

## **BILL ANALYSIS**

C.S.H.B. 4534  
By: Lucio III  
Insurance  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Before Hurricane Harvey hit the Texas coast in 2017, the catastrophe reserve trust fund, the first layer of funding for the Texas Windstorm Insurance Association (TWIA), reportedly contained approximately \$800 million. However, it is noted that the fund was completely depleted to pay claims resulting from the hurricane, and those concerned with TWIA's financial stability emphasize the critical need to protect the fund. C.S.H.B. 4534 seeks to offer this protection by, among other things, providing for an annual payment to the trust fund of 20 percent of net earned premium, providing for temporarily revised circumstances regarding certain filed rates, requiring proposed amendments to the TWIA plan of operation to be effective before the hurricane season of 2020, and establishing a legislative funding and funding structure oversight board.

### **CRIMINAL JUSTICE IMPACT**

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

C.S.H.B. 4534 amends the Insurance Code to prohibit the Texas Windstorm Insurance Association (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. The bill revises provisions regarding the source of available payments and certain prohibited assessments to reflect the bill's prohibition.

C.S.H.B. 4534 requires the board of directors of TWIA to call an emergency meeting of the members of TWIA to notify the members if the final estimate of losses for an occurrence or series of occurrences made by the chief financial officer or chief actuary of TWIA indicates member insurers may be subject to an assessment under provisions relating to payment of losses.

C.S.H.B. 4534 temporarily limits the applicably filed rate that TWIA may use without prior commissioner of insurance approval to a rate that:

- does not exceed the rate in effect on the date on which the filing is made; and
- does not reflect a rate for an individual rating class that is higher than the rate in effect for that rating class on such a date.

C.S.H.B. 4534, effective September 1, 2021, removes those limitations and reauthorizes TWIA to use a rate that:

- does not exceed 105 percent of the rate in effect on the date on which the filing is made;

and

- does not reflect a rate change for an individual rating class that is 10 percent higher than the rate in effect for that class on such a date.

C.S.H.B. 4534 requires TWIA to annually pay to the catastrophe reserve trust fund 20 percent of net earned premium of TWIA.

C.S.H.B. 4534 establishes the windstorm insurance legislative funding and funding structure oversight board composed of four members of the senate appointed by the lieutenant governor and four members of the house of representatives appointed by the speaker of the house of representatives. The bill requires the board to hold public meetings in order to hear testimony from interested parties regarding recommendations and proposals for establishing and implementing sustainable funding and a sustainable funding structure for TWIA.

C.S.H.B. 4534 requires the oversight board to gather information regarding how TWIA's current funding and funding structure operate, how the catastrophic risk pools of other states operate, and other information that the board considers necessary to prepare the report required by the bill. The bill authorizes the board to request necessary information from the Texas Department of Insurance, TWIA, and other interested parties.

C.S.H.B. 4534 requires the oversight board to prepare a report of the board's findings regarding the current funding and funding structure of TWIA, problems with the funding and funding structure, and recommendations for legislative action relating to the funding, funding structure, and sustainability of the association. The bill sets out required components of the report and requires the board to deliver the report to the governor, lieutenant governor and speaker of the house of representatives not later than November 15, 2020. The bill's provisions regarding the oversight board expire September 1, 2021.

C.S.H.B. 4534 requires TWIA, through the board of directors of TWIA, to propose to the commissioner of insurance amendments to the TWIA plan of operation to be effective before the hurricane season of 2020.

### **EFFECTIVE DATE**

Except as otherwise provided, December 1, 2019.

### **COMPARISON OF ORIGINAL AND SUBSTITUTE**

While C.S.H.B. 4534 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute does not include any provisions from the original, which set out a requirement for TWIA to maintain reinsurance or an alternate risk financing mechanism if the balance of the catastrophe reserve trust fund is less than \$500 million.