

STATUS OF THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION



STATUS REPORT FOR 2012

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I. Executive Summary

A. Overview of 2012 Hurricane Season

- Some described the 2012 Atlantic Hurricane Season as “weak.”¹ However, 2012 weather events had a meaningful impact on citizens, businesses, and the insurance industry. According to AccuWeather.com, 2012 produced 19 named storms, with 10 classified as hurricanes, and 1 classified as a major hurricane (Category 3 or higher). Hurricane Michael was the only major hurricane in 2012, but it did not make landfall. This marks the seventh straight year that a major hurricane has not made landfall in the U.S., a first since the National Hurricane Center began keeping records in 1851.¹ Although Hurricane Sandy/Superstorm Sandy was not classified as a major hurricane, it could rank as the second costliest storm in U. S. history. Hurricane Sandy/Superstorm Sandy is an example of the damage that a storm, not classified as a major hurricane, can cause to an area with a high concentration of loss exposures.

AccuWeather.com reported the following statistics for the 2012 Atlantic Hurricane Season:

- 19 named storms made it the third most active year, tying Atlantic Hurricane Seasons 2011, 2010, 1995, and 1887,
- Only 4 named storms made landfall in the U.S., and Hurricane Sandy/Superstorm Sandy was the costliest storm of the season with developing loss estimates in excess of \$60 billion.

Although South Carolina did not have direct hurricane activity in 2012, wind catastrophes can occur in the absence of hurricanes. In South Carolina during 2012 there were 802 reports of severe weather events (tornados, hail, and wind), which was down from 1,080 in 2011, but up 12% from the trailing ten year average. These events resulted in significant insurance losses impacting both the availability and prices of property insurance coverage. In

¹ “Weak Hurricane Season Still Racks Up Startling Numbers,” *The State*, November 30, 2012, B6.

contrast, severe weather events for the entire U.S. were down 18.1% in 2012 from the trailing ten year average.²

USA Today reports that 2012 will likely be the second costliest year for weather disasters in U.S. history although it lacked serious hurricane landfalls.³

B. Background

The Omnibus Coastal Property Insurance Reform Act of 2007 (Omnibus Act) established numerous initiatives, including a provision that requires the Director of Insurance (Director) to submit an annual report to the President *Pro Tempore* of the Senate and to the Speaker of the House of Representatives on the status of the South Carolina Wind and Hail Underwriting Association (SCWHUA). These provisions state, in pertinent part:

The Director must submit a report to the President *Pro Tempore* of the South Carolina Senate and the Speaker of the House of Representatives by no later than January thirty-first of each year regarding the status of the South Carolina Wind and Hail Underwriting Association, including any recommended modifications to statutory or regulatory law regarding the operation of the South Carolina Wind and Hail Underwriting Association and its territory.

This report is submitted in accordance with the requirements of S.C. Code of Laws Section 38-3-110(5). It examines the status of the SCWHUA specifically and the coastal property insurance marketplace generally through 2011.

C. Status of the South Carolina Coastal Property Insurance Market

In preparing this report, the South Carolina Department of Insurance (SCDOI) relied upon information obtained from the SCWHUA, an insurer data call, and consumer complaints. Each source suggests that the coastal property insurance market is stable. The SCWHUA has seen a

² “Annual Severe Weather Report Summary,” spc.noaa.gov, January 22, 2013.

³ “2012 Likely Second-Costliest Year For Weather Disasters,” USAToday.com December 20, 2012.

decrease in the number of policies and insured values. These decreases occurred in both personal and commercial lines of insurance. Additionally, data gathered for 2011 and 2012 via the insurer data call shows that policy counts are relatively consistent. Finally, anecdotal information from the SCDOI's Consumer Services Division indicates that consumer complaints have dropped significantly since the 2007 SCWHUA territorial expansion.

Due in large part to the past and on-going efforts of the legislature and the SCDOI, including the expansion of the SCWHUA territory and industry outreach, the coastal property insurance market appears to be stable. There is enhanced availability of coverage in the traditional market, somewhat evidenced by the fact that the number of policies written by the SCWHUA has actually decreased slightly (see Chart 3, pg. 17). Additionally, the top five property insurers have seen their market shares decrease which generally indicates increased competition in the marketplace. The concentration in the market is decreasing modestly, and there is less reliance upon the market of last resort. Finally, the insurers that write property insurance on an Excess and Surplus basis are insuring more risks on the coast. Additional recommendations which the SCDOI feels will continue to improve the market, are included in this report *Will include language re MAP program further along on the document-AR*

II. South Carolina Wind and Hail Underwriting Association

A. Overview of South Carolina's Property Residual Market

The SCWHUA is a residual market mechanism.⁴ States create residual market mechanisms to assure the availability of essential property insurance coverage. Residual markets are necessary when the voluntary market is unwilling or unable to write all of the insurance needed by consumers. Residual markets are intended to supplement the private market, not to compete with or displace it. Rates in the residual market are generally higher than in the voluntary market, both because of the higher costs typically associated with risks in residual markets and to avoid competition with the voluntary market. The SCWHUA is not intended to offer rates that are competitive with the admitted market according to South Carolina law.⁵ Furthermore, rates for SCWHUA issued policies must be adequate and established at a level that allows the SCWHUA to operate as a self-sustaining mechanism.⁶

B. The SCWHUA

1. General Overview

South Carolina's General Assembly authorized the SCWHUA's creation in 1971. The SCWHUA assures an adequate market for wind and hail insurance South Carolina's coastal areas.⁷ All admitted property insurance companies licensed by the SCDOI are members of and required to participate in the SCWHUA.⁸

Insurers must include wind coverage in all property insurance policies issued outside of the SCWHUA territory. Insurance companies writing policies in the defined SCWHUA territory may either offer wind coverage or exclude wind coverage. If an insurer elects to exclude wind coverage, then that coverage may be written by the SCWHUA. As a result, the consumer will

⁴ S.C. Code Ann. § 38-75-330(A) (2002).

⁵ S.C. Code Ann. § 38-75-400(B) (2002).

⁶ *Id.*

⁷ S.C. Code Ann. § 38-75-320 (2002).

