

# **STATUS OF THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION**



## **STATUS REPORT FOR 2010**

SUBMITTED BY:  
South Carolina Department of Insurance  
1201 Main Street, Suite 1000  
Columbia, South Carolina 29201

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## **I. EXECUTIVE SUMMARY**

### **A. Overview of 2010 Hurricane Season**

The year 2010 was a busy hurricane season with named storms from Alex to Tomas. It also marks the first time in history that two category 4 hurricanes emerged in the Atlantic simultaneously. Moreover, four category 4 hurricanes, Danielle, Earl, Igor and Julia, formed in the Atlantic Basin within 30 days of one another. There were 19 named storms, 12 of which were hurricanes. Despite this increased activity, only one of the nineteen named storms, Hurricane Earl, made landfall in the United States. These storms caused heavy flooding and loss of life in the Caribbean, Central America and Mexico.

By comparison, 2009 was rated below average in terms of storm activity. There were nine named storms, three of which were hurricanes. None of them hit the United States.<sup>1</sup> There were 37 catastrophic loss events in 2008. Hurricane Season 2008 brought hurricanes Dolly and Ike to the Texas coast, with Ike becoming the fourth most expensive hurricane in United States history. Despite the low number of hurricanes making landfall, 2010 is considered the third most costly for catastrophic losses in the past decade.

Most catastrophic losses in the United States continue to come from hurricanes and tropical storms. This increased cycle of activity is predicted to last another 20 years with some experts opining that a \$100 billion catastrophic year is in the not-too-distant future.<sup>2</sup>

Catastrophic losses in 2010 were significant. Losses from natural and man-made disasters totaled \$36 billion, a 34% increase over such losses in 2009. Moreover, the economic impact of these disasters is estimated to be \$222 billion in 2010 compared to \$36 billion in 2009. Losses from the Haitian and Chilean earthquakes have impacted the international property

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<sup>1</sup> Dowling & Partners research report distributed via email September 20, 2010; Insurance Information Institute, Catastrophes: Insurance Issues (December 2010).

<sup>2</sup> Hartwig, Robert P. "2009 Hurricane Season: Financing the Catastrophe Risks Amid the Economic Crisis." Insurance Information Institute Webinar (<http://www.iii.org/media/presentations/2009HurricaneSeason/>) 4 June 2009.

reinsurance market used by insurers writing coastal property insurance. Potentially, the cost of coastal property insurance may rise due to possible increased costs of reinsurance.

Catastrophic losses along the coast will continue to increase in coming years due to increased development and the loss of wetlands that served as natural hurricane barriers. Census data from 2008 shows that there are 35.7 million people living in areas threatened by Atlantic hurricanes compared to 34.9 million in 2006. Approximately 10.9 million people lived in such areas in the 1950's. With increased population and development along the Eastern Seaboard, more people and more property are threatened by Atlantic hurricanes. Coastal states continue to see increases in costs of coverage and a general lack of availability in the voluntary coastal property insurance market. The increased costs of property coverage may be attributed, in part, to increased storm activity, the growing coastal population and the increased costs to repair or replace structures. Forecasters are already predicting another active season for 2011 with a 73% chance of a major hurricane hitting the United States.

## **B. Status of the South Carolina Coastal Property Insurance Market**

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 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 2010.

In preparing this report, the Department relied upon information obtained from consumer complaints and an insurer data call. The ongoing data call was initiated in October 2007 to obtain information from the South Carolina property insurance industry on its writings along South Carolina's coast. The data call is designed to monitor the impact of the SCWHUA territory expansions and other changes in the South Carolina coastal property insurance market.

The data indicates that South Carolina's coastal property insurance market is stable. Property insurance availability issues in the voluntary market are being addressed by the Department and progress is shown in the results of the SCWHUA. There was very modest growth in the number of SCWHUA personal risk policies written in 2010 in Zones 1 and 2. There were decreases in the number of commercial risks written in Zones 1 and 2. The modest growth in personal lines risks is due, in part, to the Department's efforts to manage activity that could disrupt the marketplace.

