

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

December 6, 2021

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](http://www.texasfairplan.org).  
Go to "About Us/Board Meetings" and access the video conferencing website with instructions  
available on [www.texasfairplan.org](http://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 – *John Miletti* 5 minutes
  - B. Reminder of Anti-Trust Statement – *John Miletti or Counsel*
  - C. Meeting Format Information – *Kristina Donley*
2. Consideration and Action to:  
Approve the Minutes from Prior Governing Committee Meetings  
– *John Miletti* – **Action/Vote Likely\*** 5 minutes
3. Election of Officers – *John Miletti* – **Action/Vote Likely\***
4. TFPA Operational Highlights – *John Polak* 5 minutes
5. Financial 30 minutes
  - A. Report of the Secretary/Treasurer – *Wendy Mueller* – **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
6. Actuarial – *Jim Murphy* 15 minutes
  - A. Reserve Adequacy
  - B. Policy Count/Exposures
  - C. Annual Rate Review – **Action/Vote Likely\***
7. Internal Audit – *Bruce Zaret – Weaver* 20 minutes
  - A. Internal Audit Status Update
  - B. Internal Audit Risk Assessment
  - C. Fraud Risk Assessment

- |  |                    |
|--|--------------------|
| 8. Underwriting – <i>Denise Larzalere</i>  | <i>10 minutes</i>  |
| A. Operational Review Update   |                    |
| B. Automatic Coverage Increases – <b>Action/Vote Likely*</b>   |                    |
|  |                    |
| 9. Claims  | <i>15 minutes</i>  |
| A. Claims Operations – Overview – <i>Dave Williams</i>   |                    |
| B. Litigation Summary – <i>David Durden</i>  |                    |
|  |                    |
| 10. TFPA Operations  | <i>20 minutes</i>  |
| A. IT System Enhancements – <i>Camron Malik</i>  |                    |
| B. Communications Update – <i>Jennifer Armstrong</i>   |                    |
| C. Lease and Building Project – <i>JD Lester</i>   |                    |
| D. Review/Approval of 2022 Budget – <i>Stuart Harbour</i> – <b>Action/Vote Likely*</b>   |                    |
| E. TWIA Reinsurance Broker RFP – <i>John Polak</i>   |                    |
|  |                    |
| 11. Closed Session ( <b>Governing Committee Only</b> )   | <i>30 minutes</i>  |
| A. Personnel Issues  |                    |
| B. Legal Advice  |                    |
|  |                    |
| 12. Consideration of Issues Related to Matters Deliberated in Closed Session<br>that May Require Action, if any, of the Governing Committee – <b>Action/Vote Likely*</b>   | <i>5 minutes</i>   |
|  |                    |
| 13. Committees – <i>John Milette</i>   | <i>5 minutes</i>   |
|  |                    |
| 14. Future Meetings – <i>John Polak</i>  | <i>5 minutes</i>   |
| <ul style="list-style-type: none"> <li>• February 21, 2022 – Hyatt Regency Austin (Or Coastal Location)</li> <li>• May 16, 2022 – Hyatt Regency Austin (Or Coastal Location)</li> <li>• August 2022 – TBD</li> </ul> |                    |
|  |                    |
| 15. Adjourn  |                    |
|  |                    |
| Estimated Total Length of Meeting  | 2 hours 50 minutes |

# 1. Call to Order



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TEXAS FAIR PLAN  
ASSOCIATION

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## **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)**

5700 South Mopac Expressway  
Building A  
Austin, Texas 78749



**August 2, 2021**

The Following Governing Committee Members were Present, Representing:

- |  |                                   |
|--|-----------------------------------|
| 1. John Miletta (Chair)                | Travelers                         |
| 2. Mark Solomon (Vice Chair)           | Agent Member                      |
| 3. Wendy Mueller (Secretary/Treasurer) | State Farm                        |
| 4. Debbie King                         | AmTrust                           |
| 5. Frank Baumann                       | Public Member                     |
| 6. Georgia Neblett                     | Public Member                     |
| 7. Tim McCarthy                        | Texas Farm Bureau                 |
| 8. Marilyn Hamilton                    | Public Member                     |
| 9. Edward James Sherlock               | Agent Member                      |
| 10. Marianne Baker                     | Ex-Officio Non-Voting Member, TDI |

Absent: Corise Morrison, USAA

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

- |   |                         |
|---|-------------------------|
| 1. John Polak, General Manager                                      | TFPA                    |
| 2. Jerry Fadden, Chief Financial Officer                            | TFPA                    |
| 3. Denise Larzalere, VP Underwriting                                | TFPA                    |
| 4. Dave Williams, VP Claims   | TFPA                    |
| 5. David Durden, VP Legal   | TFPA                    |
| 6. Jennifer Armstrong, VP Communications and<br>Legislative Affairs | TFPA                    |
| 7. Camron Malik, Chief Information Officer                          | TFPA                    |
| 8. JD Lester, VP Human Resources                                    | TFPA                    |
| 9. Jim Murphy, Chief Actuary  | TFPA                    |
| 10. Stuart Harbour, Comptroller                                     | TFPA                    |
| 11. Amy Koehl, Executive Assistant                                  | TFPA                    |
| 12. Kristina Donley, Senior Instructional Designer                  | TFPA                    |
| 13. Mike Perkins, Association Counsel                               | Perkins Law Group, PLLC |

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

- |                    |                       |
|--------------------|-----------------------|
| 1. Angie Cervantes | 11. Andy MacLaurin    |
| 2. Ebony Cormier   | 12. Katelyn Marak     |
| 3. Angela Fang     | 13. David Muckerheide |
| 4. Beaman Floyd    | 14. Brian Ryder       |
| 5. Sandra Foreman  | 15. Kenisha Schuster  |
| 6. Allen Fulkerson | 16. Mark Solomon      |

7. Carlos Garcia  
 8. Jesus Guerrero  
 9. Jeff Jones  
 10. Laura Machado

17. Anna Stafford  
 18. Aaron Taylor  
 19. Clark Thomson  
 20. Rachel Wang

1. Call to Order: Chairman John Milette called the meeting to order at 3:01 p.m. 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. Mr. Perkins conducted a roll call of attendees.
2. Approval of the Minutes from Prior Governing Committee Meeting: The minutes from the May 17, 2021 meeting were reviewed. Ms. Neblett moved to approve the minutes. Ms. Mueller seconded the motion. The motion passed.
3. TFPA Operational Highlights: Mr. Polak reported the Association secured \$360 million in total funding for the 2021 hurricane season. More than 800 adjuster resources were trained virtually in the claims department's annual Hurricane Preparedness and Adjuster Certification Conference. The association remains below plan for Q2 2021 operating expenses and is on track to complete all strategic initiatives in 2021. Turnaround time and quality standards were exceeded on underwriting and claim service levels.
4. Financial:
  - A. Report of the Secretary/Treasurer: Ms. Mueller reviewed the Treasurer's Report. Mr. Solomon moved to approve the report. Mr. Baumann seconded the motion. The motion passed.
  - B. Financial Statement Review by Staff: Direct written premiums through June 2021 totaled \$40.1 million, a decrease of \$1.8 million or 4.4% from the \$41.9 million for the same period in the prior year due to a 7.8% year over year decline in total policy counts, only partially offset by the rate increase effective 7/1/2020. Direct written premium was \$2.4 million higher than the budgeted \$37.6 million. Policies in force on June 30, 2021 totaled 70,483 or 317 policies under the budget of 70,800. At year end, 2020 policies were 73,713.

Direct premiums earned for the six months ended June 30, 2021 were \$38.9 million or \$2.6 million (6.2%) lower than the same period in 2020 but were \$1.5 million higher than the budget of \$37.4 million.

TFPA successfully placed the 2020-2021 reinsurance program, incepting on July 1, 2020. The program provides coverage of \$385 million in excess of a \$40 million initial retention and includes a "second event" cover that reduces the net retention to \$10 million. Ceded earned premiums for the six months ended June 30, 2021 totaled \$14.5 million, which was slightly above budget by \$70,000. Ceded premium is written in July of each year and earned throughout the following twelve-month period.

Net premium earned through June 30, 2021 was \$24.5 million, which exceeded the budget of \$23.0 million by \$1.4 million.

Year-to-date direct losses and LAE totaled \$21.2 million and include estimated ultimate losses and LAE of approximately \$8.0 million for winter storm Uri. Incurred losses and LAE are above budget by \$6.6 million. The YTD direct loss and LAE ratio is 54.3% compared to the budgeted loss and LAE ratio of 39%.

June YTD operating expenses of \$5.3 million were under budget by \$447,000 or 7.7% and \$1.8 million below prior year levels. Notable expense items under budget include contractor and temporary help (\$164,000), surveys and inspections (\$100,000), disaster recovery services (\$70,000), other professional services (\$85,000) and IT consulting (\$37,000).

Commission expense and premium taxes year-to-date were above budget by a combined \$198,000 or 4.2% due to higher than budgeted written premium.

YTD June 2021 gross investment income was \$2,000, which was \$8,000 below the budget of \$10,000. Investment yields remain at near zero levels as the Federal Reserve maintains a low short-term interest rate environment.

TFPA's financial results year-to-date reflect a net loss of \$7.1 million compared to the budgeted loss of \$2.2 million due primarily to Winter Storm Uri.

As of June 30, 2021, the Association had a deficit of \$938,000, or \$6.9 million below the surplus on December 31, 2020 of \$6.0 million. Surplus was also reduced by \$151,000 year-to-date due to an increase in non-admitted assets related to prepayments for Guidewire and Eagleview licenses.

- C. 2021 Hurricane Season Funding Including Renewal of Line of Credit: Mr. Fadden reported it was time to renew the TFPA line of credit, which was used successfully after Hurricane Harvey and expires in late August.

This year, staff proposed to reduce the amount from \$40 million to \$30 million to coincide with the change in the reinsurance retention from \$40 million to \$30 million. The purpose for maintaining the line of credit is to ensure cash is readily available to pay claims pending collection of reinsurance and/or a member assessment below the reinsurance retention, if needed. The line of credit would serve as a liquidity bridge to our permanent funding.

The proposed pricing for the 2021-2022 line of credit commitment fee is 30 basis points per annum on the unused revolving credit line, which is a significant reduction back to pre-pandemic levels from the 50 basis points charged in the 2020 agreement. Therefore, the commitment fee will decline from \$200,000 per year (\$16,667 per month) to \$90,000 per year (\$7,500 per month).



Given the unfavorable pricing for credits in 2020, the 2020 agreement was purposely limited to a one-year term in anticipation of a return to more normal rates. In order to obtain and retain this improved pricing on the commitment fee, it is also recommended that TFPA return to a two-year contract term as used in previous years.

Ms. Neblett moved to approve the line of credit. Ms. Mueller seconded the motion. The motion passed.

- D. Selection of Auditors/Accountants for 2021: Mr. Harbour reported that 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. Before the meeting, governing committee members were sent the results of the staff evaluation of the proposals received in response to an RFP and the staff recommendation via email. Staff recommends the firm Calhoun, Thomson + Matza be engaged to conduct these audits.

Ms. Neblett moved that the TFPA Governing Committee approve the same accounting firm selection of auditors/accountants for 2021 as is approved by the TWIA Board of Directors with no changes in the materials that were presented. Mr. Miletti checked with Mr. Perkins to make sure the motion was acceptable as presented. Mr. Perkins said it was satisfactory. Mr. Baumann seconded the motion. The motion passed.

5. Actuarial:

- A. Reserve Adequacy: TFPA actuarial staff has completed a review of Texas FAIR Plan Association loss and loss adjustment expense reserves as of June 30, 2021.

Based on this review, the "indicated" ultimate costs of Hurricane Harvey is \$84.5 million, remaining the same as the indicated ultimate loss and expense estimate based on the review as of March 31, 2021. Due to uncertainties surrounding the adequacy of cases reserves and the outcome of disputed claims, the "selected" ultimate gross loss and expense estimate has been maintained at \$85 million.

As of June 30, 2021, TFPA carried \$20 million in total gross loss and loss adjustment expense reserves with \$5.6 million of the total gross losses 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. Her opinion on the

loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectible.

6. Internal Audit:

- A. Internal Audit Status & Update: Mr. Polak stated there was nothing new to report and pointed the TFPA Governing Committee members to the meeting materials.

7. Underwriting:

- A. Operational Review 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 the underwriting decisions continue to meet or exceed established goals. Customer service telephone response time and quality results are within established goals. The department 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 second quarter of 2021 to verify compliance with the declination of coverage requirement and TFPA producer requirements and performance standards. Ninety percent of agents have responded with follow up requests being sent to the remaining agents. Proof of declination was received for sixty-five percent of the policies selected. Staff is following up for outstanding proof of declinations. Signed applications and eligibility statements were provided for 71% of the policies selected. Staff is following up with the agents who have not yet provided signed applications. All agents audited have an active property and casualty insurance license and all agents have the required direct standard market appointments.

8. Claims:

- A. Claims Operations: First notice of loss to property inspection averaged 3.6 days and total cycle time of first notice of loss to payment is 13.1 days. TDI complaints for 2020 were 0.09% or five complaints from 5,645 new claims. Complaints for 2021 were 0.18% or 13 complaints from 7,032 new claims.
- B. Claims Litigation: The second quarter of 2021 saw eight new first party suits and three new third-party suits. No suits were settled during the quarter and 60 first party suits were closed. As for TFPA claims with Letters of Representation, 29 first party and four third party suits were reported. None were settled and 32 first party and five third party were closed. The bulk of the suits are from the Buzbee Law/Manuel Solis firm.