⁸ S.C. Code Ann. § 38-75-330(B) (2002).

have a wind insurance policy with the SCWHUA and a separate insurance policy with a voluntary insurer for all other property perils. In the event of a hurricane, the SCWHUA pays the losses covered under its policies. If those losses exceed the SCWHUA's funds, all admitted property insurance companies are assessed for the difference based upon their market share in the state.⁹

The SCWHUA purchases reinsurance to limit the need to assess member companies. By minimizing insurer assessments, the SCWHUA protects consumers and the overall health of the coastal property insurance marketplace. Insurer assessments, if levied, are often passed on to the consumer in the rates charged for insurance coverage in the voluntary market. Insurer assessments also discourage insurers from writing coverage by increasing uncertainty, so minimizing the assessments promotes a healthy market.

2. Operation

The SCWHUA is an unincorporated association governed by a seventeen member Board of Directors (Board) and is not a part of the SCDOI. However, SCDOI regulates its rates, forms, and business plan. The SCWHUA submits rate, rule, plan of operation, and form change requests to the SCDOI for review and approval, like voluntary insurers. SCWHUA Board membership consists of two insurance producers, four consumer representatives, and eleven members of the insurance industry. An annual meeting is held in the state at a time and place determined by the Board. Special meetings may be held upon the call of the chairman of the Board or, in the event of his death or incapacity, upon the call of the vice chairman. Any eight members may request the chairman to call a meeting.

3. SCWHUA Reforms

There was a review of the SCWHUA after the 2004 and 2005 hurricane seasons. Following these back-to-back destructive seasons, states with coastal communities saw dramatic increases in their coastal exposures coupled with the predictions of continued above-average

⁹ S.C. Code Ann. § 38-75-370 (2002).

hurricane activity that resulted in the lack of affordable or available, in some cases, coastal property insurance coverage. Beginning in 2007, and continuing forward, there have been significant ongoing changes to the SCWHUA's operation. Some of the changes resulted from the South Carolina General Assembly's enactment of the Omnibus Act.¹⁰ Other changes resulted from coordinated efforts of the SCDOI and the SCWHUA to improve coverage availability and the efficiency of SCWHUA operations.

a. Expansion of the SCWHUA Territory

SCWHUA's most significant change took place in 2007 by expanding the territory in which it can write essential property insurance defined as "insurance against direct loss to property as defined in the wind and hail insurance policy and forms approved by the Director or his designee; and after January 1, 1995, at the request of the insured, coverage for (a) actual loss of business income; (b) additional living expense; or (c) fair rental value of loss."¹¹ It was temporarily expanded by orders of the Director, as detailed below, and was permanently expanded via the Omnibus Act to include areas where consumers were reporting difficulty obtaining coverage. The expansion took place under Order 2007-001 and Order 2007-003. The expansion noted in Order 2007-001 was later incorporated into state law. The expansion area covered by Order 2007-003 remains in the SCWHUA territory by order of the Director. In 2009, the Director issued Order 2009-001 to renew Order 2007-003. In 2011, the Director issued Order 2011-01 to renew the expansion for an additional two years.

Since Order 2011-01 expires on March 29, 2013, the SCDOI reviewed it in preparation to determine whether to renew the order for an additional two years. As part of its review process, the SCDOI asked the SCWHUA to provide input into the decision. The following points were noted:

- The SCWHUA has not received any inquiries requesting that there be further territorial expansion. The two expansion orders in 2007 addressed those consumers who were experiencing difficulties.

¹⁰ 2007 S.C. Act No. 78.

¹¹ S.C. Code Ann. § 38-75-310(1) (2007).

- SCWHUA staff reviewed the territory. It could not identify any areas within the territory where the SCWHUA does not currently have policies. Any effort to reduce the territory would result in consumers losing their coverage through the SCWHUA. It is believed that these consumers would find it difficult to find replacement coverage.
- The SCWHUA portfolio is currently decreasing. The SCWHUA staff believes that this indicates that the corresponding coastal market is also relatively stable. Part of the reason for this condition was the action taken by the SCDOI through Expansion Orders 1 and 2.
- The SCWHUA staff believes that insurance companies do not prefer to operate under conditions of uncertainty. The current status of the territory is well known to the member insurance companies. Insurers have not been contacting the SCWHUA asking for any changes in the territory. Continuation of the status quo reduces uncertainty and should continue to allow companies to view South Carolina in a positive manner.

Upon completion of the SCDOI's review, the Director will determine whether to renew the expansion. It would be effective for an additional two years, unless otherwise vacated or superseded by (1) a subsequent order of the Director¹² or (2) action of the South Carolina General Assembly.¹³

b. Deductibles

To limit exposure to catastrophic losses from hurricanes and other disasters, insurers typically require separate deductibles for these perils. These tend to be larger than deductibles for non-catastrophic perils and are commonly allowed by southeastern states, including South Carolina.

At SCDOI's request in 2009, the SCWHUA undertook an actuarial analysis of a request to change the manner in which deductibles are applied to losses covered by the SCWHUA.

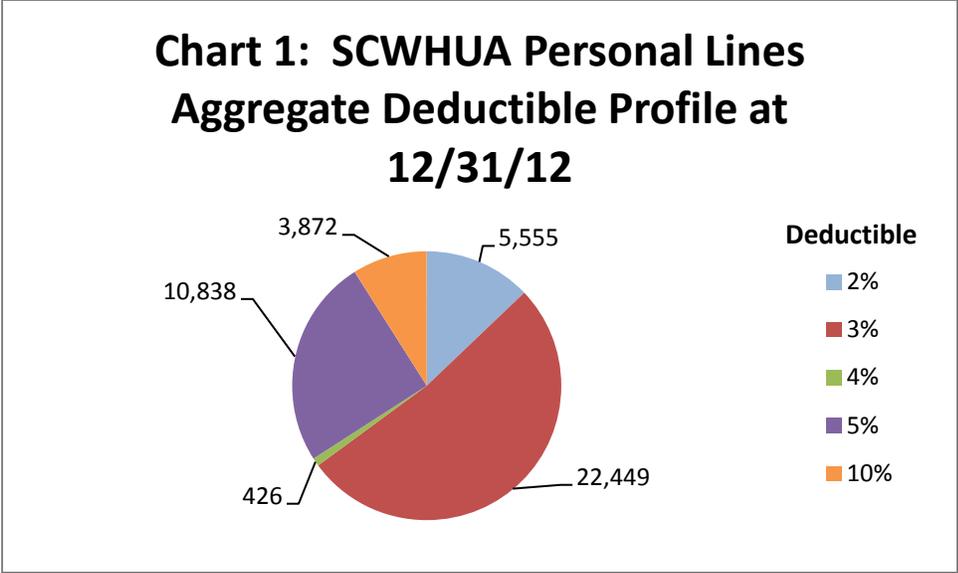
¹² S.C. Code Ann. § 38-75-460(A) (2007).

