2020 Status Report on the South Carolina Coastal Property Insurance Market

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SC DOI

I. Executive Summary

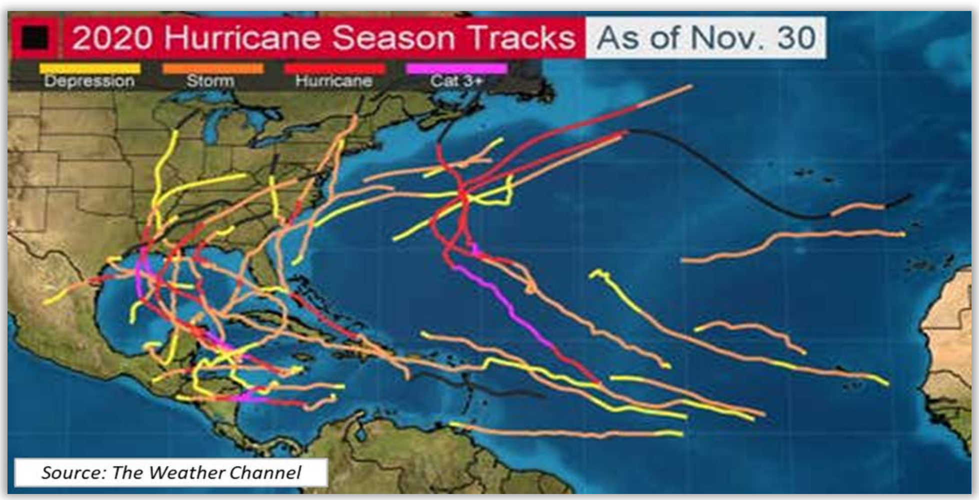
A. Overview of 2020 Hurricane Season

Prior to the start of the 2020 Hurricane Season, storm experts were calling for a busy season. Scientists at Colorado State University were calling for an above average season citing:

- Absence of El Nino as a factor;
- Season predictions of 140% of average;
- 16 named storms;
- Eight hurricanes; and
- Four major hurricanes.[1]

In the same time period, scientists at Pennsylvania State University were estimating 20 named storms in the Atlantic.[2] With Tropical Storm Arthur forming in mid-May just east of the Carolinas, it was clear that the season had the potential to be a busy one. By August 5, 2020, CSU upgraded their 2020 forecast from "very active" to "extremely active.[3]" For only the second time, the World Meteorological Organization used Greek letters to name storms. Many records had been broken at the conclusion of the 2020 Hurricane Season, including:

- 30 named storms consisting of 13 hurricanes with six designated as major (Category 3 or higher);
- 12 storms hit the United States coastline, five of which came ashore in Louisiana;
- Ten named storms formed in September; and
- Ten storms rapidly intensified.[4]



[1] Press Release, colostate.edu, April 3, 2020.
[2] "A New Model Is Predicting 'One of the Most Active Atlantic Hurricane Seasons on Record,'" bostonmagazine.com, April 30, 2020.
[3] "Colorado State Predicts 'Extremely Active' Hurricane Season," businessinsurance.com, August 5, 2020.
[4] "2020 Atlantic Hurricane Season by the Numbers," weathernation.com, December 7, 2020.

Despite the historically busy season, South Carolina was minimally impacted. On May 27, 2020, Tropical Storm Bertha formed off the South Carolina coast. Within an hour of its formation, the storm made landfall at Mt. Pleasant. Fortunately, tropical winds only extended 25 miles from the eye, and maximum winds were 50 miles per hour. There was limited damage along the coast; the South Carolina Wind and Hail Underwriting Association (SCWHUA) received five reported claims, each with minimal damage. The second storm to impact South Carolina was Isaias in August. Although at one point heading toward the state, Isaias stayed offshore. The SCWHUA reported receiving 37 claims with total damages being less than $100,000.[5] While South Carolina was spared, consumers in the northeastern section of the country were significantly impacted.[6]

B. Background

The General Assembly began requiring the South Carolina Department of Insurance (SCDOI) to submit annual reports relating to the status of the South Carolina Wind and Hail Underwriting Association via the Omnibus Coastal Property Insurance Act of 2007 (Omnibus Act).[7] The statute requiring this annual report was subsequently expanded to include an overview of the coastal property insurance market via the Competitive Insurance Act of 2014.[8] As amended, the duties of the Director of Insurance (Director) state, in pertinent part:

> *The director must submit a report to the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Chairman of the Senate Banking and Insurance Committee, and the Chairman of the House Labor, Commerce and Industry Committee by January thirty-first of each year regarding the status of the coastal property insurance market.*[9]

This report is submitted in accordance with the requirements of S.C. Code of Laws Section 38-3-110(5) and examines the status of the South Carolina coastal property insurance market through 2020.

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 South Carolina Wind and Hail Underwriting Association (SCWHUA or

[5] Executive Director's Report to the South Carolina Wind and Hail Underwriting Association Board of Directors, South Carolina Wind and Hail Underwriting Association, October 16, 2020.
[6] "Largest Isaias Insured Losses Expected in Northeast US," theinsurer.com, August 15, 2020.
[7] 2007 S.C. Act No. 78.
[8] 2014 S.C. Act No. 191.
[9] S.C. Code Ann. § 38-3-110 (2014).

Association), an insurer data call, consumer complaints, and consumer assistance provided through the SCDOI's Insurance Locator Service. Each of these sources would suggest that the coastal property insurance market is stable and, for many risks, can be competitive. The SCWHUA has seen decreases in the number of policies and insured values in both personal and commercial lines of insurance. Data gathered for 2019 and 2020 via the insurer data call show that personal policy counts rose while commercial policy counts remained stable over that time period. Anecdotal information from the SCDOI's Office of Consumer Services indicates that consumer complaints regarding coastal property insurance coverage, particularly those relating to availability issues, have dropped significantly since the 2007 SCWHUA territorial expansion. Finally, information relating to consumer experiences through the SCDOI's Insurance Locator Service demonstrates that many coastal property insurance consumers are able to realize meaningful savings if they shop their coverage.

Due in large part to past and on-going efforts of the South Carolina General Assembly 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 decreased significantly since its peak in 2011. Additionally, the top five and top ten property insurers have seen their market shares decrease, which generally indicates increased competition in the marketplace. The concentration in the market has decreased since 2008, and there is less reliance upon the market of last resort. Finally, the insurers that write property insurance on an Excess and Surplus Lines basis are insuring more coastal risks.