9. TFPA Operations:

A. Communications Update: The 87<sup>th</sup> Legislative Session concluded on May 31. During the final month of the session, Association staff was active in working with key legislators on legislation that would impact operations. Senate Bill 1448, authored by Sen. Larry Taylor (Galveston County), was passed and signed by the Governor and will become effective September 1. The new law consolidates and extends the deadlines for the Windstorm Insurance Legislative Oversight Board to conduct studies on TWIA's funding structure and a potential merger of TFPA and TWIA.

Most legislative and regulatory inquiries received during the second quarter, April 1 through June 30, 2021, were related to TWIA matters.

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 will take place on the following dates:

- December 6, 2021 – Omni Hotel – Corpus Christi, TX
- February 21, 2022 – Hyatt Regency – Austin, TX
- May 16, 2022 – Hyatt Regency – Austin, TX

13. Committees: There was nothing to report.

14. Adjourn: There being no further business the meeting adjourned at 3:42 pm.

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Prepared by: Amy Koehl  
Executive Assistant

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Approved by: John Milette  
TFPA Chairman

## 4. TFPA Operational Highlights

# 2021 TFPA Enterprise Scorecard

Reporting YTD as of September 30, 2021



	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	13.5%		15.3%	-1.8%	
Net Gain from Operations	-\$8.3 M		-\$1.4 M	-\$6.9 M	
Enterprise Projects	89%		90%	-1%	
Policy Administration	99%		90%	9%	
Claims Handling	92%		90%	2%	
Litigated Claims	0.05%		1.00%	-0.95%	
Complaints	18		18	0	

## Reference Data

Policies In-Force	68,581
Exposures In-Force	\$11.8 billion
Written Premiums YTD	\$59.9 million
Claims Received YTD	8,609
Losses Incurred YTD <sup>1</sup>	\$24.6 million

<sup>1</sup> Excludes IBNR

## Key Quarterly Activities

- Responded to claims received from Hurricane Nicholas while maintaining positive key performance metrics.
- Remain below plan for Q3 2021 operating expenses.
- Slightly below goal to complete all strategic initiatives by the originally scheduled deadlines.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels.
- Remain well below plan on litigated claims in Q3 2021.

## 5. Financial

### 5A1. Income Statement

### 5A2. Management Discussion and Analysis

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

	2021	2020
<b>Direct Premiums Written</b>	\$ 59,896	\$ 62,798
<b>Premiums Earned:</b>		
Direct Premiums Earned	\$ 58,371	\$ 61,974
Ceded Reinsurance Premiums	(21,581)	(21,800)
Net Premiums Earned	36,791	40,174
<b>Deductions:</b>		
Direct Losses and LAE Incurred	30,342	31,321
Direct Losses and LAE Incurred - Harvey	-	-
Ceded Losses and LAE Incurred - Harvey	-	-
Operating Expenses	7,865	10,487
Commission Expense	6,248	6,594
Ceding commissions / brokerage	(673)	(689)
Premium / Maintenance Tax	1,115	1,181
Total Deductions	44,897	48,894
<b>Net Underwriting Gain or (Loss)</b>	(8,107)	(8,720)
<b>Other Income or (Expense):</b>		
Investment Income	2	122
Investment Expenses (Line of Credit Commitment Fee)	(152)	(93)
Interest Expense on Line of Credit Advance	-	-
Sales Tax Refund and Other Income (Expense)	-	-
Member Assessment Income	-	-
Charge off's /Write off	(292)	(55)
Billing Fees	224	155
Total Other Income or (Expense)	(218)	129
<b>Net Income (Loss)</b>	\$ (8,325)	\$ (8,591)
<b>Surplus (Deficit) Account:</b>		
Beginning Surplus (Deficit)	6,006	12,133
Net Income (Loss)	(8,325)	(8,591)
Change in Provision for Reinsurance	141	95
Change in nonadmitted assets	(197)	(318)
Other	-	-
Ending Surplus (Deficit)	\$ (2,376)	\$ 3,320

**Texas FAIR Plan Association**  
**Management's Discussion and Analysis of Financial Results for the**  
**Nine Months Ended September 30, 2021**

**Direct Written Premium:**

- Direct written premiums through September 2021 totaled \$59.9 million, a decrease of \$2.9 million or 4.6% from the \$62.8 million for the same period in the prior year due to continued declines in policy counts. Direct Written Premium was \$4.7 million higher than the budgeted \$55.2 million.
- Policies in force as of September 30, 2021 totaled 68,541 or 1,059 policies under the budget of 69,600. At year end 2020 total policies were 73,713.

**Direct Premiums Earned:**

- Direct premiums earned for the nine months ended September 30, 2021 were \$58.4 million or \$3.6 million (5.8%) lower than the same period in 2020 but were \$2.8 million higher than the budget of \$55.6 million.

**Reinsurance Costs:**

- TFPA successfully placed the 2021-2022 reinsurance program, incepting on July 1, 2021. The program provides coverage of \$360 million in excess of a \$30 million initial retention and includes a "second event" cover that reduces the net retention to \$10 million.
- Ceded earned premiums for the nine months ended September 30, 2021 totaled \$21.6 million which was slightly below budget by \$11,000. Ceded premium is written in July of each year and earned throughout the following twelve-month period.

**Net Premiums Earned**

- Net premium earned through September 30, 2021 was \$36.8 million which exceeded the budget of \$34.0 million by \$2.8 million.

**Loss and Loss Adjustment Expense Incurred:**

- Year-to-date Direct losses and LAE totaled \$30.3 million which include estimated losses and LAE associated with winter storm Uri and Hurricane Nicholas.
- Incurred losses and LAE are above budget by \$9.9 million.
- The YTD direct loss & LAE ratio is 52.0% compared to the budgeted loss & LAE ratio of 36.7%.

**Operating Expenses:**

- September YTD operating expenses of \$7.9 million were under budget by \$632,000 or 7.4% and \$2.6 million or 25.0% below prior year levels.
- Notable expense items under budget include Contractor & Temporary Help (\$278,000), Surveys & Inspections (\$137,000), Other Professional Services (\$99,000), Software (\$94,000), and Disaster Recovery Services (\$68,000).

**Commissions and Premium Taxes:**

- Commission expense and premium taxes year-to-date were above budget by a combined \$428,000 or 6.2% due to higher than budgeted written premium.



**Other Income (Expense):**

- YTD September 2021 gross investment income was \$2,000 which was \$12,000 below the budget of \$14,000. Investment yields remain at near zero levels as the Federal Reserve maintains a low short-term interest rate environment.

**Net Loss:**

- TFPA's financial results year-to-date reflect a net loss of \$8.3 million compared to the budgeted loss of \$1.4 million due primarily to Winter Storm Uri and Hurricane Nicholas.

**Surplus/(Deficit):**

- As of September 30, 2021, the Association had a deficit of \$2.4 million, or \$8.4 million below the December 31, 2020 surplus of \$6.0 million.
- Surplus was also reduced by \$197,000 year-to-date due to an increase in non-admitted assets related to prepayments for our Guidewire license and premium tax.

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## 5B. Financial Statement Review by Staff

5B1. Income Statement and  
Expense Statement

5B2. Balance Sheet

5B3. Cash & Short-Term Investments

5B4. Cash Flow Statement

5B5. Historical Data

	TEXAS FAIR PLAN ASSOCIATION				
	Statutory Income Statement (000's omitted)				
	for the nine months ended September 30,				
	Actuals - 2021	Budget - 2021	Variance - 2021	Actuals - 2020	
<b>7 Premiums Written:</b>					
8 Direct	\$ 59,896	\$ 55,217	\$ 4,679	\$ 62,798	
9 Ceded	(28,464)	(28,789)	325	(28,789)	
10 Net	31,432	26,428	5,004	34,009	
<b>12 Premiums Earned:</b>					
13 Direct	\$ 58,371	\$ 55,556	\$ 2,815	\$ 61,974	
14 Ceded	(21,581)	(21,592)	11	(21,800)	
15 Net	36,791	33,964	2,827	40,174	
<b>17 Deductions:</b>					
18 Direct Losses and LAE Incurred	30,342	20,402	9,940	31,321	
19 Direct Losses and LAE Incurred - Harvey	-	-	-	-	
20 Ceded Losses and LAE Incurred - Harvey	-	-	-	-	
21 Operating Expenses	7,865	8,497	(632)	10,487	
22 Commission Expense	6,248	5,908	340	6,594	
23 Ceding commissions / brokerage	(673)	(689)	16	(689)	
24 Premium / Maintenance Tax	1,115	1,027	88	1,181	
25 Total Deductions	44,897	35,145	9,752	48,894	
<b>27 Net Underwriting Gain or (Loss)</b>	(8,107)	(1,181)	(6,925)	(8,720)	
<b>29 Other Income or (Expense):</b>					
30 Investment Income	2	14	(12)	122	
31 Investment Expenses (Line of Credit Commitment Fee)	(152)	(90)	(62)	(93)	
32 Interest Expense on Line of Credit Advance	-	-	-	-	
33 Sales Tax Refund and Other Income (Expense)	-	-	-	-	
34 Member Assessment Income	-	-	-	-	
35 Charge offs /Write offs	(292)	(250)	(42)	(55)	
36 Billing Fees	224	129	95	155	
37 Total Other Income or (Expense)	(218)	(197)	(22)	129	
<b>39 Net Income (Loss)</b>	\$ (8,325)	\$ (1,378)	\$ (6,947)	\$ (8,591)	
<b>41 Surplus (Deficit) Account:</b>					
42 Beginning Surplus (Deficit)	6,006	6,006	-	12,133	
43 Net Income (Loss)	(8,325)	(1,378)	(6,947)	(8,591)	
44 Change in Provision for Reinsurance	141	-	141	95	
45 Change in nonadmitted assets	(197)	(415)	217	(318)	
46 Other	-	-	-	-	
47 Ending Surplus (Deficit)	\$ (2,376)	\$ 4,213	\$ (6,589)	\$ 3,320	
<b>49 Key Operating Ratios:</b>					
50 Direct:					
51 Loss & LAE Ratio:					
52 Non Hurricane	52.0%	36.7%	15.3%	50.5%	
53 Hurricane Harvey	0.0%	0.0%	0.0%	0.0%	
54 Loss & LAE Ratio	52.0%	36.7%	15.3%	50.5%	
55 UW Expense Ratio:					
56 Acquisition	12.3%	12.6%	(0.3%)	12.4%	
57 Non Acquisition	13.5%	15.3%	(1.8%)	16.9%	
58 UW Expense Ratio	25.8%	27.9%	(2.1%)	29.3%	
59 Combined Ratio	77.7%	64.6%	13.2%	79.8%	
62 Net:					
63 Loss & LAE Ratio:					
64 Non Hurricane	82.5%	60.1%	22.4%	78.0%	
65 Hurricane Harvey	0.0%	0.0%	0.0%	0.0%	
66 Loss & LAE Ratio	82.5%	60.1%	22.4%	78.0%	
67 UW Expense Ratio:					
68 Acquisition	18.2%	19.0%	(0.8%)	17.5%	
69 Non Acquisition	21.4%	25.0%	(3.6%)	26.1%	
70 UW Expense Ratio	39.6%	44.0%	(4.4%)	43.6%	
71 Combined Ratio	122.0%	104.1%	18.0%	121.6%	

1	<b>TEXAS FAIR PLAN ASSOCIATION</b>				1
2	<b>Statutory Expense Report (000's omitted)</b>				2
3	<b>for the nine months ended September 30,</b>				3
4					4
5	<b>Description</b>	<b>Actuals - 2021</b>	<b>Budget - 2021</b>	<b>Variance - 2021</b>	<b>Actuals - 2020</b>
6	Personnel Expenses				
7	Salaries & Wages - Permanent	\$ 4,140	\$ 3,789	\$ 350	\$ 4,643
8	Contractor & Temporary Help	1,817	1,117	700	1,654
9	Payroll Taxes	301	299	2	348
10	Employee Benefits	1,476	1,310	166	1,761
11	Recruiting, Training & Other	(5)	79	(84)	34
12	Subtotal	7,729	6,595	1,134	8,439
13					
14	Professional & Consulting Services				
15	Legal	85	108	(24)	89
16	Accounting & Auditing	48	56	(8)	51
17	Information Technology	11	160	(149)	1,707
18	Actuarial Services	23	20	3	26
19	Surveys & Inspections	283	420	(137)	389
20	Disaster Recovery Services	96	135	(39)	99
21	Other Services (1)	1,107	1,080	27	1,092
22	Subtotal	1,652	1,978	(326)	3,454
23					
24	Hardware/Software Purchases & Licensing	1,011	1,085	(75)	1,003
25	Rental & Maintenance - Office/Equipment	516	522	(6)	522
26	Travel Expenses	1	41	(40)	10
27	Postage, Telephone and Express	325	387	(62)	313
28	Capital Management Expenses	152	150	2	93
29	Other Operating Expenses	363	478	(115)	387
30	<b>Total Operating Expenses</b>	<b>\$ 11,748</b>	<b>\$ 11,236</b>	<b>\$ 511</b>	<b>\$ 14,221</b>
31					
32	Capitalization of Fixed Assets	0	0	0	0
33	Allocation To ULAE	(3,731)	(2,589)	(1,142)	(3,641)
34	Allocation To Investing & Other Expense	(152)	(150)	(2)	(93)
35	<b>Net Operating Expense - UW Operations</b>	<b>\$ 7,865</b>	<b>\$ 8,497</b>	<b>\$ (632)</b>	<b>\$ 10,487</b>
36					