Since 2007, the Department has been reviewing and meeting with insurers about plans to nonrenew or restrict coverage written in the coastal property insurance market. As a result, insurers have agreed to gradually implement plans so as to not cause significant market disruption. This, coupled with the Department's efforts to recruit new insurers to write coastal property insurance coverage, has resulted in improved market stability. Consumers have not been denied access to coverage; coverage is available for some consumers through new market entrants, existing carriers, and, as a last resort, the SCWHUA. Due to current economic issues, there has not been a significant increase in the number of new insurers writing along the coast. More importantly, however, there has not been a massive exit of property insurers from South Carolina's coastal market as in other states.

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 SCWHUA expansion. Despite the increase in cancellations following the expansion, the total number of commercial policies written "with wind" continued to steadily rise within the voluntary market following the

SCWHUA expansion. SCWHUA continued to see a decrease in the number of commercial policies it writes in 2010.

Despite the market improvements in some coastal coverage availability, the South Carolina Department of Insurance 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 wind coverage elsewhere, and not the primary market for property insurance coverage.

## **II. SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION**

### **A. Overview of South Carolina's Property Residual Market**

The South Carolina Wind and Hail Underwriting Association, or SCWHUA, is a residual market mechanism.<sup>3</sup> Residual market mechanisms are created by states 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. By South Carolina law, the SCWHUA is not intended to offer rates that are competitive with the admitted market.<sup>4</sup> Furthermore, rates for policies issued by the SCWHUA must be adequate and established at a level that allows the SCWHUA to operate as a self-sustaining mechanism.<sup>5</sup>

### **B. The SCWHUA**

#### 1. General Overview

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<sup>3</sup> S.C. Code Ann. § 38-75-330(A)(2002).

<sup>4</sup> S.C. Code Ann. § 38-75-400(B)(2002).

<sup>5</sup> *Id.*

The South Carolina General Assembly authorized the creation of the SCWHUA in 1971. The SCWHUA assures an adequate market for wind and hail insurance in the coastal areas of South Carolina.<sup>6</sup> All admitted property insurance companies licensed by the Department of Insurance are members of and are required to participate in the SCWHUA.<sup>7</sup>

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 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 will pay the losses covered under its policies. If those losses exceed the SCWHUA's funds, all admitted property insurance companies will be assessed for the difference based upon their market share in the state.<sup>8</sup>

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. They also discourage insurers from writing coverage by increasing uncertainty.

## 2. Governance

The SCWHUA is an unincorporated association governed by a 17-member Board of Directors (Board). It is not a part of the South Carolina Department of Insurance. However, its rates, forms and business plan are regulated by the Department. The SCWHUA submits rate, rule, plan of operation, and form change requests to the Department 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

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<sup>6</sup> S.C. Code Ann. § 38-75-320 (2002).

<sup>7</sup> S.C. Code Ann § 38-75-330(B) (2002).

<sup>8</sup> S.C. Code Ann § 38-75-370 (2002).

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

A review of the SCWHUA was conducted as a result of the 2004 and 2005 hurricane seasons, dramatic increases in coastal exposures, predictions of continued above-average hurricane severity, and the resulting lack of available and affordable coastal property insurance. Beginning in 2007, there have been significant ongoing changes to the operation of the SCWHUA. Some of the changes resulted from the South Carolina General Assembly's enactment of the Omnibus Coastal Property Insurance Reform Act of 2007 (Omnibus Act).<sup>9</sup> Other changes were the result of the coordinated efforts of the Department and the SCWHUA to improve the availability of coverage and the efficiency of SCWHUA operations.

#### a. Expansion of the SCWHUA Territory

The most significant change to the operation of the SCWHUA has been the expansion in the territory it covers. The territory in which the SCWHUA may write wind and hail insurance is defined by statute as the "coastal area."<sup>10</sup> It has been temporarily expanded by three orders of the Director of Insurance<sup>11</sup>; the first order was made permanent via the Omnibus Act to include areas where consumers were reporting difficulty obtaining coverage.

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<sup>9</sup> 2007 S.C. Act No. 78.

<sup>10</sup> S.C. Code Ann. § 38-75-310(5) (2002).

