	Deductions:				
10	Losses and LAE Incurred	26,082	26,663	(581)	24,498
11	Operating Expenses	12,523	12,111	412	13,836
12	Commission Expense	7,913	7,604	308	7,416
13	Ceding commissions / brokerage	(2,138)	(623)	(1,515)	(2,300)
14	Premium / Maintenance Tax	1,423	1,354	70	1,334
15	Total Deductions	45,802	47,108	(1,306)	44,784
16	Net Underwriting Gain or (Loss)	39	(67)	106	(3,041)
17	Other Income or (Expense):				
18	Investment Income	155	3	152	174
19	Investment Expenses (LOC Fees)	(91)	(91)	0	(91)
20	Charge off's /Write off	(308)	(330)	22	(319)
21	Billing Fees	437	363	74	354
22	Total Other Income or (Expense)	193	(55)	248	117
23	Net Income (Loss)	\$ 232	\$ (122)	\$ 354	\$ (2,924)

Questions

13. Future Meetings

February 13, 2023 – Moody Gardens Hotel
Galveston

May 22, 2023 – Marriott South
Austin

August 7, 2023 – Tremont House
Galveston