¹³ S.C. Code Ann. § 38-75-460(C)(4) (2007).

SCWHUA filed these changes and SCDOI approved them. In addition, SCDOI reviewed and approved the rates, forms, and rules implementing these changes. The changes were two-fold and include an aggregate and a non-named storm deductible:

- *Aggregate deductible.* The deductible that appears on the policy declaration page is now both an occurrence and a policy aggregate deductible. Once the aggregate deductible has been met, any further losses during the policy period would not be subject to a deductible. This means that, regardless of the number of named storms that occur within a policy period, the policyholder is only required to meet the aggregate deductible one time.
- *Non-Named Storm Deductible.* For events that are not classified as named storms by the National Hurricane Center, the deductible is reduced to 1%. This lower amount benefits consumers with larger deductibles. Any portion of a loss applicable to the 1% deductible will also be applied to the aggregate deductible.

With the implementation of this change for policies written effective February 1, 2009, or later, a full cycle of policies has been reached. For 100% of the SCWHUA policies that experienced wind losses during the 2012 year, routine claims were subject to the 1% non-named storm deductible. Policyholders may choose the amount of their aggregate deductible, as long as it meets the minimum deductible requirements that have been set for each zone. The standard minimum deductible is 3% for Zone 1 properties and 2% for Zone 2 properties. Personal lines policy counts by selected aggregate deductible as of December 31, 2012 is as follows:



c. Payment Assistance

The 2009 report provided information concerning an arrangement with SCWHUA and a premium finance company. As a part of its electronic application process, an insurance producer is able to link to a premium finance company in order to assist the consumer with financing the premium.

Since the 2010 report, an additional premium finance company has agreed to participate in this program. It has been added to the electronic application process. This offers the coastal consumer two options assisting with the financing of the premium. In addition to the electronic option, the coastal consumer can continue to use any other premium finance company on a manual basis. It therefore allows for additional financing options. The use of premium financing as of November 30, 2012, is as follows:

- 848 policies (2% of total policies) use eFinance via the SCWHUA website,
- 646 policies (1.5% of total policies) use a premium finance company other than through the web site, and
- 1,494 policies (3.5% of total policies) use some form of premium financing.

Many consumers finance their premiums through their mortgage companies. The SCWHUA wind policy premium is escrowed as a part of the monthly mortgage payment. Electronic transactions included in the 2009 report provided extensive information on eFeatures – the use of internet functions to assist insurance producers to better serve their clients. A number of internet options are currently available and listed below.

- The SCWHUA now accepts new and rewrite applications exclusively over the internet. This allows the system to pre-underwrite the application while the insurance producer is entering the information. It also allows for timely submission of the application to comply with the waiting period requirements.
- ePay – Starting January 1, 2012, all premium payments for new and rewrite business were required to be made via ePay. This allows for next day issuance of the policy when both the application and premium payment are submitted electronically. In addition, it prevents discrepancies such as premium underpaying or overpaying.
- eClaims – The storm office is equipped with an electronic claims system enabling losses to be reported in the event that a major storm is headed toward SC.

One of SCWHUA staff's major projects for 2010 was to review the catastrophe response plan. As part of the research which went into the analysis, the SCWHUA staff spent time with the Texas Windstorm Insurance Association's (TWIA) Claims Manager. In 2008, the TWIA was impacted by Hurricanes Dolly and Ike. While both storms were relatively minor hurricanes, the damage was significant.

Hurricane Ike, a category 2 storm, made landfall near Galveston and caused extensive damage. The SCWHUA staff questioned the TWIA Claims Manager on difficulties and challenges they experienced in the aftermath of the storm. Each of the issues raised were then analyzed further through a detailed planning process.

A key item from this effort was recognizing the need to have an established storm office. TWIA experienced great difficulties making their storm office operational and able to respond to consumer needs. As a result, the SCWHUA moved forward quickly and leased additional space. The space is furnished with over 20 work stations and two managers' offices and two conference rooms. It contains a new phone system with three incoming lines for each phone to allow for use of the phone while receiving two voice mails simultaneously. Along with phone service, the office is wired and has operational internet connections. Necessary office equipment such as copiers and printers are also available.

In addition, a contractual relationship was established with one of the existing adjusting firms used by the SCWHUA. They were removed from the catastrophe storm rotation and assigned the responsibility to assist in the examining and consumer service functions following a storm. Should a major storm be headed towards South Carolina, the storm office will be open and staffed in anticipation of potential losses. In the aftermath of a major event, the SCWHUA will implement its existing protocols to immediately assign all claims as received with contact by an independent adjuster within 24 hours. In addition, the storm office will also perform a follow-up contact with the insured to offer additional assistance and serve as a liaison/ombudsman in the event that the insured/claimant has issues which he or she cannot resolve or needs additional assistance.

The storm office along with the upgraded eClaims system will benefit consumers who experience losses. Consumers can report losses by:

- Reporting a claim to an insurance producer who can enter the claim over the Internet or fax the loss notice on the toll-free fax line,
- Call the 1-800 number and communicate the loss information to the Claims Call Center,
- Contact the storm office on toll-free numbers which will be published in the event of a storm, and
- Utilize the wallet card which contains claims information and is annually distributed to consumers.

Using its updated claims system, the SCWHUA automatically assigns the claim to the next available adjuster and post the loss notice, underwriting file, and other pertinent information on a secure website for the assigned adjusting firm. An email is immediately sent to the adjusting firm to letting them know that new assigned claims are waiting for their download. The SCWHUA staff monitors how quickly the claims are downloaded and when initial contact is made with the consumer.

d. Institute for Business and Home Safety

The Institute for Business and Home Safety (IBHS) has constructed a \$40 million, multi-peril research facility in Richburg, South Carolina. It works to produce mitigation efforts that result in property loss reduction and the promotion of human life safety. The covered perils include wind, water intrusion, hail, and wildfire. All of these perils have a direct impact on not only South Carolina coastal consumers but all South Carolinians who own property. The facility includes 105 fans which can create a category 3 hurricane inside the test chamber. It is the focal point for international research on loss mitigation and serves to enhance the economy of Chester County.

