

- SUBJECT:** Freezing TWIA policy rates, changing funding structure
- COMMITTEE:** Insurance — committee substitute recommended
- VOTE:** 7 ayes — Lucio, Oliverson, G. Bonnen, Julie Johnson, Paul, C. Turner, Vo
- 1 nay — Lambert
- 1 absent — S. Davis
- WITNESSES:** For — (*Registered, but did not testify:* Jay Thompson, AFACT; Sally Bakko, City of Galveston; Ryan Brannan, Coastal Windstorm Insurance Coalition)
- Against — Joe Woods, American Property Casualty Insurance Association; Paul Martin, National Association of Mutual Insurance Companies; Beaman Floyd, Texas Coalition for Affordable Insurance Solutions (*Registered, but did not testify:* John Marlow, Chubb)
- On — (*Registered, but did not testify:* Brian Ryder, Texas Department of Insurance; John Polak, Texas Windstorm Insurance Agency)
- DIGEST:** CSHB 4534 would temporarily prohibit the Texas Windstorm Insurance Association (TWIA) from raising rates without approval, would make certain changes to TWIA's funding structure and board processes, and would create an oversight board to study and report on TWIA's funding and funding structure.
- Rate freeze.** The bill would remove TWIA's authority to raise policyholder rates without prior approval from the commissioner of the Department of Insurance (TDI) beginning December 1, 2019. That authority would be re-established September 1, 2021.
- Funding changes.** The bill would prohibit TWIA from paying insured losses and operating expenses resulting from an occurrence or series of

occurrences in a catastrophe year with premium and other revenue earned in a subsequent year. TWIA would be required annually to pay to the catastrophe reserve trust fund (CRTF) 20 percent of the association's net earned premium.

For losses resulting from an occurrence or series of occurrences in a catastrophe year in excess of premium and other revenue for TWIA for that catastrophe year, TWIA would be limited to paying from reserves and CRTF funds that were available before or accrued during that catastrophe year. Proceeds of any public securities issued or assessments made before or as a result of occurrences in a catastrophe year that resulted in insured losses could not be included in reserves available for a subsequent catastrophe year.

If the final estimate of losses for occurrences indicated member insurers could be subject to an assessment to pay excess losses, the board of directors would have to call an emergency meeting of TWIA members to notify them.

Funding oversight board. The bill would create a windstorm insurance legislative funding and funding structure oversight board composed of members of the Legislature, as specified in the bill.

The oversight board would be required to gather information on how TWIA's funding and funding structure operate, how the catastrophic risk pools of other states operate, and other necessary information. The board would hold public meetings to hear testimony from experts, stakeholders, and other interested parties on recommendations and proposals for sustainable funding and a sustainable funding structure.

The oversight board could request reports and other information from TDI, TWIA, and experts, stakeholders, and other interested parties.

It would have to prepare a report that included:

- an analysis of the current funding, funding structure, and

- sustainability of the association, including the association's reliance on debt and reinsurance; and
- recommendations for legislative action necessary to address problems with the current funding and funding structure of the association and foster the stability and sustainability of the association.

The bill would require the board to deliver the report to the governor, the lieutenant governor, and House speaker no later than November 15, 2020.

Provisions of the bill related to the oversight board would expire September 1, 2021.

As soon as practicable after the effective date, TWIA would be required to propose to the insurance commissioner amendments to TWIA's plan of operation to be effective before the hurricane season of 2020 as necessary to implement the bill's provisions.

The bill would take effect December 1, 2019.

**SUPPORTERS
SAY:**

CSHB 4534 would provide important reforms to the funding structure of the Texas Windstorm Insurance Association (TWIA) that would strike a better cost-sharing balance between coastal residents and private insurance companies. TWIA's rates have been increasing regularly for the past two decades, with another increase expected in the wake of Hurricane Harvey. The bill's two-year moratorium on TWIA rate increases would help coastal communities manage the insurance cost burden they face as they attempt to recover from the hurricane.

The bill's prohibition on TWIA using a current year's premiums to pay for previous years' losses would return TWIA to its intended funding structure.

The creation of a funding oversight board would give the Legislature a chance to study the rate issue and work with insurance companies to create solutions.

OPPONENTS
SAY:

CSHB 4534's prohibition on raising rates could further hurt TWIA, which already is underfunded, and would increase the burden imposed on inland insurance policyholders for the costs of coastal windstorm insurance. Current funding structures more fairly distribute the financial responsibility among policyholders, and inland Texans should not have to subsidize coastal homes and businesses.