<sup>11</sup> *Order 2007-001*. Issued March 21, 2007, Order 2007-001 temporarily expanded the SCWHUA territory to eliminate the 100 feet boundary descriptions in Horry and Georgetown Counties. Highway 17 was used as the boundary in Georgetown and Highway 17 or Bypass 17 became the boundary in Horry County whichever was further West. In Charleston County, portions of James Island, Johns Island and portions of Wadmalaw Island were added. These amended boundaries were eventually codified by the South Carolina General Assembly in the statutory definition of "coastal area." The Order was supplemented by Order 2007-003.

*Order 2007-003*. Issued May 23, 2007, Order 2007-003 expanded the SCWHUA territory to include Zones 1 and 2 throughout the coastal territory. It further added a portion of Edisto Island and a portion of Mount Pleasant in Charleston County, added an area east of the waterway and Highway 17 as well as the area south of Georgetown and east of Highway 17 (e.g., Winyah Bay area) in Georgetown County, and the area between the waterway and Highway 17 and limited areas west of the waterway in Horry County. The Order expanding the territory was approved by the General Assembly via the Omnibus Act<sup>11</sup> and was subsequently renewed by Order 2009-001.

Order 2009-001 renewed the second 2007 order. It is effective until March 29, 2011 unless otherwise vacated or superseded by (1) a subsequent order of the Director of Insurance<sup>12</sup> or (2) action of the South Carolina General Assembly.<sup>13</sup> The Director has issued Order 2011-01<sup>14</sup> to renew the expansion order. It is slated to go into effect upon expiration of the 2009 order. The Department renewed the order to prevent any market disruption; and based upon information provided by the SCWHUA, it was determined that further expansion of the territory was not necessary.<sup>15</sup>

#### b. Deductibles

To limit exposure to catastrophic losses from hurricanes and other disasters, insurers typically require deductibles. Eighteen states and the District of Columbia have hurricane deductibles. They include Alabama, Connecticut, Delaware, Florida, Georgia, Hawaii, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Rhode Island, South Carolina, Texas, and Virginia.

At the request of the Department 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. These changes were filed by the SCWHUA and ultimately approved by the South Carolina Department of Insurance. In addition, the rates, forms, and rules implementing these changes have been reviewed and approved.

The changes were two-fold, and include an aggregate and a non-named storm deductible:

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<sup>12</sup> S.C. Code Ann. § 38-75-460(A) (2002).

<sup>13</sup> S.C. Code Ann. § 38-75-460(C)(4) (2002).

<sup>14</sup> A copy of the order is included in the Appendix to this report.

<sup>15</sup> The reasons cited by the SCWHUA against further expansion of the Wind Pool territory include but are not limited to: 1) no reports of difficulty accessing the residual market or requests for further expansion of the territory; 2) after reviewing the territories eligible for coverage, SCWHUA could not find areas where coverage was not offered; 3) the aggregate number of policies, premium dollars and inforce liability is stable which indicates that the coastal property insurance marketplace is stable; 4) fluctuations in the aggregate numbers for certain territories indicates that there is competition for business based on non-wind coverages; and 5) making changes would lead to market uncertainty which could adversely impact the stability of the coastal market.

- *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.

Those changes were for personal lines risks effective February 1, 2009. As of the date of this report, these deductible changes have been fully implemented. For 100% of the SCWHUA policies that experienced wind losses during the 2010 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 deductible utilization as of October 31, 2010, is as follows:

**Table 1: SCWHUA Personal Lines Aggregate Deductible Utilization**

Deductible Amount	Zone 1 Utilization	Zone 2 Utilization
2%	N/A	53%
3%	70%	11%
4%	1%	1%
5%	20%	29%
10%	9%	6%

*Source: South Carolina Wind and Hail Underwriting Association*

c. Payment Assistance

When an insurer excludes wind coverage under a homeowner’s policy, most consumers are required to remit an initial premium payment for a wind and hail policy at the policy’s inception. Future payments are incorporated into the homeowner’s mortgage escrow account. To mitigate the impact of having to make a lump-sum payment for wind and hail insurance, the

SCWHUA has worked with a premium finance company to offer a payment plan of 25% down followed by eight installments. This eases some of the burden of paying for wind and hail insurance by spreading the costs of coverage over the entire policy period. As a part of the 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. Consumers residing within the coastal areas of the state are able to choose between two premium finance companies for electronic transactions. Alternatively, consumers may finance with any other premium finance company on a manual basis. As of October 31, 2010, 1,351 consumers opted to finance their premiums via a premium service company. Some consumers also “finance” their premiums through their mortgage companies. The SCWHUA wind policy premium is escrowed as a part of the monthly mortgage payment.