The SCWHUA is an active member of the IBHS. SCWHUA's Executive Director serves on the IBHS Board of Directors representing all property plans nationwide. In addition, the SCWHUA holds a permanent seat on the Research Advisory Council which oversees the research work that takes place at the facility. SCWHUA is pleased to help sponsor the research currently taking place, including the first realistic hailstorm testing events scheduled for early 2013.

e. SCWHUA Business

As of November 30, 2012, 76% of policies were written in Zone 1. Horry County remains the largest source of SCHWUA policies at 46% of the total number. Although Horry County has the most SCWHUA policies in-force, Beaufort County has the most exposure, as demonstrated by total insured limits. Beaufort County accounts for 32% of the SCWHUA's exposure.

Table 1: In-Force Personal and Commercial Policies as of 11/30/12 by Wind Pool Zone

Zone	County	Policy Count	Zone Distribution	In-Force Premiums	% of Premium	Insured Limits
1	Beaufort	8,606	88%	\$23,439,059	24%	\$4,581,257,829
1	Charleston	4,597	48%	\$16,778,962	17%	\$2,516,360,920
1	Colleton	1,070	100%	\$2,676,891	3%	\$399,569,080
1	Georgetown	2,489	73%	\$6,813,684	7%	\$1,049,831,457
1	Horry	16,687	82%	\$30,113,075	31%	\$4,064,922,450
	Total Zone 1	33,449	76%	\$79,821,671	83%	\$12,611,941,736
2	Beaufort	1,184	12%	\$1,847,823	2%	\$436,579,425
2	Charleston	5,059	52%	\$8,582,052	9%	\$1,573,652,067
2	Colleton	3	0%	\$3,578	0%	\$698,860
2	Georgetown	924	27%	\$1,398,876	1%	\$268,646,602
2	Horry	3,662	18%	\$4,418,076	5%	\$811,222,337
	Total Zone 2	10,832	24%	\$16,250,405	17%	\$3,090,799,291
	Grand Total	44,281	100%	\$96,072,076	100%	\$15,702,741,027

Source: SCWHUA

The following chart shows the difference between the previous chart and the SCWHUA book of business one year ago. .

Table 2: In-Force Personal and Commercial Policies Changes from 11/30/11 to 11/30/12

Zone	County	Policy Count	Policy Count % Change	In-Force Premiums	Insured Limits
1	Beaufort	-1,009	-10%	-\$1,710,334	-\$649,003,274
1	Charleston	-489	-10%	-\$640,702	-\$314,387,679
1	Colleton	-47	-4%	\$62,144	-\$23,107,071
1	Georgetown	-167	-6%	-\$24,350	-\$95,315,920
1	Horry	-1,090	-6%	\$315,631	-\$298,452,675
	Total Zone 1	-2,802	-8%	-\$1,997,611	-\$1,380,266,619
2	Beaufort	-80	-6%	-\$116,215	-\$27,673,058

2	Charleston	144	3%	\$365,977	\$30,605,785
2	Colleton	0	0%	-\$4,699	-\$913,940
2	Georgetown	24	3%	\$43,665	\$4,958,808
2	Horry	-39	-1%	\$44,477	-\$14,441,895
	Total Zone 2	49	0%	\$333,205	-\$7,464,300
<hr/>					
	Grand Total	-2,753	-6%	-\$1,664,406	-\$1,387,730,919

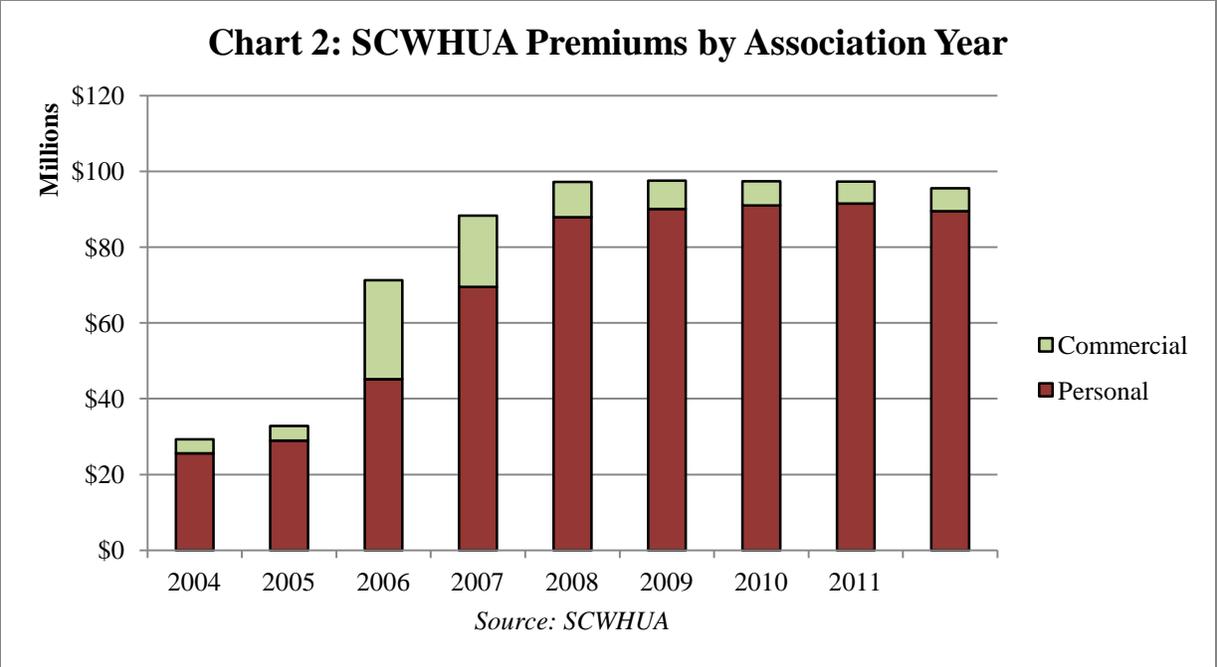
Source: SCWHUA

Zone 1 decreased in policy count by 2,802 policies. Horry and Beaufort Counties saw a decrease of over 1,000 policies each. The decrease in Beaufort County was 10% while the decrease in Horry was 6%. Overall, Zone 1 decreased by 8% in terms of policies. It also saw a corresponding decrease of almost \$2 million in written premiums with an exposure decrease of just under \$1.4 billion. In contrast, Zone 2 showed a slight increase in policies resulting in relatively small changes in both premiums and exposure.