This report provides an outline of operations of the SCWHUA as well as its book of business. It also presents the results of an annual SCDOI data call and SCDOI efforts to promote a healthy coastal property insurance market. Overviews of the SCDOI's responses to recent catastrophic events and the insurance impacts of these events are given as well. Additionally, there are brief discussions of catastrophe modeling, the National Flood Insurance Program, and earthquake insurance. Recommendations which the SCDOI feels will continue to improve the market are included at the end of this report.

II. South Carolina Wind and Hail Underwriting Association

A. Overview of South Carolina's Property Residual Market

The SCWHUA is a residual market mechanism for both personal and commercial property insurance.[10] Residual market mechanisms are created by states to assure the availability of essential property insurance coverage. These markets of last resort 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. In fact, South Carolina law specifies that the SCWHUA is not intended to offer rates that are competitive with the admitted market.[11] 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.[12]

B. The SCWHUA

1. General Overview

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.[13] All admitted property insurance companies licensed by the SCDOI are members of and are required to participate in the SCWHUA.[14] In 2020, the SCWHUA completed its 50th year of operation; in keeping with its mission, the 50 years of operation have resulted in an aggregate net loss of just under $2 million.

Insurers must include wind coverage in all property insurance policies issued outside of the SCWHUA territory unless an exclusion is approved by the Director or his designee.[15] 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

[10] S.C. Code Ann. § 38-75-330(A) (2014).
[11] S.C. Code Ann. § 38-75-400(B) (2014).
[12] *Id.*
[13] S.C. Code Ann. § 38-75-320 (2014).
[14] S.C. Code Ann. § 38-75-330(B) (2014).
[15] S.C. Code Ann. § 38-75-1230 (2014).

insurance policy with a voluntary insurer for all other property perils. If a wind or hail event occurs, the SCWHUA will pay the losses covered under its policies. If those losses exceed the SCWHUA's available funds and purchased reinsurance coverage, then all admitted property insurance companies will be assessed for the difference based upon their market share in the state.[16]

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. They also discourage insurers from writing coverage by increasing uncertainty, so minimizing the assessments promotes a healthy market.

The SCWHUA attempts to purchase reinsurance to at least the 1-in-250 year event number. Over an extended period of time, for example, 10,000 years, the SCWHUA should expect to see a 1-in-250 year storm once every 250 years. This is a long-term, statistical number; it means that there is approximately a 0.4% chance of having such a storm during a given year. Although this is the likelihood of such a storm occurring, it is possible that a 1-in-250 year event will happen every year over the course of several years or multiple times during a single year. On the other hand, hundreds of years could go by between two such events occurring.

The statistical measure comes from the catastrophe models used by the insurance industry which will be discussed at greater length in a later section of this report. The resulting event number, or return period number, is not an exact dollar amount. The amount can vary within one or two standard deviations. For example, if a 1-in-100 year event number is determined to be $1 billion, then the standard deviation could easily be $200 million.

Purchasing reinsurance to the 1-in-250 year event number and beyond is expensive and can impact assessment amounts if not bought. For example, in 2008, the SCWHUA issued refunds due to a hard reinsurance market. This resulted from the SCWHUA opting not to purchase as much coverage due to high reinsurance rates. This left the SCWHUA with a surplus which was used to offset assessments in the form of refunds. A combined assessment and refund was carried out in order to minimize the impact on companies. The Association operates on a fiscal year basis (November 1 to October 31) so that member

[16] S.C. Code Ann. § 38-75-370 (2014).

companies can properly record their liabilities at year end for their financial statements. Additionally, the 2014 refund was used to offset losses in 2013 and 2015. By offering a refund and assessment at the same time, the net expense to member insurers is reduced. To keep more funds on hand in the event of a hurricane, the SCWHUA generally does not close out a Fiscal Year in the fall after all claims have been paid. One of the goals of the SCWHUA is to break even financially. SCWHUA data show that from Fiscal Years 1973 to 2020, the SCWHUA incurred a net operating loss of $1,997,376. This amount represents a -0.14% return based on an aggregate written premium for that time period of $1.4 billion.[17]

Table 2.1: SCWHUA Assessments

Association Year (11/1 to 10/31)	Assessments (Refunds)
2010	$2,887,962
2011	$4,211,333
2012	$6,422,460
2013	$4,227,955
2014	($7,281,366)
2015	($3,735,212)
2016	$8,000,000
2017	$1,659,444
2018	($1,956,182)
2019 (Preliminary)	($1,414,469)

Source: SCWHUA

Buying coverage at a higher year event level means the residual market is more likely to have enough reinsurance coverage to cover policyholders' claims without the need for a significant assessment if storm damages occur. The SCDOI and SCWHUA member insurers believe it is important that the Association maintains a high level of reinsurance coverage. Relatively small assessments each year are worth the reduced uncertainty that this level of reinsurance provides. Without this level of reinsurance, member insurers would be subject to much larger assessments following a major catastrophic event. This ultimately benefits consumers by establishing a more stable coastal insurance market. The SCWHUA reports that this approach resulted in a tempering of losses from Hurricane Matthew; of the current $25.6 million incurred loss estimate, only $10 million was paid by member insurers with reinsurers paying the balance.

The SCWHUA bought reinsurance to the 1-in-250 year return period number. This is an aggressive effort to prepare for a potentially devastating hurricane. The SCWHUA's loss retention was reduced from $10 million to $5 million for the 2019 and 2020 hurricane seasons. The program also includes a pre-paid reinstatement to keep it in place should a second event occur. There are also provisions to pre-purchase a

[17] It should be noted that the SCWHUA was formed in 1971, but financial records for 1971 and 1972 are not available.

modified coverage at a lower price during the two years following a major event. The program is with reinsurers rated A- or better with A.M. Best Company. Some lines of coverage are backed by letters of credit or trust agreements funded by cash.

Other states' residual property insurance plans have taken different approaches. North Carolina, for example, relies on consumer assessments when there is a major event. With the exceptions of workers' compensation and medical malpractice, every policyholder in the state will be assessed regardless of line of business. Florida has a very complex system which includes issuing catastrophe bonds in addition to purchasing reinsurance. The cost of these bonds will then be passed on to all insurance consumers in the state via policyholder assessments for all lines of business other than workers' compensation and medical malpractice. Mississippi has linked its association to state government, allowing it to retain cash and assess all consumers in the state.