<b>(1) Other Services</b>	<b>Amount</b>	<b>Department</b>
Clear Point Claims LLC	255	Underwriting
Insurance Services Office Inc	191	Underwriting & Claims
Xactware Solutions Inc	188	Claims
EagleView Technologies Inc	103	Claims
LYNX Services LLC	94	Claims
Marshall & Swift/Boeckh	77	Underwriting
Cornerstone OnDemand Inc	21	Human Resources
GLOBO Language Solutions LLC	21	Underwriting & Claims
* Other Vendors less than \$20K	156	Various departments
<b>Total Other Services</b>	<b>1,107</b>	

1	TEXAS FAIR PLAN ASSOCIATION			1
2	Statutory Balance Sheet (000's omitted)			2
3				3
4				4
5		<u>September-21</u>	<u>December-20</u>	5
6	<b>Admitted Assets</b>			6
7	Cash and short term investments	\$ 51,132	\$ 57,717	7
8	Premiums receivable	7,334	6,631	8
9	Assessment receivable	-	-	9
10	Amounts recoverable from reinsurers	1,117	1,506	10
11	Other assets	0	0	11
12	<b>Total admitted assets</b>	<u><b>\$ 59,584</b></u>	<u><b>\$ 65,855</b></u>	12
13				13
14	<b>Liabilities, Surplus and other funds</b>			14
15	<b>Liabilities:</b>			15
16	Loss and Loss adjustment expenses	\$ 16,631	\$ 15,458	16
17	Underwriting expenses payable	1,817	1,929	17
18	Unearned premiums, net of ceded unearned premiums	19,442	24,801	18
19	Ceded reinsurance premiums payable	20,843	14,104	19
20	Principal outstanding on line of credit advance	-	-	20
21	Interest payable on line of credit advance	-	-	21
22	Provision for reinsurance	192	333	22
23	Other payables	3,033	3,224	23
24	<b>Total liabilities</b>	<u><b>61,959</b></u>	<u><b>59,849</b></u>	24
25				25
26	<b>Surplus and others funds</b>			26
27	Unassigned Surplus (Deficit)	(2,376)	6,006	27
28	<b>Total liabilities, surplus and other funds</b>	<u><b>\$ 59,584</b></u>	<u><b>\$ 65,855</b></u>	28
29				29

**TEXAS FAIR PLAN ASSOCIATION**  
**Cash and Short Term Investments (\$ in 000's)**  
**September 30, 2021**

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
<b>Balances as of 9/30/2021:</b>											
Bank of America	\$ 9,309	\$ -	\$ 9,309				18%	Superior	13.4%	\$171	No
Citibank	208	5,220	5,428	5,220	0	0.01%	11%	Superior	13.6%	\$149	No
JPMorgan Chase	18,543	-	18,543				36%	Superior	16.5%	\$252	No
JP Morgan U.S. Treasury Plus Money Market Fund (1)	-	17,851	17,851	16,221	0	0.01%	35%	N/A	N/A	N/A	N/A
<b>Total of all financial institutions</b>	<b>\$ 28,061</b>	<b>\$ 23,071</b>	<b>\$ 51,132</b>	<b>\$ 21,440</b>	<b>\$ 0</b>	<b>0.01%</b>	<b>100%</b>				
<b>Balances as of 6/30/2021:</b>											
Bank of America	\$ 12,084	\$ -	\$ 12,084				25%	Superior	13.6%	\$167	No
Citibank	208	5,220	5,428	5,220	0	0.01%	11%	Superior	13.9%	\$148	No
JPMorgan Chase	16,007	-	16,007				33%	Superior	16.1%	\$242	No
JP Morgan U.S. Treasury Plus Money Market Fund (1)	-	14,851	14,851	15,208	0	0.01%	31%	N/A	N/A	N/A	N/A
<b>Total of all financial institutions</b>	<b>\$ 28,299</b>	<b>\$ 20,071</b>	<b>\$ 48,370</b>	<b>\$ 20,428</b>	<b>\$ 1</b>	<b>0.01%</b>	<b>100%</b>				

(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, 2021. 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	Actuals - 2021      Budget - 2021      Variance - 2021	5
6		6
7	<b>Cash flows from operating activities:</b>	7
8	Premiums collected, net of reinsurance      \$      37,968      \$      29,218      \$      8,750	8
9	Losses and loss adjustment expense paid      (28,780)      (26,320)      (2,460)	9
10	Underwriting expenses paid      (14,959)      (13,331)      (1,627)	10
11	Member assessment      -      -      -	11
12	Other      (665)      (121)      (544)	12
13	Net cash provided by operating activities      (6,436)      (10,554)      4,119	13
14	<b>Cash flows from nonoperating activities:</b>	14
15	Other      -      -      -	15
16	Net cash provided by nonoperating activities      -      -      -	16
17	<b>Cash flows from investing activities:</b>	17
19	Net investment income      (149)      (76)      (74)	19
20	Net cash provided by investing activities      (149)      (76)      (74)	20
21	<b>Cash flows from financing activities:</b>	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      (6,585)      (10,630)      4,045	26
27	Cash and short-term investments, Beginning      57,717      57,717      -	27
28	Cash and short-term investments, Ending      \$      51,132      \$      47,087      \$      4,045	28
29		29

**TEXAS FAIR PLAN ASSOCIATION**  
**HISTORICAL DATA**  
**2003 - 2021**  
(\$ 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	11,793,321	68,541		59,896	30,342	36,791	30,342	14,555	(8,107)		(2,376)
<b>TOTAL</b>				<b>\$ 1,704,837</b>	<b>\$ 1,092,357</b>	<b>\$ 1,149,769</b>	<b>\$ 788,556</b>	<b>\$ 420,503</b>	<b>\$ (59,290)</b>	<b>\$ 54,941</b>	

(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

\*2021 data through 9/30/2021



## 6. Actuarial

### 6A. Reserve Adequacy



**Xiuyu Li, ACAS, MAAA**  
**Senior Actuary**

## **MEMORANDUM**

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DATE: October 15, 2021  
TO: Jim Murphy, Chief Actuary  
FROM: Xiuyu Li, Senior Actuary  
RE: Reserve Adequacy

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TFPA actuarial staff has completed a review of Texas FAIR Plan Association loss and loss adjustment expense reserves as of September 30, 2021.

Based on this review, the “indicated” ultimate cost of Hurricane Harvey is \$84.2 million, remaining almost the same as the indicated ultimate loss and expense estimate based on the review as of June 30, 2021. 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.

Hurricane Nicholas made landfall on September 26 in Matagorda county as a Category 1 hurricane. As of October 6, 2021, 602 Nicholas related claims were reported to the Association and the total incurred loss and expense was estimated and booked at \$5.5 million for Q3 financials.

As of September 30, 2021, TFPA carried \$21.6 million in total gross loss and loss adjustment expense reserves with \$4.9 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

## 6B. Policy Count/Exposures

**Texas FAIR Plan Association**  
**Liability Report**  
As of 9/30/21  
All Forms Combined



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage
Harris	48,357	43,452	(4,905)	(10.14%)	7,491,076,552	6,677,474,318	(813,602,233)	(10.86%)	44,858,399	42,210,891	(2,647,508)	(5.90%)
Fort bend	5,186	4,678	(508)	(9.80%)	950,245,326	850,443,081	(99,802,245)	(10.50%)	4,808,826	4,496,181	(312,644)	(6.50%)
Galveston	4,488	4,314	(174)	(3.88%)	1,129,594,803	1,104,059,956	(25,534,847)	(2.26%)	1,536,110	1,559,483	23,373	1.52%
Dallas	2,539	2,270	(269)	(10.59%)	436,537,158	394,649,373	(41,887,785)	(9.60%)	2,123,186	1,998,726	(124,461)	(5.86%)
Brazoria	1,821	1,802	(19)	(1.04%)	462,890,531	460,141,834	(2,748,697)	(0.59%)	685,701	732,085	46,384	6.76%
Tarrant	1,919	1,657	(262)	(13.65%)	324,142,784	280,398,758	(43,744,026)	(13.50%)	1,763,761	1,620,171	(143,590)	(8.14%)
Nueces	1,330	1,251	(79)	(5.94%)	261,278,180	250,480,394	(10,797,786)	(4.13%)	569,861	580,367	10,505	1.84%
El paso	1,132	1,148	16	1.41%	255,913,645	262,739,150	6,825,505	2.67%	620,568	663,770	43,202	6.96%
Jefferson	1,148	1,074	(74)	(6.45%)	261,230,540	245,988,002	(15,242,538)	(5.83%)	423,748	435,093	11,346	2.68%
Montgomery	826	788	(38)	(4.60%)	148,732,814	140,941,805	(7,791,009)	(5.24%)	639,997	664,805	24,808	3.88%
Bexar	684	602	(82)	(11.99%)	115,878,508	104,631,822	(11,246,686)	(9.71%)	483,856	460,814	(23,043)	(4.76%)
Cameron	443	425	(18)	(4.06%)	73,339,930	74,570,680	1,230,750	1.68%	128,968	137,839	8,871	6.88%
Calhoun	403	379	(24)	(5.96%)	95,084,015	92,116,045	(2,967,970)	(3.12%)	155,472	157,385	1,913	1.23%
Orange	395	373	(22)	(5.57%)	65,193,403	61,490,158	(3,703,245)	(5.68%)	460,523	472,808	12,285	2.67%
Travis	301	270	(31)	(10.30%)	58,377,948	52,223,328	(6,154,620)	(10.54%)	171,124	158,802	(12,322)	(7.20%)
Chambers	246	255	9	3.66%	67,586,338	71,998,330	4,411,992	6.53%	110,492	129,081	18,589	16.82%
Matagorda	235	228	(7)	(2.98%)	52,454,110	49,586,935	(2,867,175)	(5.47%)	118,374	114,715	(3,659)	(3.09%)
Hidalgo	258	220	(38)	(14.73%)	27,958,365	24,645,761	(3,312,604)	(11.85%)	184,714	176,133	(8,581)	(4.65%)
Liberty	218	216	(2)	(0.92%)	24,979,880	24,752,416	(227,464)	(0.91%)	231,432	248,402	16,970	7.33%
Aransas	197	181	(16)	(8.12%)	44,568,500	39,918,220	(4,650,280)	(10.43%)	79,178	75,976	(3,202)	(4.04%)
Collin	202	167	(35)	(17.33%)	41,469,480	33,229,200	(8,240,280)	(19.87%)	172,540	147,639	(24,901)	(14.43%)
San patricio	158	162	4	2.53%	38,147,937	35,744,276	(2,403,660)	(6.30%)	62,264	69,385	7,122	11.44%
Denton	132	120	(12)	(9.09%)	30,296,558	29,413,754	(882,804)	(2.91%)	125,542	135,622	10,081	8.03%
Brazos	126	110	(16)	(12.70%)	17,161,160	17,391,730	230,570	1.34%	65,860	69,392	3,532	5.36%
Waller	108	106	(2)	(1.85%)	16,903,120	16,427,240	(475,880)	(2.82%)	94,567	105,505	10,938	11.57%
Top 25 Counties	72,852	66,248	(6,604)	(9.06%)	12,491,041,584	11,395,456,567	(1,095,585,018)	(8.77%)	60,675,063	57,621,072	(3,053,991)	(5.03%)
All Other Counties	2,518	2,293	(225)	(8.94%)	438,678,485	397,864,230	(40,814,255)	(9.30%)	2,387,857	2,274,856	(113,001)	(4.73%)
Tier 1	10,581	10,177	(404)	(3.82%)	2,512,993,143	2,448,540,712	(64,452,431)	(2.56%)	3,920,080	4,036,069	115,988	2.96%
Tier 2	54,731	49,263	(5,468)	(9.99%)	8,606,957,736	7,688,915,131	(918,042,606)	(10.67%)	50,908,872	47,978,776	(2,930,096)	(5.76%)
All Other Counties	10,058	9,101	(957)	(9.51%)	1,809,769,190	1,655,864,954	(153,904,236)	(8.50%)	8,233,968	7,881,083	(352,885)	(4.29%)
Statewide Total	75,370	68,541	(6,829)	(9.06%)	12,929,720,069	11,793,320,797	(1,136,399,272)	(8.79%)	63,062,920	59,895,927	(3,166,992)	(5.02%)