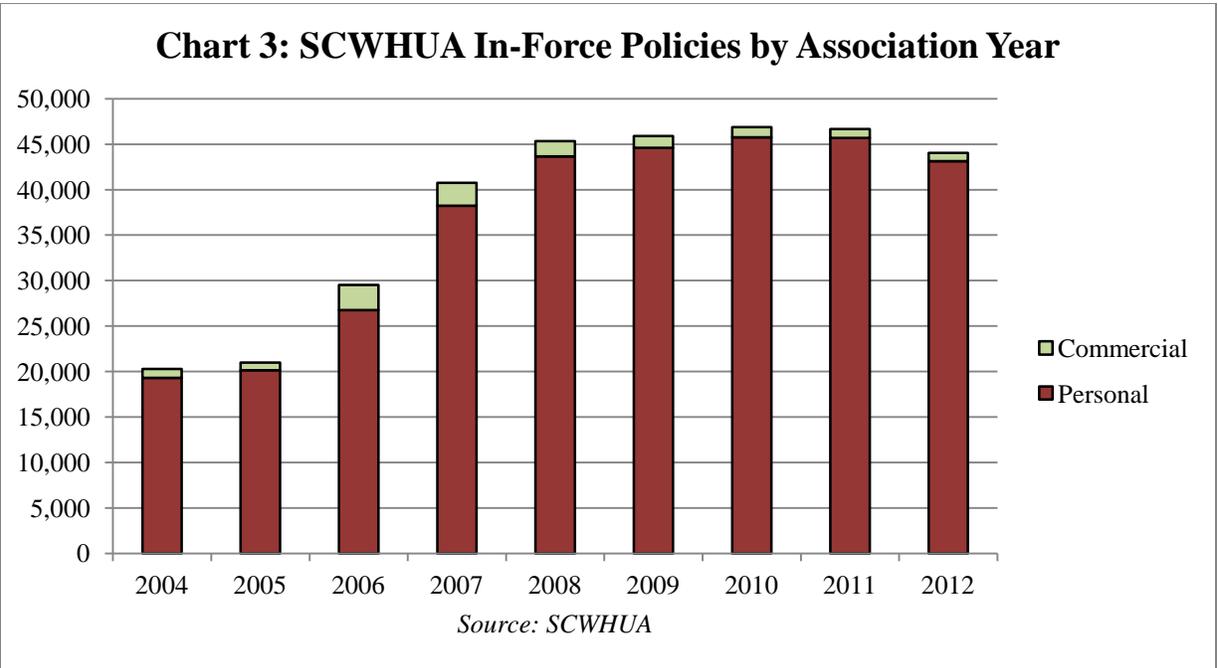
A stable residual market is an important sign of a stable market place. With an overall decrease in the SCWHUA of 2,753 policies for both zones, or 6%, this can be viewed as a positive sign for coastal consumers.

For the first time since 2006, the SCWHUA's commercial policy count is under 1,000 policies at 906 total policies. A significant portion of the commercial risks, 375, are contents only such as retail shops. This is a significant change from 2006-2007 when many of the risks were condo associations. The number of in-force condo association policies soared from 124 in 2005 to 1,404 in 2006 before falling to 641 in 2007 and then 190 in 2008. The SCWHUA had 113 condo association policies as of 12/31/12.

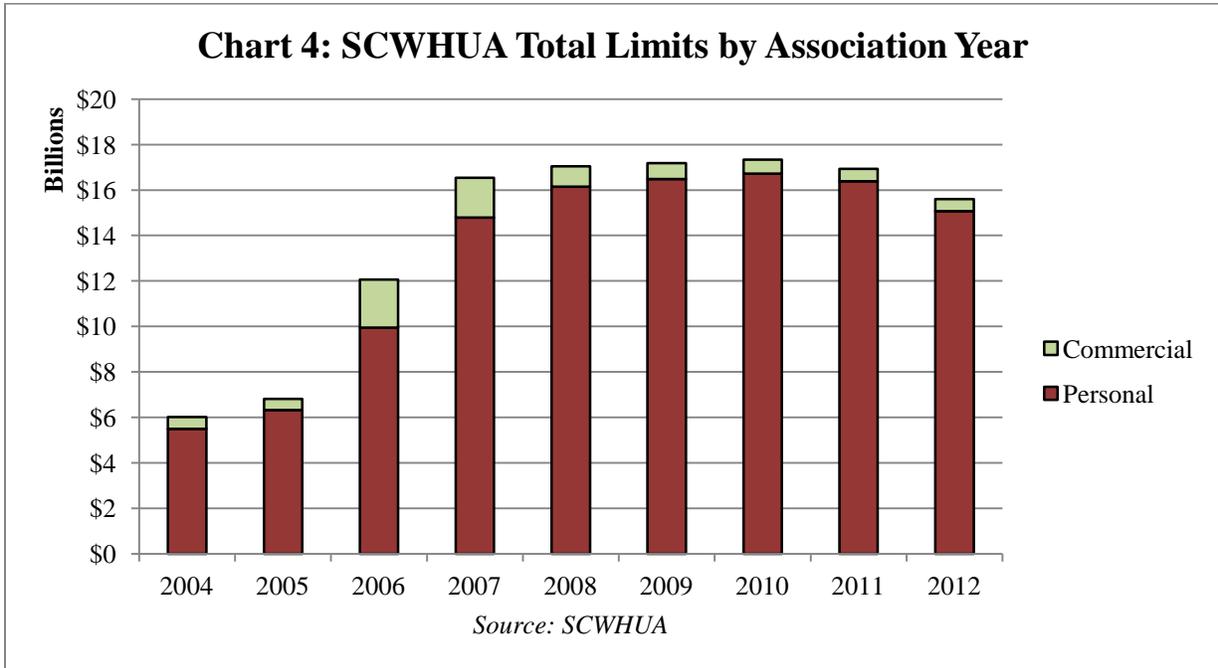
As illustrated in the chart below, the SCWHUA's in-force premiums have decreased slightly in each of the previous three years.