Due to its reduced exposure, the SCWHUA was recently able to obtain reinsurance coverage at the 1-in-250 level at roughly the same price as that purchased previously. Similar state associations were not as fortunate. Florida's Citizens Property Insurance Corporation (CPIC), the residual property market for that state, paid 20% more for less than half the amount of reinsurance coverage it had formerly.[18] The Texas Windstorm Insurance Association reported that it paid 19% more for its 2020 reinsurance program.[19]

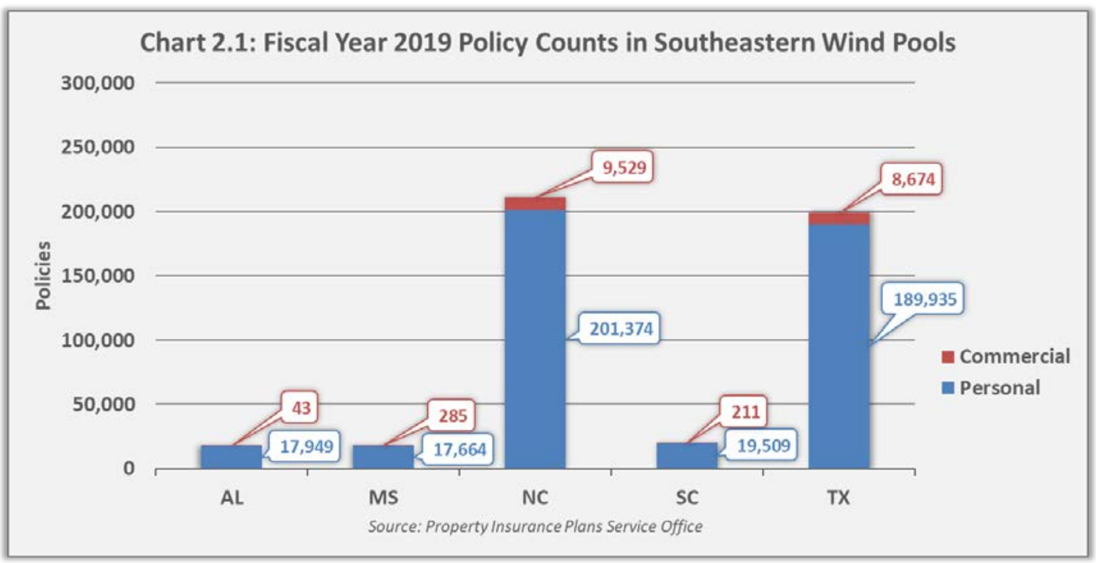


Chart 2.1 illustrates the standing of the SCWHUA in terms of policy counts relative to other wind pools in the Southeastern United States in Fiscal Year 2019 (latest data available). South Carolina is

[18] "Florida Citizens Pays 20% More Risk-Adjusted, for 53% Smaller Renewal," artemix.bm, June 4, 2020.
[19] "TWIA Paid 19% More for 2020 Reinsurance Cover," theinsurer.com, August 11, 2020.

significantly below several other states in the region. Although this can partially be explained by population differences among this group of states, it is still a positive sign as the SCWHUA seeks to be a true market of last resort. Florida's CPIC is an outlier and, as such, is not included in this comparison. Unlike traditional markets of last resort, CPIC has long been one of the top homeowners writers in the state. As of November 30, 2020, CPIC had 532,000 policies due to growing at a 21% annual rate. That figure could surpass 630,000 at the end of 2021 and 688,000 at the end of 2022.[20]

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. Day to day operations of the Association are overseen by its Executive Director and SCWHUA staff. However, its rates, forms, and business plan are regulated by the SCDOI pursuant to state law. The SCWHUA submits rate, rule, and form change requests to the SCDOI for review and approval like voluntary insurers. Consistent with other residual market mechanisms, the SCWHUA must also receive SCDOI approval for changes to its plan of operation. SCWHUA Board membership consists of two insurance producers and four consumer representatives appointed by the Director as well as eleven members of the insurance industry nominated and elected by member insurers. 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 and Operational Considerations

A review of the SCWHUA was conducted by the SCDOI after the 2004 and 2005 hurricane seasons. Following these back-to-back destructive seasons, carriers writing coastal business saw that their hurricane exposure was greater than previously realized. This, coupled with predictions of continued above-average hurricane activity, resulted in the lack of affordable or, in some cases, available coastal property insurance coverage. Beginning in 2007 and continuing forward, 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 Act. Other changes were the result of the coordinated efforts of the SCDOI and the SCWHUA to improve the availability of coverage and the efficiency of SCWHUA operations.

[20] "Florida's Insurer of the Last Resort to Seek Rate Increases," pandcspecialist.com, December 16, 2020.

As indicated elsewhere in this report, the South Carolina coastal property insurance marketplace continues to offer choices to consumers. The SCWHUA has lost 67% of its policies since August 2011; this is a positive development for coastal consumers. It is also reassuring to consumers that the SCWHUA is available to provide coverage if needed.

a. Expansion of the SCWHUA Territory

The most significant change to the SCWHUA took place in 2007 with the expansion of the territory in which the Association can write essential property insurance, which is 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."[21] The territory 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.

SC Code Section 38-75-460 gives the Director authority to issue an order temporarily expanding the territory for a period up to two years as well as the authority to issue subsequent orders renewing such expansions.

The first expansion was ordered via SCDOI Order 2007-01, which was later incorporated into state law via the Omnibus Act. A subsequent expansion was ordered via SCDOI Order 2007-03. The territory remains as defined in Order 2007-03 after having been ratified by the General Assembly via the Omnibus Act and renewed by order of the Director of Insurance via SCDOI Orders 2009-01, 2011-01, 2013-01, 2015-01, 2017-01, and 2019-01, and 2020-06.

Prior to the issuance of the latest renewal via Order 2020-06, the SCDOI conducted a review as required by SC Code Section 38-75-460. As part of its review process, the SCDOI asked the SCWHUA to provide input. The following points were noted:

- The SCWHUA has not received any consumer inquiries requesting that there be further territorial expansion. The two expansion orders in 2007 addressed those consumers who were experiencing difficulties.
- The SCWHUA staff has reviewed the territory as it exists today. It was unable to identify any areas within the territory which could be deleted.
- The SCWHUA portfolio is currently decreasing after reaching a high point in August 2011. The SCWHUA staff believes that this indicates that the corresponding coastal market is also relatively

[21] S.C. Code Ann. § 38-75-310(1) (2014).

stable. Part of the reason for this condition was the action taken by the SCDOI through the expansion of the SCWHUA territory in 2007 (and subsequent renewals).

- 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; any change to the territory could have a negative impact on the progress that has been made in regards to the coastal marketplace.
- The SCWHUA territory acts as a safety net for the protection of consumers that are unable to find other alternative options for wind and hail coverage in the private market.