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 9/30/21  
HO-A Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage
Harris	16,588	14,752	(1,836)	(11.07%)	4,071,849,762	3,609,005,124	(462,844,637)	(11.37%)	25,320,137	23,863,597	(1,456,540)	(5.75%)
Fort bend	1,313	1,189	(124)	(9.44%)	366,266,670	332,494,346	(33,772,324)	(9.22%)	2,008,020	1,935,078	(72,942)	(3.63%)
Galveston	3,160	3,071	(89)	(2.82%)	1,021,759,578	1,001,170,023	(20,589,555)	(2.02%)	1,226,296	1,267,144	40,849	3.33%
Dallas	1,182	1,044	(138)	(11.68%)	298,766,600	266,706,680	(32,059,920)	(10.73%)	1,531,315	1,427,400	(103,915)	(6.79%)
Brazoria	1,358	1,352	(6)	(0.44%)	410,121,970	408,519,330	(1,602,640)	(0.39%)	563,519	610,327	46,808	8.31%
Tarrant	1,026	880	(146)	(14.23%)	233,271,150	199,615,048	(33,656,102)	(14.43%)	1,299,682	1,190,304	(109,379)	(8.42%)
Nueces	737	712	(25)	(3.39%)	213,049,360	204,624,540	(8,424,820)	(3.95%)	423,047	448,203	25,156	5.95%
El paso	946	966	20	2.11%	236,473,620	243,498,770	7,025,150	2.97%	559,495	602,081	42,585	7.61%
Jefferson	861	805	(56)	(6.50%)	237,352,110	223,345,892	(14,006,218)	(5.90%)	354,920	365,095	10,175	2.87%
Montgomery	450	437	(13)	(2.89%)	109,440,579	105,109,270	(4,331,309)	(3.96%)	462,769	501,576	38,806	8.39%
Bexar	421	375	(46)	(10.93%)	94,948,150	87,770,510	(7,177,640)	(7.56%)	385,185	375,810	(9,376)	(2.43%)
Cameron	259	247	(12)	(4.63%)	58,621,750	58,102,030	(519,720)	(0.89%)	87,340	92,575	5,235	5.99%
Calhoun	333	312	(21)	(6.31%)	89,596,220	86,748,350	(2,847,870)	(3.18%)	137,467	139,675	2,208	1.61%
Orange	239	229	(10)	(4.18%)	52,818,278	49,910,608	(2,907,670)	(5.51%)	372,878	380,052	7,174	1.92%
Travis	167	151	(16)	(9.58%)	45,468,000	41,458,140	(4,009,860)	(8.82%)	122,335	116,732	(5,603)	(4.58%)
Chambers	197	207	10	5.08%	62,315,200	66,688,790	4,373,590	7.02%	91,819	106,507	14,689	16.00%
Matagorda	205	197	(8)	(3.90%)	50,016,460	47,173,260	(2,843,200)	(5.68%)	102,384	98,757	(3,627)	(3.54%)
Hidalgo	87	78	(9)	(10.34%)	10,848,765	10,316,861	(531,904)	(4.90%)	80,152	79,844	(308)	(0.38%)
Liberty	114	118	4	3.51%	17,176,310	17,490,558	314,248	1.83%	149,223	166,183	16,960	11.37%
Aransas	161	148	(13)	(8.07%)	41,659,640	37,324,800	(4,334,840)	(10.41%)	67,639	66,514	(1,125)	(1.66%)
Collin	60	43	(17)	(28.33%)	19,856,730	14,018,630	(5,838,100)	(29.40%)	76,810	61,634	(15,175)	(19.76%)
San patricio	125	123	(2)	(1.60%)	35,262,837	32,635,226	(2,627,610)	(7.45%)	52,608	55,871	3,263	6.20%
Denton	72	69	(3)	(4.17%)	23,246,380	23,470,176	223,796	0.96%	92,659	105,322	12,663	13.67%
Brazos	47	43	(4)	(8.51%)	11,228,340	12,356,910	1,128,570	10.05%	40,608	46,568	5,960	14.68%
Waller	57	62	5	8.77%	11,889,940	12,363,060	473,120	3.98%	63,281	77,656	14,374	22.72%
Top 25 Counties	30,165	27,610	(2,555)	(8.47%)	7,823,304,399	7,191,916,933	(631,387,466)	(8.07%)	35,671,588	34,180,504	(1,491,084)	(4.18%)
All Other Counties	1,507	1,368	(139)	(9.22%)	351,280,933	318,575,770	(32,705,163)	(9.31%)	1,836,925	1,766,919	(70,006)	(3.81%)
Tier 1	7,481	7,252	(229)	(3.06%)	2,244,689,984	2,188,341,281	(56,348,703)	(2.51%)	3,146,306	3,287,139	140,833	4.48%
Tier 2	18,508	16,551	(1,957)	(10.57%)	4,555,247,415	4,058,637,218	(496,610,198)	(10.90%)	28,201,978	26,710,962	(1,491,016)	(5.29%)
All Other Counties	5,683	5,175	(508)	(8.94%)	1,374,647,932	1,263,514,204	(111,133,728)	(8.08%)	6,160,230	5,949,322	(210,908)	(3.42%)
Statewide Total	31,672	28,978	(2,694)	(8.51%)	8,174,585,331	7,510,492,703	(664,092,628)	(8.12%)	37,508,513	35,947,423	(1,561,090)	(4.16%)

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 9/30/21  
TDP-1 Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage
Harris	27,924	25,134	(2,790)	(9.99%)	3,221,859,190	2,886,302,474	(335,556,716)	(10.42%)	18,607,059	17,436,172	(1,170,886)	(6.29%)
Fort bend	3,689	3,312	(377)	(10.22%)	575,303,376	509,153,695	(66,149,681)	(11.50%)	2,768,192	2,526,707	(241,485)	(8.72%)
Galveston	701	667	(34)	(4.85%)	77,134,425	73,884,613	(3,249,812)	(4.21%)	214,855	201,194	(13,661)	(6.36%)
Dallas	1,188	1,088	(100)	(8.42%)	130,006,438	121,555,573	(8,450,865)	(6.50%)	565,222	546,118	(19,104)	(3.38%)
Brazoria	386	380	(6)	(1.55%)	49,338,121	48,826,864	(511,257)	(1.04%)	110,908	111,886	977	0.88%
Tarrant	838	726	(112)	(13.37%)	89,147,234	79,044,910	(10,102,324)	(11.33%)	456,636	423,390	(33,246)	(7.28%)
Nueces	346	309	(37)	(10.69%)	31,922,740	28,024,334	(3,898,406)	(12.21%)	89,232	71,502	(17,731)	(19.87%)
El paso	178	176	(2)	(1.12%)	19,103,425	18,792,780	(310,645)	(1.63%)	60,042	59,431	(611)	(1.02%)
Jefferson	247	232	(15)	(6.07%)	22,389,710	20,804,310	(1,585,400)	(7.08%)	64,883	64,370	(513)	(0.79%)
Montgomery	323	295	(28)	(8.67%)	36,667,355	33,055,135	(3,612,220)	(9.85%)	166,388	152,450	(13,938)	(8.38%)
Bexar	213	173	(40)	(18.78%)	18,521,958	14,625,112	(3,896,846)	(21.04%)	86,130	70,928	(15,202)	(17.65%)
Cameron	95	74	(21)	(22.11%)	8,171,460	6,997,410	(1,174,050)	(14.37%)	22,557	18,580	(3,976)	(17.63%)
Calhoun	58	54	(4)	(6.90%)	4,942,995	4,803,695	(139,300)	(2.82%)	15,990	15,401	(589)	(3.68%)
Orange	139	133	(6)	(4.32%)	11,841,125	11,285,550	(555,575)	(4.69%)	84,599	90,377	5,778	6.83%
Travis	72	61	(11)	(15.28%)	9,437,028	7,748,028	(1,689,000)	(17.90%)	37,296	31,108	(6,188)	(16.59%)
Chambers	42	43	1	2.38%	5,093,298	5,191,700	98,402	1.93%	17,980	22,075	4,095	22.78%
Matagorda	28	30	2	7.14%	2,394,450	2,400,475	6,025	0.25%	15,760	15,755	(5)	(0.03%)
Hidalgo	168	137	(31)	(18.45%)	17,019,600	14,136,900	(2,882,700)	(16.94%)	103,841	95,210	(8,631)	(8.31%)
Liberty	102	95	(7)	(6.86%)	7,731,570	7,177,858	(553,712)	(7.16%)	81,809	81,822	13	0.02%
Aransas	15	14	(1)	(6.67%)	1,448,100	1,270,300	(177,800)	(12.28%)	5,648	4,924	(724)	(12.82%)
Collin	114	99	(15)	(13.16%)	20,391,150	17,866,450	(2,524,700)	(12.38%)	92,109	80,828	(11,281)	(12.25%)
San patricio	31	34	3	9.68%	2,777,100	2,960,850	183,750	6.62%	9,193	12,596	3,403	37.02%
Denton	57	49	(8)	(14.04%)	6,960,178	5,883,578	(1,076,600)	(15.47%)	32,843	30,014	(2,828)	(8.61%)
Brazos	36	29	(7)	(19.44%)	3,218,900	2,713,900	(505,000)	(15.69%)	15,805	13,659	(2,146)	(13.58%)
Waller	50	43	(7)	(14.00%)	4,995,180	4,046,180	(949,000)	(19.00%)	31,160	27,720	(3,440)	(11.04%)
Top 25 Counties	37,040	33,387	(3,653)	(9.86%)	4,377,816,106	3,928,552,674	(449,263,432)	(10.26%)	23,756,138	22,204,218	(1,551,920)	(6.53%)
All Other Counties	898	823	(75)	(8.35%)	82,013,872	74,718,020	(7,295,852)	(8.90%)	525,987	485,675	(40,312)	(7.66%)
Tier 1	1,975	1,861	(114)	(5.77%)	207,477,799	196,827,551	(10,650,248)	(5.13%)	577,927	545,421	(32,506)	(5.62%)
Tier 2	32,161	28,942	(3,219)	(10.01%)	3,844,575,441	3,438,602,153	(405,973,288)	(10.56%)	21,736,422	20,317,046	(1,419,377)	(6.53%)
All Other Counties	3,802	3,407	(395)	(10.39%)	407,776,738	367,840,990	(39,935,748)	(9.79%)	1,967,776	1,827,426	(140,349)	(7.13%)
Statewide Total	37,938	34,210	(3,728)	(9.83%)	4,459,829,978	4,003,270,694	(456,559,284)	(10.24%)	24,282,125	22,689,893	(1,592,232)	(6.56%)

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 9/30/21  
HO-CONB Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage
Harris	2,458	2,269	(189)	(7.69%)	166,241,640	154,407,600	(11,834,040)	(7.12%)	764,465	743,044	(21,422)	(2.80%)
Fort bend	88	86	(2)	(2.27%)	6,208,080	6,173,640	(34,440)	(0.55%)	20,774	21,554	780	3.76%
Galveston	254	238	(16)	(6.30%)	18,714,720	18,623,280	(91,440)	(0.49%)	53,215	50,557	(2,658)	(4.99%)
Dallas	121	98	(23)	(19.01%)	6,439,320	5,077,320	(1,362,000)	(21.15%)	21,510	20,029	(1,480)	(6.88%)
Brazoria	14	12	(2)	(14.29%)	1,152,000	889,200	(262,800)	(22.81%)	3,522	2,917	(605)	(17.18%)
Tarrant	4	7	3	75.00%	348,000	468,000	120,000	34.48%	1,646	1,702	56	3.42%
Nueces	224	204	(20)	(8.93%)	15,589,080	16,941,120	1,352,040	8.67%	54,733	57,713	2,980	5.44%
El paso	3	4	1	33.33%	28,800	351,600	322,800	1120.83%	215	1,920	1,705	792.90%
Jefferson	10	10	0	0.00%	500,400	560,400	60,000	11.99%	1,298	1,851	553	42.58%
Montgomery	20	18	(2)	(10.00%)	1,500,480	1,469,280	(31,200)	(2.08%)	5,959	5,311	(647)	(10.87%)
Bexar	32	31	(1)	(3.13%)	1,992,000	1,674,000	(318,000)	(15.96%)	10,226	11,683	1,457	14.24%
Cameron	85	101	16	18.82%	6,297,120	9,399,240	3,102,120	49.26%	18,622	26,411	7,788	41.82%
Calhoun	5	5	0	0.00%	372,000	372,000	0	0.00%	1,611	1,667	56	3.48%
Orange	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Travis	37	37	0	0.00%	2,884,920	2,384,160	(500,760)	(17.36%)	8,801	7,987	(814)	(9.25%)
Chambers	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Matagorda	1	0	(1)	(100.00%)	30,000	0	(30,000)	(100.00%)	130	0	(130)	(100.00%)
Hidalgo	1	2	1	100.00%	60,000	132,000	72,000	120.00%	374	739	365	97.59%
Liberty	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Aransas	18	14	(4)	(22.22%)	1,352,760	1,094,760	(258,000)	(19.07%)	5,505	3,700	(1,805)	(32.79%)
Collin	20	21	1	5.00%	1,023,600	1,224,120	200,520	19.59%	2,694	4,637	1,943	72.12%
San patricio	1	1	0	0.00%	78,000	78,000	0	0.00%	309	319	10	3.24%
Denton	1	1	0	0.00%	36,000	36,000	0	0.00%	138	149	11	7.97%
Brazos	35	30	(5)	(14.29%)	2,521,920	2,197,920	(324,000)	(12.85%)	8,597	8,539	(57)	(0.67%)
Waller	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A
Top 25 Counties	3,432	3,189	(243)	(7.08%)	233,370,840	223,553,640	(9,817,200)	(4.21%)	984,345	972,429	(11,915)	(1.21%)
All Other Counties	28	26	(2)	(7.14%)	2,265,240	2,038,440	(226,800)	(10.01%)	10,276	10,139	(137)	(1.34%)
Tier 1	612	585	(27)	(4.41%)	44,086,080	47,958,000	3,871,920	8.78%	138,550	145,135	6,585	4.75%
Tier 2	2,548	2,357	(191)	(7.50%)	172,611,720	160,713,240	(11,898,480)	(6.89%)	786,109	765,437	(20,672)	(2.63%)
All Other Counties	300	273	(27)	(9.00%)	18,938,280	16,920,840	(2,017,440)	(10.65%)	69,961	71,996	2,035	2.91%
Statewide Total	3,460	3,215	(245)	(7.08%)	235,636,080	225,592,080	(10,044,000)	(4.26%)	994,620	982,568	(12,053)	(1.21%)