#### d. Electronic Transactions

One of the focal points for the SCWHUA during 2009 was increasing the use of Internet functions to enable insurance producers to better serve their clients. The Internet options available for consumers are detailed in the 2009 report. In addition to those functions, the SCWHUA:

- **Accepts new and renewal 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.
- **Accepts electronic payments via ePay.** While insurance producers are permitted to continue to make premium payments via checks, most payments are now made electronically. 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 underpaying or overpaying of premiums.
- **Established an e-Claims system and a Storm Office to provide continued consumer assistance and claims response services during the aftermath of a storm.** One of the major projects for the SCWHUA staff for 2010 was a review of the catastrophe response plan. As part of the research which went into the analysis, the SCWHUA staff spent time with the Claims Manager of the Texas Windstorm Insurance Association. In 2008, the Texas Windstorm Insurance Association 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. The area was devastated. The SCWHUA staff discussed with the Texas Windstorm Insurance Association (TWIA) Claims Manager the difficulties and challenges they experienced in the aftermath of the storm. Each issue was analyzed and planning was implemented by SCWHUA staff to incorporate the lessons learned from TWIA. One of the key items coming out of this effort was recognition of the need to have an established storm office. TWIA experienced difficulties establishing their storm office to respond to the tremendous number of claims submitted.

- As a result, the SCWHUA staff moved forward quickly and leased additional office space. The space was furnished with over 20 work stations, two managers' offices and two conference rooms. A new phone system was installed with three incoming lines for each phone. This allows an individual phone to receive voice calls and handle two voice message calls simultaneously. The storm office will not be staffed until a major storm is predicted to strike South Carolina. Contracting services will be utilized for staffing should the need arise.
- A contractual relationship was established with one of the existing adjusting firms used by the SCWHUA. The firm will assist the SCWHUA staff 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 and provide contact by an independent adjuster within 24 hours. In addition, the storm office will perform 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 with the assigned adjuster or needs additional assistance.

In addition to phone service, the office is wired and has operational Internet connections. Necessary office equipment such as copiers and printers are also available. The storm office, along with the upgraded eClaims system, will benefit consumers who have experienced losses. Losses can be reported by:

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

Using its updated claims system (eClaims), the SCWHUA will automatically assign 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 will immediately be sent to the adjusting firm to let them know that new assigned claims are waiting for their download. The SCWHUA staff can then monitor how quickly the claims are downloaded and when initial contact is made with the consumer.

The SCWHUA is also an active member of the Institute for Business and Home Safety (IBHS). The SCWHUA's Executive Director serves on the Board of Directors of this organization 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.

IBHS has constructed a \$40 million, multi-peril research facility in Chester County, South Carolina. The facility is designed to research and develop mitigation techniques that will reduce property loss and save lives. The mitigation research activities cover perils such as wind, water intrusion, hail, and wildfire. Each of these perils affects all South Carolina property owners. It includes 105 fans which can simulate a category 3 hurricane inside the test chamber. Much of the research performed by the Chester facility will be the focal point for international research on loss mitigation. The SCWHUA is directly involved in this mitigation research.

#### e. SCWHUA Business

As of December 31, 2010, 78.45% of policies were written in Zone 1. Nearly half (44.67%) of all SCWHUA policies are written in Horry County. While Horry County has the most SCWHUA policies in-force, Beaufort County has the most exposure, as demonstrated by

total insured limits. More than 34% of the SCWHUA's exposure is located in Beaufort County compared to 29% in Horry County.