The Director issued Order 2020-06 on December 4, 2020 to renew Order 2019-01 and keep the territory expansion in effect until March 29, 2023 based on the SCDOI's review, which included the aforementioned feedback from the SCWHUA. The SCWHUA has reported to the SCDOI that it is not receiving feedback from coastal consumers that they are unable to obtain coverage from either the private market or the SCWHUA.

b. Deductibles

The SCWHUA utilizes a lower deductible of 1% for personal lines consumers when the weather event resulting in a covered loss is not a named storm. This policy change took place at the request of the SCDOI. When a large hailstorm hit Georgetown County in November 2012, policyholders benefited from lower non-named storm deductibles as opposed to the large tropical storm/hurricane deductibles. At that time, the per occurrence deductible was converted to an annual aggregate deductible. In 2016, this also benefitted policyholders who experienced damage during Hurricane Hermine. The resulting damage allowed them to have a reduced deductible during Hurricane Matthew; a limited number of insureds actually had a zero deductible for this storm as it had been met earlier in the policy period.

Table 2.2: SCWHUA Consumer Named Storm Deductible Selections by Zone

Deductible Option	Zone 1	Zone 2
2%	0%	49%
3%	63%	10%
4%	1%	2%
5%	25%	33%
10%	11%	6%

Source: SCWHUA

c. Premium Financing

Also at the request of the SCDOI, the SCWHUA's website was updated to include links to two premium finance companies for electronic processing of premium financing. As of December 31, 2020, 271 policyholders were using eFinance, the electronic financing option. This represents 1.4% of the current book of business and is a slight decrease from the prior year. Another 100 policyholders used traditional premium financing. SCWHUA staff report that this is an interim step for many consumers. First year premiums are sometimes financed while second year premiums are generally included in the escrow amount by the mortgage company.

d. Claims Response

One of the major projects for SCWHUA staff in 2010 was a review of the catastrophe response plan. As part of their research, staff spent time with the Claims Manager of the Texas Windstorm Insurance Association (TWIA). 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 considerable damage. SCWHUA staff questioned the TWIA Claims Manager on difficulties and challenges they experienced in the aftermath of the storm. Each of the issues raised was then analyzed further through a detailed planning process.

One of the key items coming out of this effort was recognition of the need to have an established storm office. The TWIA experienced great difficulties making their storm office become operational and able to respond to consumer needs. As a result, the SCWHUA perceived a need to lease additional space. It was furnished with over 20 work stations, two manager offices, and a pair of conference rooms. A new phone system was installed with three incoming lines for each phone to allow for use of the phone while receiving two voicemail messages 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 toward South Carolina, the storm office would open and be staffed in anticipation of potential losses. In the aftermath of the major event, the SCWHUA will implement its existing protocols to immediately assign all claims as received and have 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 further assistance and serve as a liaison/ombudsman in the event that the insured/claimant has issues which he or she cannot resolve and needs additional assistance.

The storm office, along with the upgraded eClaims system, benefits consumers who have experienced losses. These 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 800 number and communicate 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; and
- Utilizing the wallet card which contains claims information and is annually distributed to customers.

Using its updated claims system, the SCWHUA automatically assigns a claim to the next available adjuster and posts 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 let them know that a new assigned claim is waiting for their download. The SCWHUA staff monitors how quickly the claim is downloaded and when initial contact is made with the consumer. In 2016, the system was upgraded to included features to allow the assigned examiner to manage the day to day activity of a claim.

In 2019, the storm office was opened the day after Hurricane Dorian's landfall. Two examiners were onsite to assist consumers. Several days later, three additional examiners arrived with more anticipated in the following days. Due to a lack of claims, the additional examiners were not necessary, and the storm office was closed after only a few weeks.

In 2020, it was not necessary to open the storm office. Prior to the 2020 Hurricane Season, all systems were updated and prepared in the event that it was needed to respond to claims. Efforts were put into place for the storm office to operate with in-person or virtual staffing.

Table 2.3 displays the claims and losses experienced by the SCWHUA in recent years.

Table 2.3: SCWHUA Recent Hurricane Claims

Year	Hurricane	Reported Claims	Total Incurred Loss	Average Incurred Loss
2016	Matthew	4,069	$25,622,502	$6,297
2017	Irma	200	$610,881	$3,054
2018	Florence	358	$917,992	$2,564
2018	Michael	51	$81,167	$1,592
2019	Dorian	290	$570,947	$1,969
2020	Isaias	42	$98,899	$2,355
Total		**5,010**	**$27,902,388**	**$5,569**

Source: SCWHUA

4. **Security Issues**

With the passage of the South Carolina Insurance Data Security Act in 2018, the SCWHUA enhanced its focus on both cyber and non-cyber security. The Act's passage made South Carolina the first state to pass the National Association of Insurance Commissioners (NAIC) Model Law. The SCWHUA reports that it has undertaken a number of steps to comply with the Act. These include:

- Continuing formal and informal staff cyber security training
- Obtaining an evaluation by a third party to examine SCWHUA cyber security procedures and offer recommendations on how to harden the protections already in place
- Conducting a formal risk assessment process and taking action on areas that need to be strengthened
- Holding Committee and Board Briefings on cyber security

At the Spring 2019 SCWHUA Board Meeting, all directors participated in an extended session on cyber security activities. It should also be noted that during 2018, a member of the Information Technology Staff at SCWHUA completed the Global Information Assurance Certification (GIAC) Security Essentials Certification (GSEC).

Throughout 2020, there has been a continued effort to enhance cyber security. Recent activities include:

- Continued quarterly training sessions for all employees;
- Sending monthly phishing emails to staff to test their ability to identify and avoid phishing efforts by outside attackers;
- Obtaining signed statements on obligations regarding cyber security from staff as well as board and committee members;
- Providing cyber security updates at board meetings;
- Conducting an annual risk assessment;
- Reviewing physical security with major upgrades to the office suite;
- Creating a comprehensive data security and corporate policy document as required by the South Carolina Insurance Data Security Act; and
- Implementing a cyber security questionnaire for vendors to comply with the South Carolina Insurance Data Security Act.

5. **Tri-Annual Audit**

During the first quarter of 2018, the Tri-Annual Audit was conducted by the SCDOI. The previous audit was conducted during the first quarter of 2015. The 2018 audit covered Association Years 2015, 2016, and 2017. The audit team sampled transactions, verified assets, and examined regulatory requirements. A full report was prepared by the SCDOI and signed by the Director of the SCDOI. A copy of the report was formally submitted to each board member of the SCWHUA. There were no noted deficiencies or recommendations. The next Tri-Annual Audit will take place during the first quarter of 2021. Due to the ongoing COVID-19 pandemic, the vast majority of the audit will be accomplished remotely.