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 9/30/21  
HO-BT Policies



County	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage	09/30/20	09/30/21	Actual	Percentage
Harris	1,387	1,297	(90)	(6.49%)	31,125,960	27,759,120	(3,366,840)	(10.82%)	166,738	168,077	1,339	0.80%
Fort bend	96	91	(5)	(5.21%)	2,467,200	2,621,400	154,200	6.25%	11,840	12,842	1,002	8.46%
Galveston	373	338	(35)	(9.38%)	11,986,080	10,382,040	(1,604,040)	(13.38%)	41,744	40,588	(1,157)	(2.77%)
Dallas	48	40	(8)	(16.67%)	1,324,800	1,309,800	(15,000)	(1.13%)	5,139	5,178	39	0.75%
Brazoria	63	58	(5)	(7.94%)	2,278,440	1,906,440	(372,000)	(16.33%)	7,751	6,956	(796)	(10.27%)
Tarrant	51	44	(7)	(13.73%)	1,376,400	1,270,800	(105,600)	(7.67%)	5,796	4,775	(1,021)	(17.62%)
Nueces	23	26	3	13.04%	717,000	890,400	173,400	24.18%	2,849	2,949	100	3.51%
El paso	5	2	(3)	(60.00%)	307,800	96,000	(211,800)	(68.81%)	817	339	(478)	(58.49%)
Jefferson	30	27	(3)	(10.00%)	988,320	1,277,400	289,080	29.25%	2,647	3,778	1,131	42.72%
Montgomery	33	38	5	15.15%	1,124,400	1,308,120	183,720	16.34%	4,880	5,468	587	12.03%
Bexar	18	23	5	27.78%	416,400	562,200	145,800	35.01%	2,314	2,393	79	3.41%
Cameron	4	3	(1)	(25.00%)	249,600	72,000	(177,600)	(71.15%)	449	273	(176)	(39.20%)
Calhoun	7	8	1	14.29%	172,800	192,000	19,200	11.11%	403	641	238	59.01%
Orange	17	11	(6)	(35.29%)	534,000	294,000	(240,000)	(44.94%)	3,046	2,380	(666)	(21.87%)
Travis	25	21	(4)	(16.00%)	588,000	633,000	45,000	7.65%	2,692	2,976	284	10.53%
Chambers	7	5	(2)	(28.57%)	177,840	117,840	(60,000)	(33.74%)	693	498	(195)	(28.10%)
Matagorda	1	1	0	0.00%	13,200	13,200	0	0.00%	100	203	103	103.00%
Hidalgo	2	3	1	50.00%	30,000	60,000	30,000	100.00%	347	340	(7)	(2.02%)
Liberty	2	3	1	50.00%	72,000	84,000	12,000	16.67%	401	397	(4)	(0.93%)
Aransas	3	5	2	66.67%	108,000	228,360	120,360	111.44%	386	838	452	117.14%
Collin	8	4	(4)	(50.00%)	198,000	120,000	(78,000)	(39.39%)	927	540	(387)	(41.75%)
San patricio	1	4	3	300.00%	30,000	70,200	40,200	134.00%	154	600	446	289.61%
Denton	2	1	(1)	(50.00%)	54,000	24,000	(30,000)	(55.56%)	(99)	137	236	(238.80%)
Brazos	8	8	0	0.00%	192,000	123,000	(69,000)	(35.94%)	851	626	(225)	(26.44%)
Waller	1	1	0	0.00%	18,000	18,000	0	0.00%	126	129	3	2.38%
Top 25 Counties	2,215	2,062	(153)	(6.91%)	56,550,240	51,433,320	(5,116,920)	(9.05%)	262,992	263,920	927	0.35%
All Other Counties	85	76	(9)	(10.59%)	3,118,440	2,532,000	(586,440)	(18.81%)	14,669	12,124	(2,545)	(17.35%)
Tier 1	513	479	(34)	(6.63%)	16,739,280	15,413,880	(1,325,400)	(7.92%)	57,298	58,373	1,076	1.88%
Tier 2	1,514	1,413	(101)	(6.67%)	34,523,160	30,962,520	(3,560,640)	(10.31%)	184,362	185,331	969	0.53%
All Other Counties	273	246	(27)	(9.89%)	8,406,240	7,588,920	(817,320)	(9.72%)	36,001	32,339	(3,662)	(10.17%)
Statewide Total	2,300	2,138	(162)	(7.04%)	59,668,680	53,965,320	(5,703,360)	(9.56%)	277,661	276,043	(1,618)	(0.58%)

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



## 6C. Annual Rate Review

## MEMORANDUM

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DATE: November 17, 2021  
TO: Jim Murphy, Chief Actuary  
FROM: Xiuyu Li, Senior Actuary  
RE: TFPA 2021 Rate Review

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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, 2020. Modeled catastrophe exposures as of March 31, 2021 and the cost of the 2021 reinsurance program have also been incorporated.

Following is a summary of rate indications from 2020 and 2021 by product form, capped at  $\pm 10\%$ :

Product	<u>2020 Analysis</u>		<u>2021 Analysis</u>	
	Indicated	Filed	Indicated	<b>Capped</b>
Homeowners	15.1%	9.6%	2.8%	<b>1.5%</b>
Tenants	26.3%	9.5%	10.7%	<b>8.1%</b>
Condo	20.5%	9.2%	3.1%	<b>2.9%</b>
Dwelling (Fire)	6.8%	6.8%	0.1%	<b>0.1%</b>
Dwelling (EC)	13.6%	9.5%	16.7%	<b>9.5%</b>

The rate changes effective August 1, 2021 largely addressed overall rate adequacy for most forms, with some residual indications for the Tenants form and some adverse development for Dwelling EC in the most recent year driving the current indications.

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, 2022.

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

XL



Homeowners	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	3,829,125	24.0%	10.0%
Central North - Remainder	359,079	-11.3%	-10.0%
Central South	3,333,913	11.1%	10.0%
North/Northwest	286,552	13.6%	10.0%
Seacoast - Tier 1	4,012,691	4.6%	4.6%
Seacoast - Tier 2	35,217,690	-0.5%	-0.5%
Overall Statewide	47,039,049	2.8%	1.5%

Tenants	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	14,022	6.7%	6.7%
Central North - Remainder	4,377	16.2%	10.0%
Central South	17,903	-15.0%	-10.0%
North/Northwest	720	-11.3%	-10.0%
Seacoast - Tier 1	62,574	23.8%	10.0%
Seacoast - Tier 2	215,912	9.2%	9.2%
Overall Statewide	315,508	10.7%	8.1%

Condos	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	41,648	5.4%	5.4%
Central North - Remainder	1,267	161.3%	10.0%
Central South	52,491	1.3%	1.3%
North/Northwest	2,043	3.5%	3.5%
Seacoast - Tier 1	167,166	-5.0%	-5.0%
Seacoast - Tier 2	1,029,943	4.2%	4.2%
Overall Statewide	1,294,558	3.1%	2.9%

Dwelling (Fire)	Indicated	Proposed
Overall Statewide	0.1%	0.1%

Dwelling (EC)	In-force Premium	Indicated	Proposed
Central North - Greater Dallas / Ft. Worth	1,455,298	54.3%	10.0%
Central North - Remainder	150,299	41.3%	10.0%
Central South	820,764	34.4%	10.0%
North/Northwest	74,258	27.1%	10.0%
Seacoast - Tier 1	709,037	-50.7%	-10.0%
Seacoast - Tier 2	27,099,477	15.7%	10.0%
Overall Statewide	30,309,133	16.7%	9.5%

## 7. Internal Audit

### 7A. Internal Audit Status Update

# MEMORANDUM

TO: The Governing Committee - Texas FAIR Plan Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: December 6, 2021

SUBJECT: Status of Internal Audit Activities

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

➤ **Current Activities:**

Activity Description	Status
Corporate Governance	Report issued
Cash Management	Report issued
Fraud Risk Assessment	Report issued
Risk Assessment and Internal Audit Plan Update	Report issued
Premium Taxes	Report in final review
Actuarial	Fieldwork complete – report in progress
Vendor Management	Fieldwork in progress

➤ **Upcoming Audits:**

Activity Description	Timing
Information Security	4th Quarter
Business Continuity of Operations	4th Quarter
Plan of Operation	1 <sup>st</sup> /2 <sup>nd</sup> Quarter 2022

➤ **ELT meetings:**

- Attended Executive Leadership Team and Operations meetings.

## Texas FAIR Plan Association

### Internal Audit Plan – Lookback (2018-2020) and Prospective (2021-2023)

Process Area	2020 Risk Rating	2018	2019	2020	2021	2022	2023
Information Security	High	x			x		
Claims Processing	High		x	x		x	
Reinsurance	High			x		x	
Database and Application Administration	High			x			x
Communications	High	x		x		x	
Actuarial (Pricing and Reserving)	High	x			x		
Legal & Compliance	High	x		x			x
Underwriting	Moderate	x		x			x
Plan of Operation	Moderate				x		x
Business Continuity of Operations	Moderate		x		x		
Disaster Recovery	Moderate			x	x		
Governance	Moderate				x		
Financial Close and Reporting	Moderate			x			x
Accounts Payable and Expense Processing	Moderate		x			x	
Application Development	Moderate	x				x	
Information Technology Services	Moderate					x	
Vendor Management	Moderate		x		x		
Facilities and Services	Moderate			x			x
Cash Management	Moderate	x			x		
Fraud Risk Assessment	Low				x		
Premium Taxes	Low				x		
Accounts Receivable	Low		x			x	
Payroll	Low		x			x	

## 7B. Internal Audit Risk Assessment

Draft – For Discussion  
Purposes Only – v1a



# **Texas FAIR Plan Association Risk Assessment and Internal Audit Plan Update**

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December 6, 2021





# 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 2022, 2023 and 2024 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:
  - 2021 audits include: Information Security, Governance, Cash Management, Taxes, Actuarial, and Vendor Management processes, Fraud Risk Assessment
  - 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.

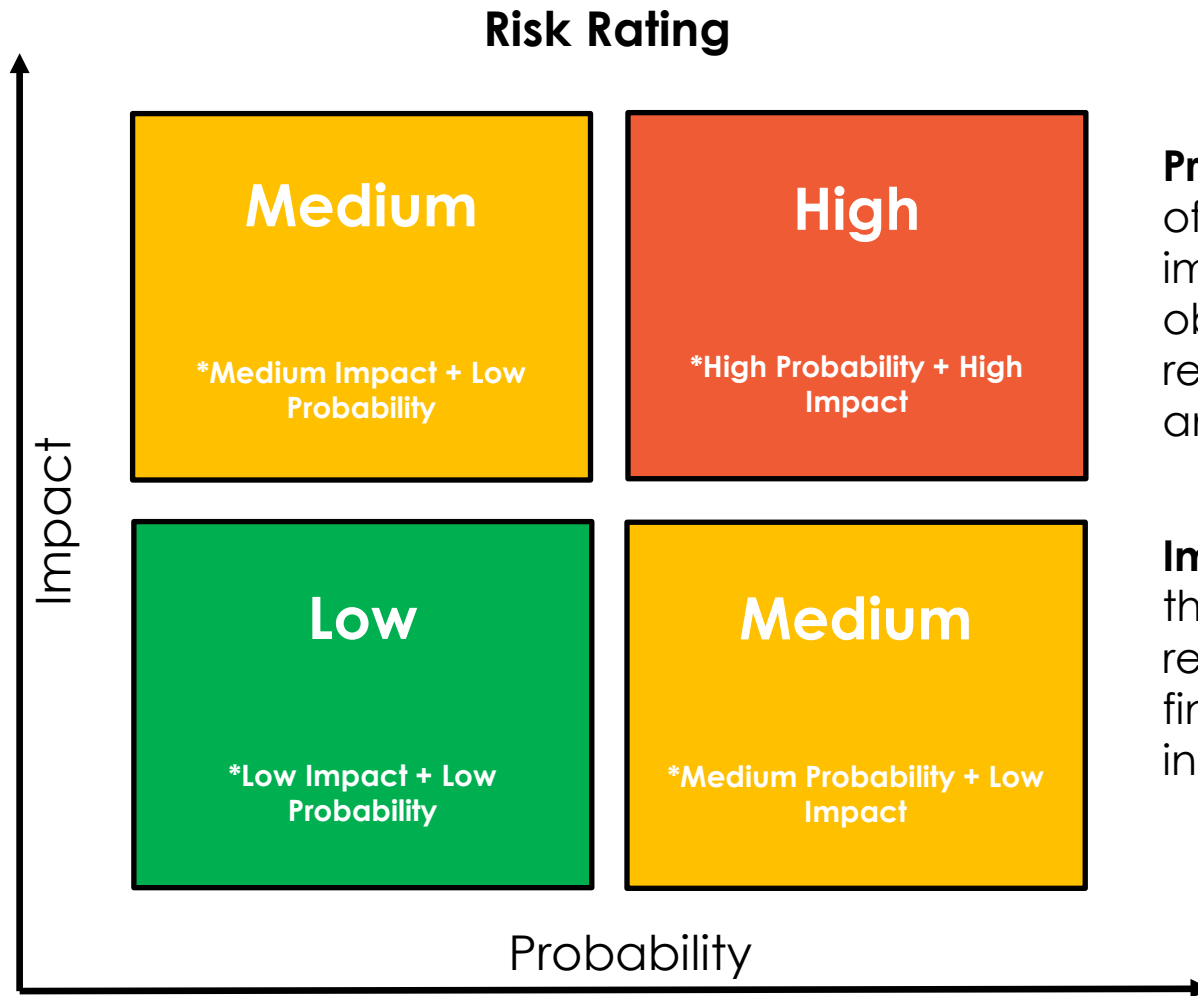


Vs.



\*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 Rating (Probability & Impact)



**Probability** – The likelihood of an event occurring that impacts achieving the objectives over financial reporting, compliance and/or operations.

**Impact** – The consequence the event has on operations, reputation, compliance, financial reporting and information technology.

\*High risk areas are more likely to be included in the 3 year audit plan.