The next chart shows a decrease in the SCWHUA's number of in-force policies.



The SCWHUA's exposure has also seen a reduction in recent years; total insured limits peaked in 2010 but have decreased in the two years since.



Several key factors contribute to these recent decreases experienced by the SCWHUA:

- SCDOI's efforts to recruit insurers which are currently writing coastal business,
- An increasingly aggressive Excess and Surplus lines market which is even writing in Zone 1 on barrier islands, and
- Consumers are shopping for their insurance and finding better pricing and coverage.

III. Department of Insurance Data Call

In October 2007, the SCDOI issued an ongoing data call to all admitted carriers writing personal and commercial property insurance coverage in the SCWHUA territory.¹⁴ The data call's purpose is to evaluate the effect expansion had on the number of policies written "with wind" and "without wind" in the SCWHUA territory. To provide a comparative analysis, the SCDOI continues examining the data received, which now spans the months of January 2006 through September 2012. Companies that at any time beginning in 2006 have written more than \$1 million in annual South Carolina property insurance premiums for personal or commercial lines or both are required to respond to the data call.¹⁵ This report compiles data submissions from the first three quarters of 2012.

The requested data is broken down monthly between coverage that includes wind and coverage without wind. Each company provides this information for both the current and prior years. The two categories of data reported are:

1. Number of new policies written, and
2. Total number of policies in-force.

The data presented in this section differ from that in reports prior to 2011 by displaying only the current year's data call submissions as opposed to historical submissions. Due to new companies meeting the \$1 million threshold as well as carriers entering and exiting the market, the list of companies participating in the data call tends to change slightly each year.¹⁶ Therefore, in order to minimize any distortion, we believe it is most appropriate to focus on the changes between 2011 and 2012 in this year's report.

A. Personal Lines – Admitted Market

¹⁴ The data call does not include Excess and Surplus lines policy information.

¹⁵ Wind Pool Data Call Notice, October 8, 2007; Wind Pool Data Call Clarification Memorandum, October 23, 2007; Bulletin 2008-08, April 16, 2008; Bulletin 2009-14, August 7, 2009.

¹⁶ Carrier data submissions with clear data inconsistencies which could not be resolved were omitted.

There are 78 carriers reporting in 2012 as compared to 79 carriers reporting in 2011. These numbers vary as carriers reach the established premium threshold and as carriers enter or exit the market. The number of companies reporting has remained steady over the analysis period.

Table 3: Personal Lines Admitted Market New Policies Issued in SCWHUA Territory

9 Months Ending	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2011	8,442	4,147	12,589	67.1%	32.9%
Sep 2012	7,117	3,973	11,090	64.2%	35.8%
% Change	-15.7%	-4.2%	-11.9%		

Source: SC DOI Data Call

The total number of new policies issued by admitted carriers in the SCWHUA area decreased by almost 12% in 2012. This brings an end to the upward trend beginning in 2009 and is driven by the significant reduction in the number of new policies issued with wind. The percent of new policies written with wind coverage fell from 67% in 2011 to 64% in 2012.

Table 4: Personal Lines Admitted Market Policies In-Force in SCWHUA Territory

Month	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2011	71,191	39,520	110,711	64.3%	35.7%
Sep 2012	67,187	39,295	106,482	63.1%	36.9%
% Change	-5.6%	-0.6%	-3.8%		

Source: SC DOI Data Call

Since 2006, the total number of in-force personal policies in the SCWHUA area has decreased. This pattern continued in 2012 with the amount of total in-force policies written both with and without wind coverage decreasing. The percent of in-force policies written with wind remained virtually unchanged as it decreased by less than 1%.

B. Commercial Lines – Admitted Market

There are 83 carriers reporting data for 2012 as compared to 90 carriers reporting in 2011. The numbers will vary as carriers write more or less than the established threshold. Additionally, the numbers will change as the carriers enter and exit the market. The number of carriers reporting has remained fairly consistent over the analysis periods.

Table 5: Commercial Lines Admitted Market New Policies Issued in SCWHUA Territory

9 Months Ending	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2011	276	202	478	57.7%	42.3%
Sep 2012	268	209	477	56.2%	43.8%
% Change	-2.9%	3.5%	-0.2%		

Source: SC DOI Data Call

The values seen for new commercial policies issued are less volatile than those observed for personal policies. Fewer policies were written with wind coverage in 2012 than in 2011 while the number of policies written without wind increased from 2011 to 2012. The percent of new policies written with wind experienced only a slight decrease.

Table 6: Commercial Lines Admitted Market Policies In-Force in SCWHUA Territory

Month	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2011	2,853	1,730	4,583	62.3%	37.7%

Sep 2012	2,390	1,493	3,883	61.6%	38.4%
% Change	-16.2%	-13.7%	-15.3%		

Source: SC DOI Data Call

Total in-force commercial policies written with and without wind coverage both saw sharp decreases in excess of 13% from 2011 to 2012. The percent of total in-force policies written with wind dipped below 62% in 2012.

IV. Department of Insurance Outreach

The SCDOI has a responsibility to assist consumers with their insurance concerns. The SCDOI provides consumer information and assistance via the SCDOI website, written publications, phone and e-mail regarding all lines of insurance coverage that are dictated by statute. The SCDOI continues to update its website to provide information via a more intuitive navigation process. Additionally, the updated site will provide an interactive functionality component that will allow consumers more specific insurance information. The SCDOI's Market Assistance Program helps consumers that are having difficulty finding insurance coverage locate it. Through the assistance of the SCDOI's coastal consumer liaison and SC Safe Home staff, the SCDOI assists consumers in learning more about mitigation measures and credits, catastrophe savings accounts, and the SC Safe Home mitigation grant program. As a part of the SCDOI's overall communication plan for 2012, it created a public service announcement complemented by a state-wide advertising campaign utilizing grant programs through the SC Broadcasters Association and the Outdoor Advertisers Association urging consumers to review their insurance policies and be aware of their coverages. *AR*