6. Enterprise Risk Management Program

The SCWHUA has undertaken a comprehensive Enterprise Risk Management Program (ERM). The document currently consists of over 100 pages and focuses on:

- Governance Issues
- Risk Management
- IT Security
- Disaster Recovery

As a part of this process, the SCWHUA is moving to a virtual machine (VM) environment. A VM machine allows a powerful server to emulate a number of personal computers. This makes for a quicker recovery time in the event of a problem. A VM unit as well as a reserve unit have been installed in the SCWHUA office. At the SCWHUA's primary backup facility, a separate VM unit is operating and is supported by a generator. A reserve VM unit has also been installed at the primary backup site as an additional precaution. An arrangement has been made with an insurance organization in another part of the state to host a VM unit on behalf of the SCWHUA to serve as a secondary backup site.

7. COVID-19 Response

In response to the COVID-19 pandemic, the SCWHUA implemented its disaster recovery plan—without any physical damage to the office. This involved ensuring that every employee could operate remotely and had the access to the internet, a telephone, and a computer as required for a long-term event. Despite the pandemic, the SCWHUA maintained normal operations and business hours. Some employees worked entirely from home while others rotated in and out of the office so that each of the Claims, Underwriting, Accounting, and IT functions were represented. Employees working in the office maintained social distancing; masks and sanitizer were made available throughout the office suite.

Committee meetings and board meetings have continued as scheduled with the only change being that they were held virtually. It is anticipated that this practice will continue through at least July 1, 2021.

C. SCWHUA Book of Business

As noted in previous annual reports, there are encouraging trends occurring in terms of the coastal property insurance marketplace in South Carolina. Anecdotal reports from insurance producers indicate that they have markets and/or alternatives for clients seeking coastal property insurance. Consumer complaints relating to the availability of coverage to the SCWHUA and the SCDOI have declined as compared to the complaints received during the coastal property insurance availability crisis in the mid-2000s. New insurers have been entering the state to provide coverage to coastal consumers.

Table 2.4: SCWHUA Book of Business Changes from Peak in 2011 to 12/31/2020

	8/31/2011	12/31/2020	Change
Policy Count	47,366	15,851	-66.5%
Premium	$97,007,667	$32,858,903	-66.1%
Total Insured Limits	$17,310,330,477	$5,131,903,511	-70.4%

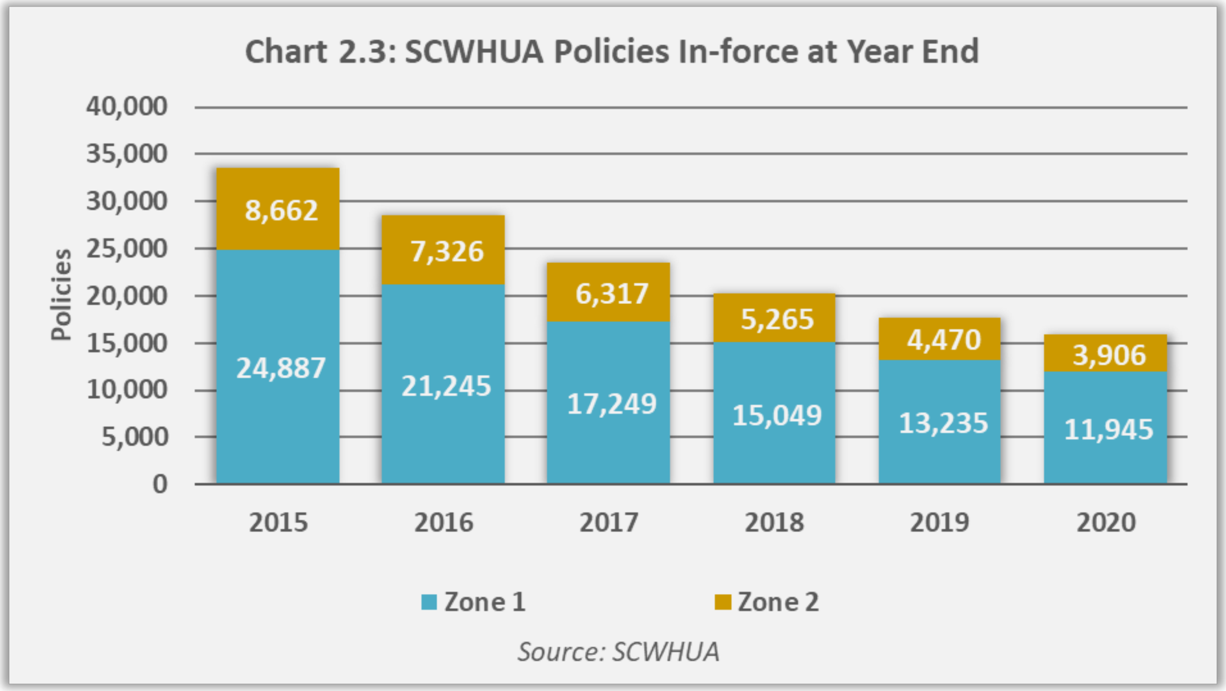
Source: SCWHUA

The most significant example of improvement is an analysis of the SCWHUA's combined personal and commercial policy data. Association staff consider August 31, 2011 to be the highpoint of the book of business in terms of written premium, policy count, and exposure. When compared to the book of business as of December 31, 2020, we see that the residual market's loss of business, a positive trend for consumers, is continuing. It should be noted that the total insured limits, or Association exposure, has decreased by $12.2 billion, cutting the total insured limits by more than half as compared to the SCWHUA's 2011 peak. As a note for comparison purposes, the $12.2 billion decrease in total insured limits far exceeds the total exposure of $930 million that the Association had when Hurricane Hugo made landfall in 1989.

Residual markets such as the SCWHUA are not designed to grow in the same way as a standard business. Florida's residual market, Florida Citizens, recently reported that it has been successful in reducing its exposure. In 2011, the same year in which SCWHUA policies peaked, Florida Citizens had 1.5 million policies with an exposure of $512 billion, representing 23% of the total Florida homeowners insurance market. Florida Citizens has since reduced its policy count to 444,000 with an exposure of $107 billion.[22]

[22] "Florida Citizens Aims to Continue Its Depopulation," Artemis.bm, December 16, 2019.