Zone	County	Policy Count	% Of Total Policy County	In-force Premiums	% Of Total Premium	Insured Limits	% Of Total Limits
1	BEAUFORT	10,034	21.29%	26,001,098	26.53%	5,491,929,104	31.47%
1	CHARLESTON	5,309	11.26%	18,109,684	18.48%	2,994,087,943	17.16%
1	COLLETON	1,167	2.48%	2,706,123	2.76%	443,117,444	2.54%
1	GEORGETOWN	2,767	5.87%	6,980,542	7.12%	1,195,215,249	6.85%
1	HORRY	17,706	37.56%	29,040,926	29.63%	4,343,409,096	24.89%
	<b>Total Zone 1</b>	<b>36,983</b>	<b>78.45%</b>	<b>82,838,373</b>	<b>84.52%</b>	<b>14,467,758,836</b>	<b>82.91%</b>
2	BEAUFORT	1,320	2.80%	2,063,388	2.11%	488,100,238	2.80%
2	CHARLESTON	4,612	9.78%	7,863,949	8.02%	1,487,936,758	8.53%
2	COLLETON	2	0.00%	6,848	0.01%	1,320,800	0.01%
2	GEORGETOWN	870	1.85%	1,274,602	1.30%	254,389,459	1.46%
2	HORRY	3,354	7.11%	3,963,263	4.04%	750,770,610	4.30%
	<b>Total Zone 2</b>	<b>10,158</b>	<b>21.55%</b>	<b>15,172,050</b>	<b>15.48%</b>	<b>2,982,517,865</b>	<b>17.09%</b>
	<b>Grand Total</b>	<b>47,141</b>	<b>100.00%</b>	<b>98,010,423</b>	<b>100.00%</b>	<b>17,450,276,701</b>	<b>100.00%</b>

As previously stated in the report, the total number of policies in Zone 1 and Zone 2 was stable during 2010. Zone 1 policies as of December 31, 2009 totaled 36,960, with an exposure of \$14,581,603,096. As of December 31, 2010, there were 36,983 policies in Zone 1, with an exposure of \$14,467,758,836, a growth of only 23 policies. As of December 31, 2009, there were 9,002 policies in Zone 2 representing \$2,633,479,723 in exposure. As of December 31, 2010, there were 10,158 policies in Zone 2 with an exposure of \$2,982,517,865, a growth of 1,156 policies. It should be noted that there are areas of decrease. For example, in Zone 1 in Charleston County, there has been a decrease of 259 policies representing a \$158,876,726 decrease in exposure.

The number of personal lines policies written from 2009 to 2010 increased by 3%. This increase corresponds with the results of the Department’s data call which indicated the number of personal lines policies written “without wind” was increasing. Since the 2007 SCWHUA Association Year, the number of commercial policies has decreased significantly. The trend continued in 2010 as commercial policies decreased by 12%. This is in direct contrast to the dramatic increase that took place in 2006.<sup>16</sup> Based on conversations that the SCWHUA staff has had with insurance producers, commercial business is flowing back to standard commercial insurance carriers and to the excess and surplus lines markets.

Beginning with Association Year 2008, the growth rate in the amount of premium written by the SCWHUA has decreased significantly. In 2009 and 2010, premium growth and premium volume stabilized. For Association Years 2008, 2009, and 2010, the SCWHUA premium volume was considered flat. This leveling off is a sign that the voluntary market is active and that the SCWHUA is not supplanting the voluntary market along the South Carolina coast. This is in contrast to the significant growth experienced prior to 2008.

<b>Association Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
In-Force Premiums	29,113	31,382	67,467	85,956	96,479	96,704	97,127
Rate of Growth	17%	8%	115%	27%	12%	0%	0%

*Source: South Carolina Wind and Hail Underwriting Association  
Data is based on SCWHUA Association Year ending 10/31XX (000’s omitted.)*

<sup>16</sup> In 2006, SCWHUA had 2,757 commercial policies. For Association Year ending October 31, 2010, there were 1,320.

### III. DEPARTMENT OF INSURANCE DATA CALL

In October 2007, the Department issued an ongoing data call to all admitted carriers writing personal and commercial property insurance coverage in the SCWHUA territory.<sup>17</sup> The purpose of the data call is to evaluate the effect of the expansion on the number of policies written “with wind” and “without wind” in the SCWHUA territory. To provide a comparative analysis, the Department has continued its examination of the data received, which now spans the months of January 2006 through September 2010. 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.<sup>18</sup> This report compiles data submissions from November 15, 2007 through November 15, 2010.