# Environmental, Social and Corporate Governance (ESG)



**Environmental** – climate change, resource management and environmental impact



**Social** – workforce & human capital, human rights, value chain (customers and suppliers), and community relations



**Governance** – board quality, leadership committees, anti-corruption, management incentives

# Risk Assessment Results

2021 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend <sup>1</sup>	Risk Trend <sup>1</sup>
		2019	2020	2021		
<b>Reinsurance</b>	<ul style="list-style-type: none"> <li>• Buying and Placement</li> <li>• Execution of Agreements</li> <li>• Billing and Recoverables</li> <li>• Risk Transfer</li> <li>• Reinsurer Credit Risk Monitoring</li> </ul>	High	High	High	↑	Risk is trending higher due to hardening market, the potential of changing to a new broker that will need time to fully understand TFPA's operating environment, and decline in reinsurance capacity for catastrophic risks.
<b>Information Security</b>	<ul style="list-style-type: none"> <li>• Mobile Security / BYOD</li> <li>• Logical Access (Database, OS, Application)</li> <li>• Physical Access</li> <li>• Cybersecurity</li> </ul>	High	High	High	↑	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 TFPA-issued devices to mitigate risk.

<sup>1</sup> Risk trend includes both internal and external factors.

# Risk Assessment Results – cont.

2021 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend <sup>1</sup>	Risk Trend <sup>1</sup>
		2019	2020	2021		
<b>Claims Processing</b>	<ul style="list-style-type: none"> <li>• Intake/FNOL Process</li> <li>• Triage/Assign Claim</li> <li>• Investigate Claim</li> <li>• Evaluate Claim</li> <li>• Resolve Claim</li> <li>• Recover Damages</li> <li>• Compliance (Legislative &amp; TDI Regulations)</li> <li>• Litigation/Disputed Claims</li> <li>• Quality Assurance</li> <li>• Vendor Management</li> </ul>	High	High	High	↔	Claims are processed in accordance TDI regulatory guidelines and subject to TFPA policy manual guidelines. Heavy dependency on system application for claims processing and settlement. Also dependent on third-party adjusters in the event of a named storm or hurricane, whereby resources may not be available should more than one weather event occur. Overall risk remains high with a stable trend.
<b>Database and Application Administration</b>	<ul style="list-style-type: none"> <li>• Database Administration</li> <li>• Application Management</li> <li>• Systems Administration</li> <li>• Report Administration</li> <li>• Software Licensing and Usage</li> </ul>	High	High	High	↑	Risk is trending higher as management works to implement Project Elevate for easier agent processing. Risk is expected to stabilize after the project is implemented.
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Agent Communications</li> <li>• Internal Communications and Coordination</li> <li>• Branding (Reputation Management)</li> <li>• Organizational Change Management</li> <li>• Digital Media</li> <li>• Media Relations</li> <li>• Legislative Affairs</li> <li>• Community Outreach</li> <li>• Website Updates</li> <li>• Implementation of Legislative Changes</li> </ul>	High	High	High	↔	Communication requirements are demanding, though processes are stable and adequately meet demands of stakeholders. The department is well staffed and its functions and responsibilities are well defined.

<sup>1</sup> Risk trend includes both internal and external factors.



# Risk Assessment Results – cont.

2021 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend <sup>1</sup>	Risk Trend <sup>1</sup>
		2019	2020	2021		
<b>Actuarial (Pricing and Reserving)</b>	<ul style="list-style-type: none"> <li>• Case Reserving</li> <li>• Data Capture and Accuracy</li> <li>• IBNR Estimation</li> <li>• Premium Rate Changes</li> <li>• Reporting and Analytics</li> </ul>	Moderate	High	High	↑	Reserves have heavy reliance on data accuracy and assumptions used in determining final estimates. Risk is trending higher due to pricing challenges and the complexity in deriving assumptions used in the reserve estimation process.
<b>Legal &amp; Compliance</b>	<ul style="list-style-type: none"> <li>• Complaint Process (Administrative Code)</li> <li>• Contracts Management Process (New or Renewal)</li> <li>• Conflict Disclosures / Ethics Process</li> <li>• 3rd Party (Vendor, Policy Holder) Fraud Reporting Process</li> <li>• Records Retention Process</li> <li>• Public Information / Open Records</li> <li>• E-discovery</li> <li>• Association Policy Management</li> <li>• Filings (Policy Forms &amp; Endorsements, TDI, non-financial statement)</li> <li>• Sanctions Checking Process- FCPA/OFAC Compliance</li> <li>• Vendor Management Process (Including Due Diligence)</li> </ul>	Moderate	High	Moderate	↔	Risk is stable as meeting legal and compliance demands is not over-burdensome and the department is adequately staffed.

<sup>1</sup> Risk trend includes both internal and external factors.

# Risk Assessment Results – cont.

2021 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend <sup>1</sup>	Risk Trend <sup>1</sup>
		2019	2020	2021		
<b>Underwriting</b>	<ul style="list-style-type: none"> <li>• Application &amp; Quoting Process</li> <li>• Policy Issuance Process (includes Billing)</li> <li>• Agent Registration</li> <li>• Policy Eligibility Determination Process</li> <li>• Fraud Reporting Process</li> <li>• Inspection Process</li> <li>• Agent Commissions</li> <li>• Agency mergers</li> <li>• Risk Evaluation and Pricing Process</li> <li>• QA/Audit Process</li> <li>• Policyholder/Agent Complaint Process</li> <li>• Appeal Process</li> </ul>	Moderate	Moderate	Moderate	↑	Risk is trending higher as management works to implement Project Elevate.
<b>Executive Management, Management Planning and Reporting</b>	<ul style="list-style-type: none"> <li>• Plan of Operation</li> <li>• Operational Planning and Reporting</li> <li>• Board Reporting</li> <li>• Strategic Planning and Execution</li> <li>• CAT (Operations) and Business Continuity Planning</li> <li>• Disaster Recovery Planning (IT)</li> <li>• Pandemic</li> <li>• Talent Retention</li> <li>• Customer Communications and Service Delivery</li> <li>• Succession Planning</li> </ul>	Moderate	Moderate	Moderate	↑	Higher risk trend due to changes to the Plan of Operation, difficulty retaining top talent due to strong job market and planning succession for a strong management team.

<sup>1</sup> Risk trend includes both internal and external factors.

# Risk Assessment Results – cont.

2021 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend <sup>1</sup>	Risk Trend <sup>1</sup>
		2019	2020	2021		
<b>Financial Close and Reporting</b>	<ul style="list-style-type: none"> <li>• Period End Closing Process</li> <li>• Expense Allocation</li> <li>• Statutory Financial Statement Preparation</li> <li>• GASB Compliance</li> <li>• TDI / Statutory Data Calls</li> <li>• General Ledger Recording and Maintenance</li> <li>• Account Reconciliations</li> <li>• Fixed Assets</li> <li>• Escheatment/Unclaimed Property</li> <li>• Debt Arrangements</li> <li>• Revenue Recognition</li> </ul>	Moderate	Moderate	Moderate	↔	Though a change in CFO occurred, key accounting personnel remain in place and stable. There have been no significant changes in accounting standards. Also, TFPA is in the early phases of transitioning to a Corporate Performance Management (CPM) system for corporate reporting and budgeting to further mitigate financial reporting risk.
<b>Accounts Payable and Expense Processing</b>	<ul style="list-style-type: none"> <li>• Vendor Management (Set-up &amp; Payments)</li> <li>• Accounts Payable Processing (Invoice Routing and Approval)</li> <li>• Check Disbursements</li> <li>• Expense Coding</li> <li>• Employee Expense Reimbursement</li> <li>• Company Credit Card Processing</li> <li>• One Time Payments via Company Credit Cards</li> </ul>	Moderate	Moderate	Moderate	↔	Vendor management software has been implemented to centralize controls over contract monitoring. Also, TFPA is converting to a cloud-based general ledger accounting application to mitigate technology and obsolescence risk.
<b>Application Development</b>	<ul style="list-style-type: none"> <li>• System Development Life Cycle</li> <li>• Project Management Office / Life Cycle</li> </ul>	Moderate	Moderate	Moderate	↑	Risk is trending higher as management works to implement Project Elevate.

<sup>1</sup> Risk trend includes both internal and external factors.

# Risk Assessment Results – cont.

2021 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend <sup>1</sup>	Risk Trend <sup>1</sup>
		2019	2020	2021		
<b>Information Technology Services</b>	<ul style="list-style-type: none"> <li>• Network Security/Operations (including Monitoring, Tools, Data Security)</li> <li>• Help Desk</li> <li>• Change Management</li> <li>• Website Maintenance</li> <li>• Hardware Management</li> <li>• IT Vendor Management</li> </ul>	Moderate	Moderate	Moderate	↔	Risk remains stable given the information technology environment, including age of existing software and hardware.
<b>Payroll</b>	<ul style="list-style-type: none"> <li>• Timekeeping and Approval</li> <li>• Payroll Adjustments (Manual)</li> <li>• Payroll Process and Disbursement</li> <li>• Payroll Taxes</li> <li>• Compliance Reporting</li> <li>• Distributions &amp; Voluntary Deductions</li> </ul>	Low	Low	Moderate	↑	Risk is trending higher due to complexities regarding payroll taxes for employees working in other states.
<b>Accounts Receivable</b>	<ul style="list-style-type: none"> <li>• Billing</li> <li>• Collections and Deposits</li> <li>• Customer Account Maintenance</li> <li>• Past Due A/R, Non-admitted and write-offs</li> <li>• Refunds</li> <li>• System Reconciliation</li> </ul>	Low	Low	Moderate	↑	Risk is trending higher as management works to implement Project Elevate, a new billing and payment application.
<b>Environmental, Social, and Corporate Governance</b>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Diversity and Inclusivity</li> <li>• Climate-conscious Decision Making</li> <li>• Management Structure</li> <li>• Employee Relations</li> <li>• Fair Compensation</li> <li>• Charitable Contributions</li> </ul>	N/A	N/A	Low	↑	Risk is increasing due to trend in ESG gaining more acceptance from standard setters and regulators.

<sup>1</sup> Risk trend includes both internal and external factors.

# Risk Assessment Results – cont.

2021 Risk Assessment Summary						
Risk Area	Process Activities	Inherent Risk Rating			Current Risk Trend <sup>1</sup>	Risk Trend <sup>1</sup>
		2019	2020	2021		
<b>Facilities and Services</b>	<ul style="list-style-type: none"> <li>• Building Access &amp; Physical Security</li> <li>• Mail and Routing</li> <li>• Facilities Maintenance</li> <li>• Events/Training Management</li> <li>• Premises Insurance (COVID)</li> </ul>	Low	Moderate	Low	↔	Risk level is low due to remote working and stabilization of COVID-19. Risk may increase in the future due to potential office relocation.
<b>Cash Management</b>	<ul style="list-style-type: none"> <li>• Banking General</li> <li>• Lockbox</li> <li>• Credit Cards</li> <li>• Wire Transfers</li> <li>• Void Stop Payments</li> <li>• Positive Pay</li> <li>• Cash Forecasting</li> <li>• Bank Account Reconciliation</li> <li>• Cash and Cash Equivalent Investments Management</li> <li>• Funding Stack Execution</li> </ul>	Low	Moderate	Low	↑	Risk is trending higher due to increasing phishing/vishing attempts and wire fraud on the rise.
<b>Premium Taxes</b>	<ul style="list-style-type: none"> <li>• Premium Taxes</li> <li>• Tax Preparation and Compliance</li> </ul>	Low	Low	Low	↔	No changes in system applications, processes, regulations or personnel. The overall risk environment remains stable.

<sup>1</sup> Risk trend includes both internal and external factors.

# Audit Plan 2022-2024

- 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	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 <sup>(1)</sup>	Dec 2020	Moderate	x				x
Disaster Recovery	Feb 2020	Moderate	x	x			x
Accounts Payable and Expense Processing <sup>(1)</sup>	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 <sup>(1)</sup>	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: Additionally, Model Audit Rule updates, follow-up procedures, and the annual risk assessment update will be performed in 2022. Audit frequency is generally the following based on risk: High 12-24 months; Moderate 24-36; Low 36-48.

# Discussion





## 7C. Fraud Risk Assessment

There is no exhibit for this topic

## 8. Underwriting

### 8A. Operational Review Update

## MEMORANDUM

---

DATE: December 1, 2021  
TO: John Polak, General Manager  
FROM: Denise Larzalere, Vice President Underwriting  
RE: Update on Underwriting Operational Highlights

---

### Third Quarter 2021 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 the 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 year to date, primarily driven by managing headcount, reduced inspections, and lower call center expense.

II. TFPA Agent Audit Results:

- a. A standard sample of agencies was selected for review in the third quarter of 2021 to verify compliance with the declination of coverage requirement and TFPA Producer Requirements and Performance Standards. Seventy-five percent of agents have responded, with follow-up requests being sent to the remaining agents. The following information relates to the responsive agencies.
  - i. Proof of declination was received for eighty-six 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 them.
  - iii. Signed eligibility statements were provided for eighty-three percent of the policies selected. Staff is following up with the agents who have not yet provided them.
- b. All agents audited have an active property & casualty insurance license, and all agents have the required direct standard market appointments.

## 8B. Automatic Coverage Increases

## MEMORANDUM

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DATE: November 19, 2021

TO: TFPA Governing Committee Members

FROM: Denise Larzalere, Vice-President Underwriting

RE: Annual Automatic Coverage Increase – Request for Governing Committee Action

---

On October 27, 2021 during the TFPA Governing Committee meeting a request was made to staff to research the topic of automatically increasing the coverage limits of policies.