While opportunities are expanding for coastal consumers in the Southeast, this is not true in all states. In California, areas subject to wildfire risk are facing challenges. Insurers are finding it difficult to offer coverage, resulting in consumers seeing availability and affordability challenges. Proposed regulatory considerations are meeting with objections from the insurance industry.[23]



The decrease in business covers nearly all areas of the Association's operation. While the largest decrease is occurring in Zone 1, the territory closest to the Atlantic Ocean, consumers are also leaving in significant numbers in Zone 2. This demonstrates that consumers are finding better alternatives in terms of coverage, price, and features. As demonstrated in Chart 2.3, these decreases have been observed steadily in recent years. It is important to note that the areas covered by Zone 1 in Beaufort, Charleston, and Colleton Counties consist of barrier islands. The reduction in business for these highly exposed risks is important. Equally important are the decreases in Zone 1, Horry and Georgetown Counties. While these properties are located on the mainland, historic hurricane tracks put them at greater risk to loss. Table 2.5 breaks down the changes by county and SCWHUA zone between the SCWHUA’s 2011 peak and year-end 2020.

[23] “FAIR Plan Asks Court to Stop California Insurance Commissioner’s Order,” insurancejournal.com, December 13, 2019.

Table 2.5: SCWHUA In-Force Policy Changes from 8/31/2011 to 12/31/2020

Zone	County	Policy Count	Policy Count % Change	In-Force Premiums	Insured Limits
1	Beaufort	-7,490	-77%	-$19,534,618	-$4,241,044,472
1	Charleston	-3,788	-73%	-$12,116,607	-$2,129,044,512
1	Colleton	-830	-73%	-$1,847,077	-$318,926,947
1	Georgetown	-1,705	-63%	-$4,112,290	-$742,498,112
1	Horry	-10,937	-61%	-$17,282,498	-$2,881,091,709
Total Zone 1		**-24,750**	**-67%**	**-$54,893,090**	**-$10,312,605,752**
2	Beaufort	-764	-61%	-$1,127,418	-$261,312,848
2	Charleston	-3,400	-70%	-$5,110,826	-$990,050,364
2	Colleton	-2	-100%	-$6,848	-$1,320,800
2	Georgetown	-305	-34%	-$367,013	-$74,577,941
2	Horry	-2,294	-63%	-$2,643,569	-$538,559,261
Total Zone 2		**-6,765**	**-63%**	**-$9,255,674**	**-$1,865,821,214**
Grand Total		**-31,515**	**-67%**	**-$64,148,764**	**-$12,178,426,966**

Source: SCWHUA

As seen in Table 2.6, Horry County has the highest exposure with $1.8 billion of in-force liability ("Insured Limits"); Charleston County has the second highest with $1.3 billion. Despite these large values, the downward trends during the past nine years are encouraging. The SCWHUA reports these trends are continuing—even after the impacts of hurricanes in recent years. Insurers are still seeking coastal business; in a regular week, the SCWHUA receives more mid-term cancellation requests than it does new business submissions.

Table 2.6: SCWHUA In-Force Policies as of 12/31/2020 by Wind Pool Zone and by County

Zone	County	Policy Count	% of Total Policies	In-Force Premiums	% of Total Premium	Insured Limits
1	Beaufort	2,271	14%	$5,592,642	17%	$1,084,444,819
1	Charleston	1,404	9%	$5,387,054	16%	$775,829,176
1	Colleton	306	2%	$759,780	2%	$112,757,832
1	Georgetown	998	6%	$2,665,778	8%	$421,594,357
1	Horry	6,966	42%	$11,956,648	36%	$1,513,472,373
Total Zone 1		**11,945**	**73%**	**$26,361,902**	**80%**	**$3,908,098,557**
2	Beaufort	579	4%	$815,802	2%	$199,118,933
2	Charleston	1,695	10%	$3,052,674	9%	$555,135,036
2	Colleton	0	0%	$0	0%	$0
2	Georgetown	656	4%	$983,227	3%	$191,051,067
2	Horry	1,540	9%	$1,645,298	5%	$278,499,918
Total Zone 2		**4,470**	**27%**	**$6,497,001**	**20%**	**$1,223,804,954**
Grand Total		**16,415**	**100%**	**$32,858,903**	**100%**	**$5,131,903,511**

Source: SCWHUA

III. Department of Insurance Data Call

In October 2007, the SCDOI issued an ongoing data call to all admitted carriers[24] writing personal and commercial property insurance coverage in the SCWHUA territory, which is commonly referred to as the Wind Pool. 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 Wind Pool. Companies that in the prior year 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.[25] Due to the timing of these quarterly submissions, this report includes data for the first three quarters of 2019 and 2020.

The requested data are broken down monthly between property insurance 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 reporting in the data call tends to change slightly each year.[26] Therefore, in order to minimize any distortion, we believe it is most appropriate to focus on the changes between 2019 and 2020 in this year's data call submissions for purposes of this annual report. Due to this change and the variance among companies reporting from year to year, it is more important to concentrate on trends rather than exact values when comparing figures from different annual reports.

A. Data Call Results for the Personal Lines Admitted Market

There were 108 carriers reporting in 2020 compared to 95 carriers reporting in 2019 and 90 in 2018. These numbers vary as carriers reach or fall below the established premium threshold for reporting. The number of companies reporting has gradually risen since the data call's inception.

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[24] The data call does not include Excess and Surplus lines policy information.
[25] 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.
[26] Carrier data submissions with clear data inconsistencies which could not be resolved have been omitted.

Table 3.1: Personal Lines Admitted Market - New Policies Issued in SCWHUA Territory

9 Months Ending	New Policies Issued with Wind	New Policies Issued without Wind	Total Number of New Policies Issued	Percent with Wind	Percent without Wind
Sep 2019	20,968	3,503	24,471	85.7%	14.3%
Sep 2020	29,194	3,192	32,386	90.1%	9.9%
% Change	39.2%	-8.9%	32.3%		

Source: SCDOI Data Call

The total number of new policies issued by admitted carriers in the Wind Pool area increased significantly for the first three quarters of 2020 as compared to the first three quarters of 2019. The percentage of new personal lines property insurance policies written in the Wind Pool that included wind grew and remains high relative to that obtained in prior data call cycles. The increase in the total number of new policies written could be due in part to an increase in the willingness of consumers to shop for coverage.

While the number of new policies written is one indication of the willingness of companies to expand their books of business in the Wind Pool area, it is important to also review the total policies in-force (PIF) for information on the overall size of the personal lines admitted market for property insurance coverage in the Wind Pool. This takes into account new policies written as well as renewals of existing policies net of any terminations due to cancellation or non-renewal.