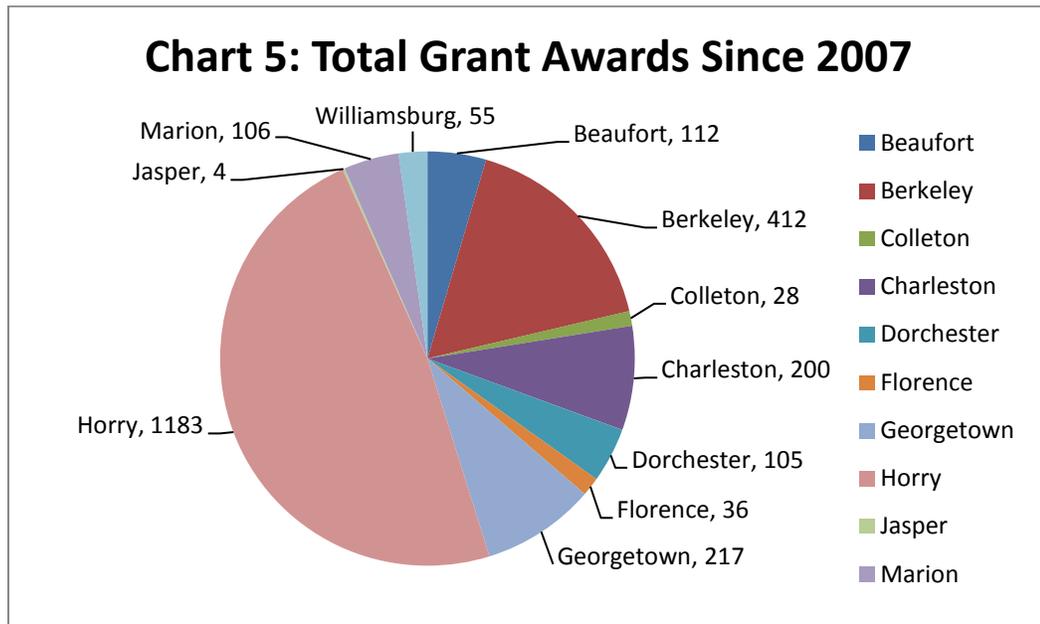
Additionally, the SCDOI hosted a series of six public meetings (Charleston, Beaufort/Bluffton, Columbia, Rock Hill, Greenville/Spartanburg, and Myrtle Beach) and policy review workshops throughout the state to provide consumers an opportunity to meet with SCDOI staff in order to review and discuss their individual insurance policies. As established via the Omnibus Act, the SCDOI also hosted a public hearing in the greater Myrtle Beach area for residents to learn more about the status of the coastal property insurance market and to address consumer concerns or comments. In addition to SCDOI staff, expert actuaries, meteorologists, and emergency management officials provided important information. Regrettably, the sessions were poorly attended. The lack of attendees compared to the meetings held in 2006 and 2007 would seem to indicate that property insurance is not the overriding issue for consumers that it once was.

The SCDOI also works to educate consumers about the economic benefits of living in homes that can better withstand hurricanes through other programs. The SC Safe Home Program works with consumers to educate them on ways in which they can reduce potential damage from hurricanes. The SC Safe Home Program grant is available to assist South Carolina residents on a matching or non-matching basis.

A. SC Safe Home Program

The SC Safe Home Program is a comprehensive mitigation grant program to assist homeowners in retrofitting their coastal properties by strengthening and fortifying the envelopes of the structures. An eligible homeowner is awarded a matching or non-matching grant (based upon their income as per U.S. HUD guidelines and the value of their home) not to exceed \$5,000 per home to assist with the approved retrofit measures.

Since the program began in 2007, it has awarded in excess of 2,400 grants totaling more than \$8,843,203. Based on program data, the average age of the home that is retrofitted is 28 years old, and the average value of the home receiving the grant award is \$91,786. Approximately 63% of the applicants qualify as low-income applicants based upon the U.S. HUD Median Income Guidelines.



The program continues to make an important economic impact to coastal communities by creating jobs in the construction and home improvement industries. SC Safe Home requires contractors and wind inspectors working with the program to be trained and tested by the Federal

Alliance for Safe Homes (FLASH) through the *Blueprint for Safety Training Program*. Presently, there are 67 wind inspectors and 74 contractors working with the program. Interest in working with this program continues, and over the past year, the staff has conducted seven training classes with more scheduled in 2013.

Scientific studies indicate that the single most effective mitigation measure a homeowner can make to their home is the replacement of the roof with a stronger, safer roofing system. Seventy-six percent of the SC Safe Home grantees have selected to retrofit their roof with grant funds. Additionally, homeowners that have selected to replace their windows with impact resistance systems and hurricane shutters through SC Safe Home have reported a 29% savings in their energy costs. Structures retrofitted through SC Safe Home are more attractive risks to insurance companies. Homeowners are reporting premium reduction savings of up to 24% from their insurance carriers. According to the Federal Emergency Management Agency (FEMA), society saves \$4.00 in potential losses and reconstruction costs for every \$1.00 spent on mitigation. Based on this statement, it is estimated that SC Safe Home has reduced the potential loss and future reconstruction costs from a hurricane or severe wind event by more than \$35.3 million.

During 2010, The SC Safe Home Coastal Consumer Liaison is located in the Charleston sub-office of the SCDOI. This enhances the SCDOI's ability to work with coastal residents and contractors participating in the grant program. Additionally, the coastal consumer liaison works with the SCDOI's Market Assistance Program to help consumers find coverage if they are having difficulties locating homeowners insurance coverage. The coastal consumer liaison also assists consumers with their questions concerning mitigation credits and discounts, catastrophe savings accounts as well as The SC Safe Home grant program. A portion of the funding for SC Safe Home Program staffing comes from a grant provided by the SCWHUA.

B. Coastal Property Writers

The SCDOI's efforts to recruit new insurers to the state as well as to work with existing markets to provide coastal insurance have contributed to the decrease in the SCWHUA's total policies and insured values. A recent issue of *Property Insurance Reports* cited a study using A.M. Best Data which determined that new homeowners writers admitted in the past five years now account for 11% of the standard insurance marketplace. At the same time, the top five writers of homeowners insurance have seen their market share decrease 8% from 64.3% eleven years ago to 56.3% in 2011.¹⁷

As stated above, the SCDOI has been recruiting new insurers to write coastal property insurance. Since the passage of the Omnibus Act, the SCDOI has licensed 16 new companies to write coastal property insurance coverage that are listed below.