- TFPA has never had an automatic increase provision in the policy form or offered an endorsement.
- The TFPA statute and plan of operation do not address this issue.
- The TFPA Underwriting Manual states, *“Automatic increases in the policy coverages as a result of inflation or additions and/or alterations to the dwelling **will not apply.** The insured will be responsible for selecting and maintaining an adequate amount of coverage.”* Amendments to the TFPA Underwriting Manual require the approval of TDI.
- Over the years the Governing Committee has had some discussions about whether or not to make changes to the policy form or add an endorsement, but no action has been taken.
- From an operational perspective TFPA has run the entire book of business through the Marshall & Swift/Boeckh (MSB) replacement cost recalculation and adjusted coverages approximately every five years (this recalculation occurred due to changes in systems, upgrades to MSB versions, etc.).

Staff recommends that TFPA continue to have agents/insureds responsible for selecting the appropriate coverages for their needs. Staff also recommends that TFPA change process and the underwriting manual to reflect that on a consistent basis (during the requalification process that happens every 2 years) TFPA will rerun the property through the MSB calculator and update coverage amounts as needed prior to a renewal offer being sent. This process will allow for regular adjustments individualized to the specific property (not just zip code) and avoid the systems implementation costs and regulatory approvals associated with policy or form changes.



A resolution for the Governing Committee's consideration follows:

Resolved, that TFPA staff is authorized and directed to make an underwriting manual amendment filing with TDI to require MSB or equivalent property value calculations at policy renewals that coincide with requalification for insurance eligibility.

## 9. Claims

### 9A. Claims Operations – Overview



# TFPA Claims Operations 2021

TFPA Claims - 2021 Results (through Q3)					
Key Cycle Times (In days)	Industry Average, TX	TFPA	TFPA Plan	Variance to Plan	% Variance to Plan
FNOL to Inspect Property	5.8	3.5	<3	0.5	17%
Inspect Property to Receipt by TFPA	3.6	2.2	<8	-5.8	-73%
Total Cycle Time FNOL to Payment	N/A	12.1	<12	0.1	1%
<b>TDI Complaint Ratio</b>					
2020	0.09% - 5 complaints from 5,645 new claims				
2021	0.17% - 15 complaints from 8,609 new claims				

Year	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Actual Volume	647	521	579	378	266	323	313	3717	1,488	517	513	484	418	330	829
Actuarial Projected	277	273	269	354	262	258	369	220	219	727	724	331	329	470	610
Staffing Plan	286	286	286	286	286	286	342	342	342	342	342	342	342	342	342
Open Inventory	691	1,332	1,237	1,128	1,098	1,126	1,091	3,084	1,519	1,246	1,244	1,134	1,072	934	1,318

## 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
2017	282	-	119	-	271	-	960	-	20,251	-	22,284	-
2018	211	-25.2%	114	-4.2%	184	-32.1%	1,007	4.9%	2,933	-85.5%	4,778	-78.6%
2019	232	10.0%	81	-28.9%	156	-15.2%	727	-27.8%	4,942	68.5%	6,495	35.9%
2020	113	-51.3%	90	11.1%	109	-30.1%	622	-14.4%	3,575	-27.7%	4,935	-24.0%
2021	109	-3.5%	49	-45.6%	55	-49.5%	474	-23.8%	2,282	-36.2%	7,937	60.8%

### Incurred Amounts by Peril

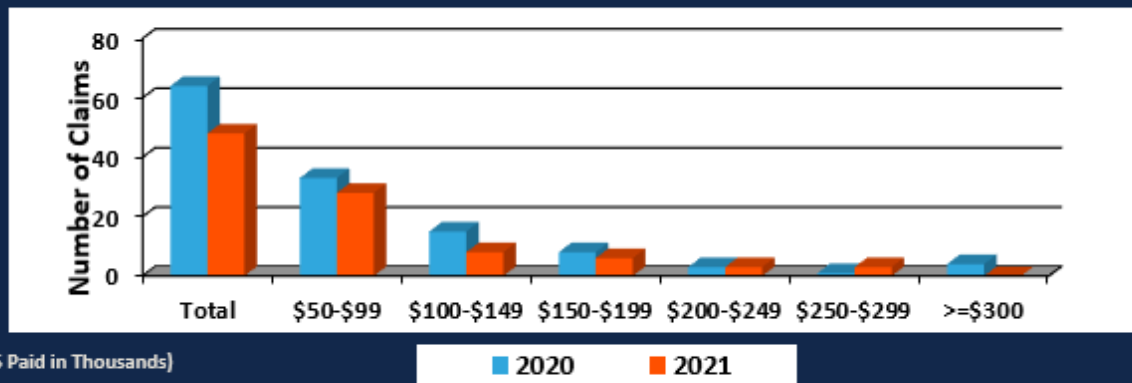
Year	Fire		Liability		Theft		Water		Wind / Hail		All Perils	
	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ	Incurred	% Δ
2017	\$11,533,193	-	\$1,023,968	-	\$628,257	-	\$906,433	-	\$50,686,166	-	\$65,420,144	-
2018	\$9,524,538	-17.4%	\$536,762	-47.6%	\$512,246	-18.5%	\$967,647	6.8%	\$8,941,099	-82.4%	\$21,058,407	-67.8%
2019	\$9,748,151	2.3%	\$567,045	5.6%	\$395,911	-22.7%	\$551,611	-43.0%	\$20,649,983	131.0%	\$32,504,898	54.4%
2020	\$5,805,342	-40.4%	\$650,149	14.7%	\$201,930	-49.0%	\$472,022	-14.4%	\$14,703,079	-28.8%	\$24,663,086	-24.1%
2021	\$6,452,276	11.1%	\$31,209	-95.2%	\$59,957	-70.3%	\$3,381,097	616.3%	\$5,890,859	-59.9%	\$16,909,035	-31.4%

### 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
2017	\$40,898	-	\$8,605	-	\$2,318	-	\$944	-	\$2,503	-	\$2,936	-
2018	\$45,140	10.4%	\$4,708	-45.3%	\$2,784	20.1%	\$961	1.8%	\$3,048	21.8%	\$4,407	50.1%
2019	\$42,018	-6.9%	\$7,001	48.7%	\$2,538	-8.8%	\$759	-21.0%	\$4,178	37.1%	\$5,005	13.6%
2020	\$51,375	22.3%	\$7,224	3.2%	\$1,853	-27.0%	\$759	0.0%	\$4,113	-1.6%	\$4,998	-0.1%
2021	\$59,195	15.2%	\$637	-91.2%	\$1,090	-41.2%	\$7,133	840.0%	\$2,581	-37.2%	\$2,130	-57.4%

\*Case incurred amounts exclude loss adjustment expenses and IBNR reserves

## TFPA - Large Loss Based On Paid Indemnity



Date	Total	\$50-\$99	\$100-\$149	\$150-\$199	\$200-\$249	\$250-\$299	>=\$300
2020 (complete year)	55	31	11	7	3	1	2
Liability	9	2	4	1	0	0	2
2021 (year to date)	48	28	8	6	3	3	0
Liability	0	0	0	0	0	0	0
Variance	-16	-5	-7	-2	0	2	-4

## 2021 Hurricane Nicholas

TFPA Nicholas	As of 11/12/21
Claims	690
Open	130
Closed	560
% Closed	81.20%
Paid Indemnity	\$2,010,445
Paid Expenses	\$386,812

## 9B. Litigation Summary



## TFPA Litigation Tracking Activity

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### Litigation Quarter Summary Third Quarter 2021

3rd Quarter 2021	Summary of TFPA Claims in Suit						
		New		Settled		Closed	
		1st Party	3rd Party	1st Party	3rd Party	1st Party	3rd Party
	July	1	1	0	0	8	0
	August	3	0	0	0	15	0
	September	3	0	0	0	13	0
		7	1	0	0	36	0

3rd Quarter 2021	Summary of TFPA Claims with LORs						
		New		Settled		Closed	
		1st Party	3rd Party	1st Party	3rd Party	1st Party	3rd Party
	July	3	1	0	0	4	0
	August	13	3	0	0	14	4
	September	9	0	0	0	3	0
		25	4	0	0	21	4



## TFPA Claims Litigation September 2021

Sep-21	TFPA Claims in Suit						
		Beginning Inventory	New	Closed	Ending Inventory		
					1st Party	3rd Party	TOTAL
	Wind/Hail	137	3	(13)	127	0	127
	Other Perils	11	0	0	11	0	11
	Bodily Injury	4	0	0	0	4	4
	Property Damage	0	0	0	0	0	0
	TOTAL	152	3	(13)	138	4	142

Sep-21	TFPA Claims with LORs							
		Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory		
						1st Party	3rd Party	TOTAL
	Wind/Hail	55	6	(1)	(3)	57	0	57
	Other Perils	11	3	(2)	0	12	0	12
	Bodily Injury	1	0	0	0	0	1	1
	Property Damage	0	0	0	0	0	0	0
	TOTAL	67	9	(3)	(3)	69	1	70

Sep-21	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	138	4	69	1	212	0	0	0	0	0	212



TEXAS FAIR PLAN  
ASSOCIATION

Sep-21	TFPA Active Claims with Suits/LORs: Breakdown by Plaintiff Firm	
	Firm	Total
	Buzbee Law/Manuel Solis	66
	Manuel Solis, P.C.	55
	Dick Law Firm	30
	Daly & Black	9
	Lane Law Firm	8
	Buzbee Law Firm	4
	Chad T. Wilson Law Firm	4
	Zar Law Firm	4
	Arnold & Itkin LLP	2
	Cristobal Galindo Law	2
	Moss Legal Group	2
	Brasher Law Firm	2
	Omar Ochoa Law Firm	2
	Potts Law Firm	1
	Remaining 21 firms	21
	TOTAL	212



TEXAS FAIR PLAN  
ASSOCIATION

Sep-21	TFPA Active Claims with Suits/LORs: County of Loss Location			
	County	1st Party	3rd Party	Total
	Bexar	2	0	2
	Chambers	1	0	1
	Dallas	1	1	2
	El Paso	2	0	2
	Ft. Bend	9	0	9
	Galveston	2	1	3
	Harris	179	2	181
	Hidalgo	2	0	2
	Jasper	1	0	1
	Johnson	0	1	1
	Llano	1	0	1
	Maverick	1	0	1
	Montgomery	2	0	2
	Orange	2	0	2
	Tarrant	1	0	1
	Waller	1	0	1
	TOTAL	207	5	212

## 10. TFPA Operations

### 10A. IT System Enhancements





## MEMORANDUM

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DATE: December 6, 2021  
TO: John Polak, General Manager  
FROM: Camron Malik, CIO / VP IT  
RE: TFPA Information Technology status

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The TFPA implementation is in Production Support mode with the Systems Development/Production Support releases continuing with their monthly cadence. Various defect fixes and features for the business have been delivered with quality and timeliness. The Infrastructure and Operations team continues to support remote work with excellent quality. All technology support and projects are on-track.

## 10B. Communications Update

## MEMORANDUM

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DATE: November 17, 2021

TO: TFPA Governing Committee

FROM: Jennifer Armstrong, Vice President, Communications & Legislative Affairs

RE: Communications & Legislative Affairs Operational Highlights

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### **Legislative & Regulatory Affairs**

- a) Special Sessions: The Legislature met for three special sessions during the third quarter of 2021. We do not expect the Governor to call any further special sessions in 2021. The Governor's Call did not include Association-related issues for any of the three sessions, and legislators did not consider legislation impacting the Association during this period. Rep. Mayes Middleton (Galveston County) filed similar versions of legislation to require TWIA, and by default TFPA, to locate its headquarters in a Tier One or Tier Two coastal county in each of the three special sessions. Still, it was not referred to a committee nor did it receive any other consideration in any of the three sessions.
- b) TDI Activities: On September 7, Governor Abbott appointed Cassie Brown to be Commissioner of Insurance for a term running through February 1, 2023. TDI took the following action affecting FAIR Plan during the third quarter:
  - i. *Agency Branch Locations*: On July 12, the Department published changes to agent and adjuster license requirements in House Bill 4030, enacted earlier this year. In addition to license requirements, the bill no longer requires companies to report and register each agency branch location with TDI, which impacts the Association's agent registration process. Association staff implemented systems changes to adapt to this change in TDI processes.
- c) Most legislative and regulatory inquiries received during the third quarter, July 1 through September 30, 2021, were related to TWIA matters.

## 10C. Lease and Building Project



TEXAS WINDSTORM  
INSURANCE ASSOCIATION



TEXAS FAIR PLAN  
ASSOCIATION

# Lease Expense Authorization

December 7 & 8, 2021

TWIA Board Meeting

# Lease and Building Project Overview

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- The Associations' existing building lease expires December 31, 2022, and requires notification to the current landlord by December 27, 2021, in order to retain the right to renew.
- The expiring lease coupled with the COVID-19 pandemic provided the Association with an opportunity to evaluate business needs, successfully migrate to a hybrid work environment of remote workers and in-office staff and reduce the office footprint.
- The Association contracted with Cushman & Wakefield to serve as the real estate broker and help us align our business goals with our real estate footprint while maximizing market leverage.
- Cushman & Wakefield is also providing strategic consulting services including return to the office strategies, optimal office location search, property and project negotiation, and potential office reconfiguration and redesign criteria.

# Property Search and Market Analysis

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- To determine the required square footage for the hybrid environment, the Association worked with Cushman and Wakefield to conduct space needs assessments.
- Additional surveys were conducted to determine detailed space needs by department and assess employee and management sentiment.
- Based on the data collected Cushman and Wakefield surveyed the market and identified 42 properties.
- The list of properties was narrowed to 7 for property tours which resulted in 5 Requests for Proposals.
- After review of the submitted proposals, the list was further narrowed to 4 properties.
- The Association has selected a property based on economics and location and is prepared to enter final lease negotiations.