Table 3.2: Personal Lines Admitted Market - Policies In-Force in SCWHUA Territory

Month	PIF with Wind	PIF without Wind	Total PIF	Percent with Wind	Percent Without Wind
Sep 2019	110,962	33,482	144,444	76.8%	23.2%
Sep 2020	121,683	33,763	155,446	78.3%	21.7%
% Change	9.7%	0.8%	7.6%		

Source: SCDOI Data Call

The total number of policies in-force reported by admitted carriers in the Wind Pool area increased by 9.7% from 2019 to 2020. The percent of policies in-force that included wind coverage rose from 76.8% in 2019 to 78.3% in 2020. The number of personal lines policies written by the SCWHUA has decreased over this same time period. While there are limitations to the conclusions we may draw from this data call (as noted previously), these results are indicative that there is, generally speaking, availability of coverage outside of the residual market for most personal lines coastal property insurance consumers along the South Carolina coast.

B. Data Call Results for the Commercial Lines Admitted Market

There were 93 carriers reporting data for 2020 compared to 92 carriers reporting in 2019 and 2018. The number of carriers reporting has remained fairly consistent over the analysis periods.

Table 3.3: Commercial Lines Admitted Market - New Policies Issued in SCWHUA Territory

9 Months Ending	New Policies Issued with Wind	New Policies Issued without Wind	Total Number of New Policies Issued	Percent with Wind	Percent without Wind
Sep 2019	937	380	1,317	71.1%	28.9%
Sep 2020	1,183	241	1,424	83.1%	16.9%
% Change	26.3%	-36.6%	8.1%		

Source: SCDOI Data Call

A larger portion of new policies were reported as being written with wind coverage in the first three quarters of 2020 as compared to the same period in 2019. The total number of new policies issued rose by 8.1%.

Table 3.4: Commercial Lines Admitted Market - Policies In-Force in SCWHUA Territory

Month	PIF with Wind	PIF without Wind	Total PIF	Percent with Wind	Percent Without Wind
Sep 2019	3,909	2,574	6,483	60.3%	39.7%
Sep 2020	3,812	2,604	6,416	59.4%	40.6%
% Change	-2.5%	1.2%	-1.0%		

Source: SCDOI Data Call

Total in-force commercial policies written with wind coverage in the admitted market fell slightly in 2020. In aggregate, the number of commercial policies written by the SCWHUA decreased during this same period. The percent of total in-force policies written with wind experienced a slight reduction from 60.3% in 2019 to 59.4% in 2020. As noted under the personal lines data call section, there are limitations to this data call, but these trends are indicative of the availability of admitted property insurance coverage to commercial consumers along the South Carolina coast.

IV. Department of Insurance Outreach

The SCDOI has a responsibility to assist consumers with their insurance concerns and to promote consumer education of insurance.[27] It provides consumers with information and assistance via its website (www.doi.sc.gov), written publications, telephone, e-mail inquiries, and written correspondence regarding all lines of insurance coverage that are subject to the agency's regulatory authority. The SCDOI continues to update its website to provide additional information via a more intuitive navigation process. The SCDOI's Insurance Locator Service helps consumers that are having difficulty finding insurance coverage. Through the assistance of the SCDOI's Office of Consumer Services, coastal consumer liaison and SC Safe Home program, the SCDOI assists consumers in learning more about mitigation measures and credits, catastrophe savings accounts, and the SC Safe Home mitigation grant program. The SCDOI's Office of Consumer Services continues to provide extended office hours for consumers to call or email their insurance related questions and concerns. The office hours are 8:00 a.m. to 6:00 p.m. from Monday to Thursday and 8:00 a.m. to 5:00 p.m. on Friday.

The SCDOI also works with other state regulators throughout the country to share information and best practices. One of the collaborative efforts directly related to coastal property is the National Association of Insurance Commissioners (NAIC) Catastrophe Insurance (C) Working Group. This group is tasked with reviewing and reporting on issues ranging from availability and affordability of insurance related to catastrophe perils to potential solutions regarding insuring for catastrophe risk at each NAIC national meeting.

A. Annual Public Hearing

As a part of the overall reforms included in the Omnibus Act in 2007, the duties of the Director of Insurance were amended to add a provision requiring the Director to hold an annual public hearing relating to the South Carolina Wind and Hail Underwriting Association in a location within one of the eight coastal counties that make up the "seacoast area." The Competitive Insurance Act of 2014 updated this requirement to ensure that publicizing this hearing may be accomplished through a variety of mediums. Legislation enacted in 2019 made the annual public hearing optional at the discretion of the Director. Given concerns stemming from the COVID-19 pandemic, a hearing was not held in 2020.

[27] A number of the SCDOI's responsibilities toward the insurance consumers of this state were codified in S.C. Code Ann. § 38-1-110(5)(b) (2014) via the Competitive Insurance Act of 2014.

B. Consumer Focused Initiatives

As both coastal property insurance and exceptional consumer service are priorities to the SCDOI, it responded to ongoing concerns about coastal property insurance by initiating an Insurance Locator Service (previously referred to as the Market Assistance Program) and by implementing additional coastal outreach in 2013. Due to its increasing success, the Insurance Locator Service was expanded statewide in 2014. The SCDOI encourages consumers to shop around for coverage, and the Insurance Locator Service was established to help consumers do so. This Service is designed so that a representative from the SCDOI connects consumers directly to insurance professionals who can further help them obtain coverage at competitive costs.

Since 2013, the Insurance Locator Service has helped 1,363 consumers shop the property insurance marketplace and find better coverage, attain more affordable coverage, or become more informed about their risk and the spectrum of insurance costs that the market is currently generating to insure their property. Since the program's inception, the number of coastal consumers helped in this way is 855 (63% of the statewide total). Table 4.1 provides a breakdown of the coastal versus non-coastal consumers assisted in 2020. Furthermore, the SCDOI has developed a page on its website (doi.sc.gov/insurancelocator) that is specifically dedicated to shopping for insurance coverage. Located on this page is an online form that allows consumers to submit their information to the SCDOI's coastal consumer liaison to request assistance through the Insurance Locator Service. Individuals may also contact the consumer liaison directly for further information and assistance. This service is free and allows consumers to locate agents and companies in their area to address their specific property insurance coverage needs.

Table 4.1: SCDOI Insurance Locator Service Consumer Requests in 2020

	Number	Percent of Total
Coastal	77	45%
Non-Coastal	93	55%
Total	170	

Source: SCDOI

The SCDOI also developed an online Price Comparison Tool (doi.sc.gov/pricecompare) to aid consumers in comparing price estimates of companies writing auto and homeowners insurance in the state. Consumers answer a few basic questions about themselves, where they live, the desired level of coverage, and their car or home to receive price estimates.

The Department has also been focused on professional development and training of its staff, which included an initiative to have a number of staff members obtain the Certified Insurance Services Representative designation. The employees that have earned this designation to date will be able to use their training to assist consumers in the aftermath of a catastrophic event. The importance of training like this has been demonstrated in the wake of multiple weather events impacting the state since 2014.