- Ironshore Insurance, Ltd.
- Lancashire Company, Ltd.
- Southern Fidelity Insurance Company
- Privilege Underwriters Reciprocal Exchange
- Fidelity Fire and Casualty Insurance Company
- Ariel Reinsurance Company, Ltd.
- Universal Property and Casualty Insurance Company
- American Federation Insurance Company
- North Light Specialty Insurance Company
- Florida Peninsula Insurance Company
- St. John's Insurance Company
- American Safety Insurance Company
- United Property & Casualty Insurance Company
- American Capital Assurance Corporation
- Preserver Insurance Company

¹⁷ "Rising Prices, Safer Homes Attract Insurers to South Carolina," *Property Insurance Report*, December 17, 2012.

- Lighthouse Property Insurance Company

An example of the impact these newly licensed insurers can have on the admitted marketplace is that of Lighthouse Property Insurance Company. In December 2011, it was licensed to transact business in South Carolina. Its focus is to compete with the SCWHUA by offering a competing wind and hail only policy. By using a controlled growth strategy, the insurer plans to write \$5,000,000 in premiums in the coastal counties of South Carolina. In 2012, Lighthouse wrote \$967,000 in written premium on 493 policies with a total insured value of \$195 million.

Additionally, the SCDOI has been encouraging existing companies to increase their writings along the coast. As a part of the Omnibus Act, insurers writing new business in the SCWHUA territory may claim a nonrefundable credit against Insurance Premium Taxes equal to twenty-five percent (25%) of the tax that is otherwise due on the policy.¹⁸ In 2010, the amount of the credit taken by companies was \$74,528. The effects of the entry of new carriers, coupled with the premium tax credit incentive, provide for greater availability of coastal property insurance for South Carolina property owners.

Consumers have not been denied access to coverage; coverage is available through new markets, existing carriers, Excess and Surplus lines carriers, and as the last resort, the SCWHUA. The coastal markets for personal lines and commercial lines appear to operate independently of one another. The number of cancellations of commercial lines policies (both with wind and without wind) increased following the expansion orders for SCWHUA. Despite the increase in cancellations following the expansion, the total number of commercial policies written with wind continued to steadily rise in the voluntary market following the SCWHUA expansion. SCWHUA continued to see a decrease in the number of commercial policies it writes in 2012.

All SCDOI's efforts, coupled with the SCDOI's recruitment of new insurers to write coastal property insurance coverage, have resulted in improved market stability. While

¹⁸ S.C. Code Ann. § 38-7-200 (2002).

economic challenges may have decreased the number of new insurers willing to enter the state, companies are not exiting the state due to coastal property insurance.

While there are many positive signs to indicate market improvements in coastal coverage availability, the SCDOI continues to monitor the coastal property insurance marketplace. To maintain a healthy voluntary market, it is imperative that the SCWHUA remains a market of last resort, a safety net for those that cannot find coverage – at any price – elsewhere, and not the primary market for property insurance.

V. Conclusions

Overall, the South Carolina coastal property insurance market appears to be stable while showing some signs of improvement. The SCWHUA's trend of slight decreases in premiums, policies, and exposure continued in 2012. Similar results were realized in the admitted market with decreases in both personal and commercial lines in 2012 even though new admitted carriers are writing coastal property insurance. The overall contraction in the admitted market, as well as the residual market, is likely due to an increasing appetite for coastal property risk in the Excess and Surplus lines marketplace. It is also worth noting that the recent economic downturn may contribute to the declining size of the residual and admitted property insurance markets.

The overall stability of the market can be influenced by several factors. The increased availability of insurance to consumers because of SCWHUA territory expansion, set to expire on March 29, 2013 unless extended by the Director's order. The SCDOI's efforts to recruit insurers to write business along South Carolina's coast have also aided the availability in the admitted market. The recommendations found in the subsequent section would help to further improve the stability of the coastal property market by addressing various factors related to claim costs.

IV. Recommended Enhancements and Modifications

The ultimate solution to coastal property insurance issues is to build stronger structures that are able to withstand hurricane damage. This combined with proper land usage regulations will create the needed long-term solution. Accordingly, the SCDOI recommends the following:

- The state should continue to encourage mitigation and better land use planning so as not to increase the state's exposure to hurricane and flood losses. South Carolina has a substantial amount of property exposed to significant hurricane risk. Mitigation, coupled with better land use planning, could help reduce the loss of South Carolina property and lives.
- The state should continue to strengthen statewide building codes and mandate training for building code inspectors and for contractors working in the construction and home improvement industry. South Carolina adopted the International Residential Building Code (IRC) in 1998 and is currently following the guidance set forth in the 2003 version of the IRC. The IRC establishes the minimum building standard. Counties most prone to hurricane damage should be encouraged to consider adopting code-plus building techniques.
- Expand the SC Safe Home program to include mitigation measures for inland counties that face damages from sever wind events. During the past year, 499 consumers received grants totaling \$3,740,541 million to strengthen their properties. Mitigation protects property and saves lives, and a retrofitted home is easier to insure in the voluntary market. Mitigation programs, such as the SC Safe Home Program, stress the benefits of a more resilient infrastructure with buildings designed to withstand hurricane damage. Buildings constructed and retrofitted to the higher standards promulgated by these programs will help ease the demand for state and federal post-disaster funding, reducing the losses to the state and to local governments as well as to FEMA and the federal government.

- The state should provide funding for the update of the South Carolina flood maps. While some may have been updated, the overall mapping project is not complete. Additionally, maps updated via the Light Detection and Ranging System (LIDAR) provide dramatically enhanced images. To complete this project, additional funding is needed. Identified flood risks have changed as a result of increased coastal development. Updated flood maps would encourage consumers in flood prone areas to protect their property by securing a flood insurance policy.
- The expansion orders of 2006 have worked well to stabilize the coastal property insurance marketplace. The South Carolina Legislature has already taken action to incorporate Expansion Order One into the State Insurance Code. Tested by time, it is appropriate that Expansion Order Two be likewise incorporated into the State Insurance Code based on the Director's renewed Order.

APPENDIX

Appendix A

Order No. 2011-01