# Selected Property

- Moving to the selected property will reduce the Association's square footage by 21,194 square feet
- The Association's annual lease expense will be reduced by \$508,342
- For 2022, there will be an out-of-pocket expense of \$460,000 to cover expenses related to the move (e.g., generator move, phone and data cabling, building security system, etc.)
- A portion of the expense, \$299,000 will be included in the TWIA budget with \$161,000 allocated to the TFPA budget.

<i><b>Descriptions</b></i>	<i><b>Current Lease</b></i>	<i><b>Recommended</b></i>
Rentable Square Feet	52,650	31,456
Term (10 Years) Total Rent	Term Ends December 31, 2022	\$14,785,154
Average Annual Cost of Occupancy	\$1,881,711	\$1,373,369
Average Annual Costs per PSF including *Operating Expenses	\$35.74	\$43.66
	<b>2011 Rate for 10 Year Lease</b>	

*\*Operating Expenses (common area maintenance, taxes, insurance, and shared spaces utilities)*



# Expense Authorization

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- Board authorization is requested for the General Manager to incur the expenses associated with the lease and move.
- The goal is to fully execute a new lease by the December 27, 2021 “right to renew” notification deadline with the existing landlord. The urgency of this date is impacted by several factors:
  - If the Association does not notify the current Landlord by December 27, the first rights of renewal are lost.
  - The association will be in competition with everyone else interested in the current space which may result in losing negotiation leverage and worse terms.
  - Delays in lease signing could result in increased project expenses due to the time required for building permits, constructional materials shortages and other supply chain issues.
  - At least a full year is needed from the date the lease is signed for construction, installation and moving.

## 10D. Review/Approval of 2022 Budget



# Texas FAIR Plan Association

2022 Budget Summary to

Governing Committee

December 6, 2021

# 2021 Forecasted Income Statement w/ reconciliation to Workshop

(000's)

2

	A			B			C			D		E	
	For the twelve months ended December 31,									October Budget Workshop Forecast - 2021		Change Forecast 2021	
	Forecast - 2021			Budget - 2021			Variance - 2021						
1 Premiums Written:													
2 Direct	\$ 76,125	\$		\$ 68,437	\$		\$ 7,688		\$ 76,617	\$		(492)	
3 Ceded	(28,464)			(28,789)			325		(28,464)			0	
4 Net	47,661			39,648			8,013		48,152			(492)	
5 Premiums Earned:													
6 Direct	\$ 77,594	\$		\$ 72,995	\$		\$ 4,599		\$ 77,908	\$		(314)	
7 Ceded	(28,697)			(28,789)			93		(28,697)			0	
8 Net	48,897			44,206			4,692		49,211			(314)	
9 Deductions:													
10 Losses and LAE Incurred	36,494			25,983			10,511		34,622			1,871	
11 Operating Expenses	10,587			11,097			(510)		11,277			(690)	
12 Commission Expense	7,940			7,323			617		7,997			(57)	
13 Ceding commissions / brokerage	(673)			(689)			16		(673)			0	
14 Premium / Maintenance Tax	1,416			1,273			143		1,426			(10)	
15 Total Deductions	55,764			44,986			10,778		54,649			1,114	
16 Net Underwriting Gain or (Loss)	(6,866)			(780)			(6,086)		(5,438)			(1,429)	
17 Other Income or (Expense):													
18 Investment Income	3			19			(16)		3			0	
19 Investment Expenses (LOC Fees)	(168)			(120)			(48)		(165)			(3)	
20 Sales Tax Refund and Other Income (Expense)	0			0			0		0			0	
21 Member Assessment Income	0			0			0		0			0	
22 Charge off's /Write off	(361)			(309)			(52)		(368)			8	
23 Billing Fees	315			182			133		298			17	
24 Total Other Income or (Expense)	(212)			(228)			16		(233)			22	
25 Net Income (Loss)	\$ (7,078)	\$		(1,008)	\$		(6,069)		\$ (5,671)	\$		(1,407)	

Note: Forecast (Col A) now reflects January to October 2021 actual amounts and estimates for November & December

Slightly lower written and earned premiums than previous forecast.

Losses and LAE are \$10.5 million over budget due to winter storm Uri and of Hurricane Nicholas.

Operating expenses declined \$690,000 from previous estimate for year end 2021.

Net loss of \$7.1 million forecasted for 2021

# 2021 Revised Forecast – Expense Summary

(000's)

	A	B	C	D	E	
	-	-	-	October Budget		
	Forecast - 2021	Budget - 2021	Variance - 2021	Workshop	Change	
				Forecast - 2021	Forecast 2021	
1 Personnel Expenses						1
2 Salaries & Wages - Permanent	5,727	5,058	669	6,023	(296)	2
3 Contractor & Temporary Help	2,149	1,409	739	1,813	336	3
4 Payroll Taxes	406	386	19	441	(35)	4
5 Employee Benefits	2,057	1,752	305	2,152	(95)	5
6 Recruiting, Training & Other	16	108	(92)	61	(45)	6
7 Subtotal	10,354	8,714	1,640	10,490	(136)	7
8						8
9 Professional & Consulting Services						9
10 Legal	120	139	(19)	119	1	10
11 Accounting & Auditing	63	76	(13)	68	(5)	11
12 Information Technology	83	230	(146)	142	(59)	12
13 Actuarial Services	23	20	3	23	0	13
14 Surveys & Inspections	410	546	(136)	446	(36)	14
15 Disaster Recovery Services	110	143	(33)	126	(16)	15
16 Other Services	1,347	1,285	62	1,395	(48)	16
17 Subtotal	2,157	2,438	(282)	2,319	(162)	17
18						18
19 Hardware/Software Purchases & Licensing	1,253	1,375	(122)	1,336	(83)	19
20 Rental & Maintenance - Office/Equipment	671	703	(31)	688	(17)	20
21 Travel Expenses	28	70	(42)	50	(22)	21
22 Postage, Telephone and Express	461	517	(56)	479	(18)	22
23 Capital Management Expenses	168	200	(32)	165	3	23
24 Other Operating Expenses	436	604	(168)	498	(62)	24
25 Gross Operating Expenses	15,528	14,621	908	16,026	(498)	25
26						26
27 Capitalization of Fixed Assets	0	0	0	0	0	27
28 Allocation To ULAE	(4,773)	(3,324)	(1,449)	(4,583)	(190)	28
29 Allocation To Investing	(168)	(200)	32	(165)	(3)	29
30 Net Operating Expense	10,587	11,097	(510)	11,277	(690)	30

Contract adjustors for Hurricane Nicholas.

# TFPA 2022 Budget - Income Statement w/ reconciliation to Workshop

(000's)

	A	B	C	
	Budget - 2022	October Budget Workshop Budget - 2022	Change Budget 2022	
1 Premiums Written:				1
2 Direct	\$ 72,770	\$ 73,899	\$ (1,129)	2
3 Ceded	(27,464)	(27,640)	176	3
4 Net	45,306	46,259	(953)	4
5 Premiums Earned:				5
6 Direct	\$ 75,005	\$ 76,150	\$ (1,145)	6
7 Ceded	(27,964)	(28,052)	88	7
8 Net	47,041	48,098	(1,057)	8
9 Deductions:				9
10 Losses and LAE Incurred	26,663	27,069	(407)	10
11 Operating Expenses	12,111	11,860	251	11
12 Commission Expense	7,604	7,722	(118)	12
13 Ceding commissions / brokerage	(623)	(632)	9	13
14 Premium / Maintenance Tax	1,354	1,375	(21)	14
15 Total Deductions	47,108	47,395	(286)	15
16 Net Underwriting Gain or (Loss)	(67)	703	(771)	16
17 Other Income or (Expense):				17
18 Investment Income	3	4	(0)	18
19 Investment Expenses (LOC Fees)	(91)	(91)	0	19
20 Sales Tax Refund and Other Income (Expense)	0	0	0	20
21 Member Assessment Income	0	0	0	21
22 Charge off's /Write off	(330)	(334)	4	22
23 Billing Fees	363	369	(6)	23
24 Total Other Income or (Expense)	(55)	(53)	(2)	24
25 Net Income (Loss)	\$ (122)	\$ 651	\$ (773)	25

Budgeted 2022 written and earned premiums declined due to lower than forecasted actual exposures for July – October 2021.

Losses and LAE were adjusted for premium changes.  
Budgeted 2022 operating expenses increased by \$251,000 over the previous October version. A separate detail of operating expenses is provided.

Commissions and Premium related taxes declined with the reduction in budgeted written premium.

Budgeted net loss in 2022 of \$122,000.

# 2022 Budget – Expense Summary (000's)

	A	B	C	
	Budget - 2022	October Budget Workshop Budget - 2022	Change Budget 2022	
1 Personnel Expenses				1
2 Salaries & Wages - Permanent	6,492	6,450	42	2
3 Contractor & Temporary Help	1,178	934	244	3
4 Payroll Taxes	494	490	3	4
5 Employee Benefits	2,360	2,344	16	5
6 Recruiting, Training & Other	125	125	0	6
7 Subtotal	10,649	10,344	305	7
8				8
9 Professional & Consulting Services				9
10 Legal	126	126	0	10
11 Accounting & Auditing	122	98	25	11
12 Information Technology	209	209	0	12
13 Actuarial Services	24	24	0	13
14 Surveys & Inspections	375	375	0	14
15 Disaster Recovery Services	115	101	15	15
16 Other Services	1,218	1,218	0	16
17 Subtotal	2,190	2,151	39	17
18				18
19 Hardware/Software Purchases & Licensing	1,363	1,339	25	19
20 Rental & Maintenance - Office/Equipment	862	701	161	20
21 Travel Expenses	78	78	0	21
22 Postage, Telephone and Express	489	489	0	22
23 Capital Management Expenses	91	91	0	23
24 Other Operating Expenses	663	663	0	24
25 Gross Operating Expenses	16,385	15,855	530	25
26				26
27 Capitalization of Fixed Assets	0	0	0	27
28 Allocation To ULAE	(4,183)	(3,903)	(279)	28
29 Allocation To Investing	(91)	(91)	0	29
30 Net Operating Expense	12,111	11,860	251	30

Claims examiners for Hurricane Nicholas and short -term contractor in Communications & Legislative Affairs

Professional Services associated with initial implementation of budgeting, forecasting & financial reporting software

Colocation of Austin data center

Budgeting & reporting software, IT Avaya maintenance & upgrade  
Projected relocation expense

Increase in 2022 gross budgeted expenses from previous version

Increase in 2022 net budgeted expenses from previous version

# 2022 Budget – Surplus and Key Ratios

(000's)

	A	B	C	
	Budget - 2022	October Budget Workshop Budget - 2022	Change Budget 2022	
1 Surplus (Deficit) Account:				1
2 Beginning Surplus (Deficit)	(927)	249	(1,176)	2
3 Net Income (Loss)	(122)	651	(773)	3
4 Change in Provision for Reinsurance	0	0	0	4
5 Change in nonadmitted assets	55	(168)	223	5
6 Ending Surplus (Deficit)	\$ (994)	\$ 732	\$ (1,726)	6
7 Key Operating Ratios:				7
8 Direct:				8
9 Loss & LAE Ratio	35.5%	35.5%	0.0%	9
10 UW Expense Ratio:				10
11 Acquisition	12.3%	12.3%	0.0%	11
12 Non Acquisition	16.1%	15.6%	0.6%	12
13 UW Expense Ratio	28.5%	27.9%	0.6%	13
14 Direct Combined Ratio	64.0%	63.4%	0.6%	14
15				15
16 Net Combined Ratio	107.7%	105.9%	1.8%	16



# 2022 Budget – Final

(000's)

A	B C D E			
	For the twelve months ended December 31,			
	Forecast - 2021	Budget - 2021	Variance - 2021	Budget - 2022
1 <b>Premiums Written:</b>				
2 Direct	\$ 76,125	\$ 68,437	\$ 7,688	\$ 72,770
3 Ceded	(28,464)	(28,789)	325	(27,464)
4 Net	47,661	39,648	8,013	45,306
5 <b>Premiums Earned:</b>				
6 Direct	\$ 77,594	\$ 72,995	\$ 4,599	\$ 75,005
7 Ceded	(28,697)	(28,789)	93	(27,964)
8 Net	48,897	44,206	4,692	47,041
9 <b>Deductions:</b>				
10 Losses and LAE Incurred	36,494	25,983	10,511	26,663
11 Operating Expenses	10,587	11,097	(510)	12,111
12 Commission Expense	7,940	7,323	617	7,604
13 Ceding commissions / brokerage	(673)	(689)	16	(623)
14 Premium / Maintenance Tax	1,416	1,273	143	1,354
15 Total Deductions	55,764	44,986	10,778	47,108
16 <b>Net Underwriting Gain or (Loss)</b>	(6,866)	(780)	(6,086)	(67)
17 <b>Other Income or (Expense):</b>				
18 Investment Income	3	19	(16)	3
19 Investment Expenses (LOC Fees)	(168)	(120)	(48)	(91)
20 Sales Tax Refund and Other Income (Expense)	0	0	0	0
21 Member Assessment Income	0	0	0	0
22 Charge off's /Write off	(361)	(309)	(52)	(330)
23 Billing Fees	315	182	133	363
24 Total Other Income or (Expense)	(212)	(228)	16	(55)
25 <b>Net Income (Loss)</b>	\$ (7,078)	\$ (1,008)	\$ (6,069)	\$ (122)

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Questions ?

## 10E. TWIA Reinsurance Broker RFP

## 14. Future Meetings

February 21, 2022 – Hyatt  
Regency Austin (or Coastal  
Location)

May 16, 2021 - Hyatt  
Regency Austin (or Coastal  
Location)

August 2022 – TBD