It should be noted that the Department of Insurance has been recruiting new insurers to write coastal property insurance. Since the passage of the Omnibus Act, the Department has licensed 15 new companies to write coastal property insurance coverage. They include:

- Ironshore Insurance, Ltd.
- Lancashire Company, Ltd.
- Southern Fidelity Insurance Company
- Privilege Underwriters Reciprocal Exchange
- HomeWise Preferred Insurance Company
- 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

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<sup>17</sup> The data call does not include excess and surplus lines policy information.

<sup>18</sup> 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.

- American Safety Insurance Company
- United Property & Casualty Insurance Company
- American Capital Assurance Corporation

Additionally, the Department 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.<sup>19</sup> As of December 31, 2009, 22 companies have taken advantage of the credit totaling approximately \$72,443. The effects of the entry of new carriers, coupled with the premium tax credit incentive, provides for greater availability of coastal property insurance for South Carolina property owners.

#### **A. Personal Lines**

The data<sup>20</sup> requested of each insurer is broken down monthly between coverage that includes wind and coverage without wind. The two categories of data reported are:

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

Since we have data now from January 2006 through September 2010, this report will display yearly data instead of the monthly data that was reported in prior reports. The annual trends shall be reviewed by category. In addition, as all data for calendar years 2006 – 2009 are for full calendar years, the 2010 data has been adjusted for each category to produce a projected end-of-year 2010 amount. The total amount for new policies as of September 2010 is grossed up by a

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<sup>19</sup> S.C. Code Ann. § 38-7-200 (2002).

<sup>20</sup> Please note that an error was identified in a large national insurer's data in the 4<sup>th</sup> quarter of 2008. The company was reporting statewide data instead of policies in the coastal zones only. Personal lines historical data has been corrected with this report. Consequently, the data here may not correspond to previous reports. Historical commercial lines data was unaffected.

factor of 1.33. For the in-force number of policies, the September 2010 policy count is multiplied by a trend factor representing the average change in policy count from September to December each year. The data used to prepare the following exhibits was received from 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. There are 73 carriers reporting in 2010 as compared to 77 carriers reporting in 2009. 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 numbers reporting have remained stable over the analysis periods.

**Table 2: Personal Lines Admitted Market-New Policies Issued  
in the SCWHUA Territory**

Calendar Year	With Wind	Without Wind	Total	Percent With Wind	Percent Without Wind
2006	19,600	4,354	23,954	81.8%	18.2%
2007	14,422	7,730	22,152	65.1%	34.9%
2008	7,035	8,302	15,337	45.9%	54.1%
2009	9,041	7,364	16,405	55.1%	44.9%
2010	9,911	5,696	15,607	63.5%	36.5%

In total, new policies issued declined sharply in 2008. Since 2008, the number of new policies issued has remained relatively stable, down about 32% from the 2006-2007 levels. The breakdown between wind and non-wind policies issued shows wide variability from one year to the next and makes analysis difficult. However, the primary point to note is that policies written with wind decreased when the pool was originally expanded and has now stabilized.

**Table 3: Personal Lines Admitted Market Policies In-Force**

Calendar Year	With Wind	Without Wind	Total	Percentage with Wind	Percentage Without Wind
2006	97,047	14,807	111,854	86.8%	13.2%
2007	90,289	20,979	111,268	81.1%	18.9%
2008	76,538	29,527	106,065	72.2%	27.8%
2009	70,008	35,132	105,140	66.6%	33.4%
2010	62,230	39,382	101,612	61.2%	38.8%

In-force personal policies in the wind pool area continued to decline in 2009 and 2010. While stabilizing in 2009, the number of policies dropped an estimated 5% in 2010. With the introduction of the wind pool and its subsequent expansion, the percentage of personal policies in-force with wind coverage has been steadily dropping. This is expected since insurers now have the ability to offer coverage without wind in the designated areas. Policies with wind coverage still make up the majority of policies.

### **B. Commercial Lines-Admitted Market**

There are 95 carriers reporting data for 2010 as compared to 69 carriers reporting in 2009. 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 numbers reporting have remained stable over the analysis periods.

In addition, an attempt was made to capture all data received by the Department which may not have been fully realized in prior reports. Improved reporting by the companies also played a role.

**Table 4**  
**Commercial Lines Admitted Market**  
**New Policies Issued in the SCWHUA Territory**

Calendar <u>Year</u>	With <u>Wind</u>	Without <u>Wind</u>	<u>Total</u>	Pct.	Pct.
				With <u>Wind</u>	Without <u>Wind</u>
2006	1,194	642	1,836	65.0%	35.0%
2007	1,469	773	2,242	65.5%	34.5%
2008	945	724	1,669	56.6%	43.4%
2009	880	349	1,229	71.6%	28.4%
2010	788	469	1,257	62.7%	37.3%

In total, new policies issued declined a sharp 25% in 2008 from 2007 levels. That decline continued in 2009-2010 with another 25% decline in 2009-2010 from 2008 levels. As projected 2010 levels are only 2% higher than 2009, and with the inclusion of additional insurers to the study, it is difficult to say if new issues actually increased at all in 2010. The breakdown between wind and no wind policies issued shows some variability but can be said to range in the 60-65% range.

**Table 5**  
**Commercial Lines Admitted Market**  
**Policies In-force**

Calendar <u>Year</u>	With <u>Wind</u>	Without <u>Wind</u>	<u>Total</u>	Pct.	Pct.
				With <u>Wind</u>	Without <u>Wind</u>
2006	3,426	1,033	4,459	76.8%	23.2%
2007	3,809	1,028	4,837	78.8%	21.2%
2008	3,824	1,271	5,095	75.1%	24.9%
2009	3,920	1,097	5,017	78.1%	21.9%
2010	4,305	1,218	5,523	77.9%	22.1%

The declines in homeowner policies are not being seen on the commercial side. In-force policies in the wind pool area continued to increase in 2010. However, the 10% change has to be viewed cautiously given the increase in the number of insurers reporting this year. The breakdown between wind and no wind policies remains relatively stable at about the 75-79% range.

#### **IV. CONCLUSIONS**

Personal property insurance in the wind pool area written by admitted carriers has stabilized over the past few years. This corresponds with the results of the SCWHUA where the number of written policies increased by 3%. For commercial insurance, total in-force policies has held relatively steady and the percentage of in-force commercial policies including wind coverage is higher and remains steady over the study period.

Data from the South Carolina Wind and Hail Underwriting Association (SCWHUA), included as Exhibit D in this report, shows increases in the number of policies for personal homeowners policies and a decrease in the number of policies for commercial wind coverage. This appears to be consistent with the findings of the data call. More personal wind coverage in SCWHUA coincides with the reduction of in-force personal wind policies in the marketplace. Less commercial wind coverage in SCWHUA coincides with increasing coverage observed in the marketplace.

The impact of the economic downturn has not been quantified but can also contribute to the retraction of new policies being issued.

#### **IV. LEGISLATIVE RECOMMENDATIONS**

The ultimate solution to coastal property insurance issues is to have insurance available and affordable. The expansion of the SCWHUA area has proven to be successful in taking

steps toward these goals. Additionally, South Carolina should encourage the building of stronger structures that are better able to withstand hurricane damage. This requires stronger building codes and mitigation efforts on existing buildings combined with proper land usage. This type of regulation could create the needed long-term solution. Accordingly, the Department recommends the following:

- Codify the territory set forth in Order 2011-01. The expansion orders of 2006 have worked well to stabilize the coastal property insurance market place. 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.
- Better Land Use Planning. 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.
- Strengthen Building Codes. 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. The State should examine the 2009 IRC to determine if it is applicable to South Carolina.

- Increase Mitigation Grant Funding. The State should increase the grant funding for the South Carolina Safe Home Program. From its inception in 2007 to December 15, 2010, 1,429 consumers received grants totaling \$6.2 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 building structure with buildings designed to withstand effects of hurricane damage. Buildings constructed and retrofitted to the higher standards promulgated by these programs will ease the demand for state and federal post-disaster funding, reducing the losses to the state and to local governments, as well, to FEMA and the federal government.
- Update South Carolina Flood Maps. The State should consider funding 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.

# APPENDIX

Appendix A      Order No. 2011-01