1. SC Safe Home

The SC Safe Home Program provides 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. While a portion of the funding for staffing comes from a grant provided by the SCWHUA, the vast majority of the funding for the program is from a dedicated funding source comprised of all premium taxes paid by the SCWHUA and one percent of the insurance premium taxes collected each year.

Since the program began in 2007, it has awarded in excess of 6,852 grants totaling more than $28 million. Important changes were made to the program in 2017 that included the modification of the award methodology as well as the requirements necessary for application. As a result of 2017 SC Act No. 28, the SC Safe Home Program no longer requires applicants' homes be insured for $300,000 or less. Additionally, the program modified the award methodology to utilize the homeowner's total adjusted gross income for the number of individuals residing in the home, the cost of the retrofit, and the median county income in order to determine the award amount.[28] These two changes allow the program to benefit more South Carolina residents and seek additional resources (Including federal grants) to supplement the annual premium tax funding for the program.

Table 4.2: 2020 SC Safe Home Grants Awarded by County

County	Grants
Beaufort	17
Berkeley	66
Charleston	136
Colleton	1
Dorchester	40
Florence	1
Georgetown	32
Horry	194
Jasper	0
2020 Total	487

Source: SC Safe Home

[28] See SCDOI Bulletin 2017-13 for more details.

Since the program implemented its online portal on December 1, 2017, 1,019 grants have been awarded. 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, the total number of approved contractors and inspectors working with the program is 101, with many of these individuals approved to work in multiple counties. The SC Safe Home website (www.scsafehome.com) contains links to complete lists of certified contractors and wind inspectors.

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. Over the life of the program, more than 95% 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 savings of up to 29% on 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 a report by the National Institute of Building Sciences, the nation saves $6.00 in future disaster costs for every $1.00 spent on mitigation.[29] Based on this statement, it is estimated that grants awarded by SC Safe Home have reduced the potential costs from future hurricanes and severe wind events by more than $160 million.

2. Annual Hurricane Expo

In light of concerns stemming from the COVID-19 pandemic, the SCDOI did not host its annual hurricane expo event in 2020 but did hand out 200 starter emergency kits to consumers at the Home Depot in Bluffton. In prior years, expo has provided consumers an opportunity to speak with dozens of exhibitors and experts about hurricane preparedness, property insurance, flood insurance, roof retrofits, opening protection, the SC Safe Home program, and a variety of related topics. Consumers from nearby communities have had the opportunity to take part in educational and fun activities, complete with giveaways and prizes, as a part of this program that focuses on bringing attention to preparedness and mitigation at the beginning of the annual hurricane season.

[29] *Natural Hazard Mitigation Saves: 2017 Interim Report*, National Institute of Building Sciences, 2017.

3. Catastrophe Savings Accounts

One of the many consumer-based initiatives included in the Omnibus Act is the creation of catastrophe savings accounts (CSAs).[30] CSAs allow South Carolinians to prepare for the financial impact of a catastrophic storm using state income tax-free dollars. These accounts may be used to cover insurance deductibles or other uninsured portions of a loss from hurricane, rising flood waters, or other catastrophic windstorm events. CSAs can be established at any state or federally-chartered bank but must be labeled as a "Catastrophe Savings Account." The money can only be held in an interest-bearing account (e.g., regular savings or money market account) and comingling of funds is strictly prohibited. The funds placed in a catastrophe savings account and the annual interest earnings on that account are not subject to state income taxation if left in the account or used for Qualified Catastrophe Expenses. However, the amounts cannot be used to reduce federal income tax liability. Withdrawals for ineligible expenses are taxable as ordinary income and are also subject to a 2.5% additional tax, with limited exceptions.

4. State Income Tax Credits for Fortification Measures

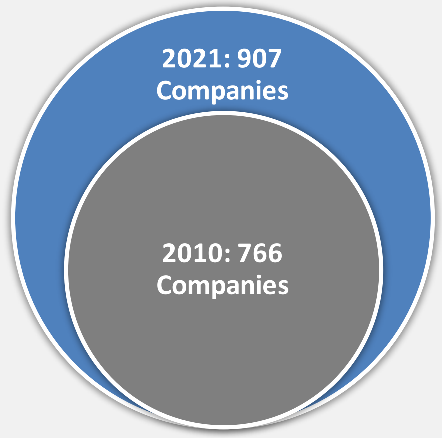
As a market-based approach to reform, a primary focus of the Omnibus Act is consumer-based initiatives aimed at proactively preparing for the possibility of a hurricane or catastrophic event occurring. Several of these are in the form of tax incentives for fortifying one's legal residence. A state income tax credit is available for fortification measures and applies to the costs to retrofit one's legal residence to make it more resistant to losses due to flood, a hurricane, or an unnamed catastrophic windstorm event.[31] This credit applies to items such as labor and materials but is not applicable to ordinary repair or replacement expenditures. The fortification measures tax credit for any taxable year is limited to $1,000 or 25% of the total costs incurred, whichever is less. A second state income tax credit is offered for retrofit supplies and is in addition to the fortification measures tax credit.[32] The credit applies to the state sales or use taxes paid on purchases of tangible personal property used to retrofit one's legal residence. The maximum amount of the retrofit supplies credit is $1,500. In 2019 (the latest year for which information is available), 730 credits were claimed for an aggregate amount of $923,705.

[30] S.C. Code Ann. § 12-6-1620 (2007).
[31] S.C. Code Ann. § 12-6-3660 (2007).
[32] S.C. Code Ann. § 12-6-3665 (2007).

C. Coastal Property Writers

The SCDOI's efforts to recruit new insurers to the state while simultaneously working with existing markets to provide coastal property insurance have contributed to the decrease in the SCWHUA's total policies and insured values. Since 2010, the number of companies licensed to write property insurance has increased by 141 companies.

Chart 4.1: Companies Licensed to Write Property Insurance in SC (1/1/2010 vs. 1/1/2021)



Source: SCDOI

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 with wind 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.[33] As shown in Table 4.3, the aggregate credit taken by companies from 2010 to 2019 was $620,706.[34] The effects of the entry of new admitted market carriers, together with the premium tax credit incentive and growth in the Excess and Surplus Lines market, provide for greater availability of coastal property insurance for South Carolina property owners. An example of the impact of these efforts can be seen through the growth in new personal lines property insurance programs that have been implemented by newly licensed and existing companies. In 2020, the Department's Office of Market Services approved rates, rules, and policy forms filings for nine new programs, the majority of which indicated plans to write coverage along the coast.

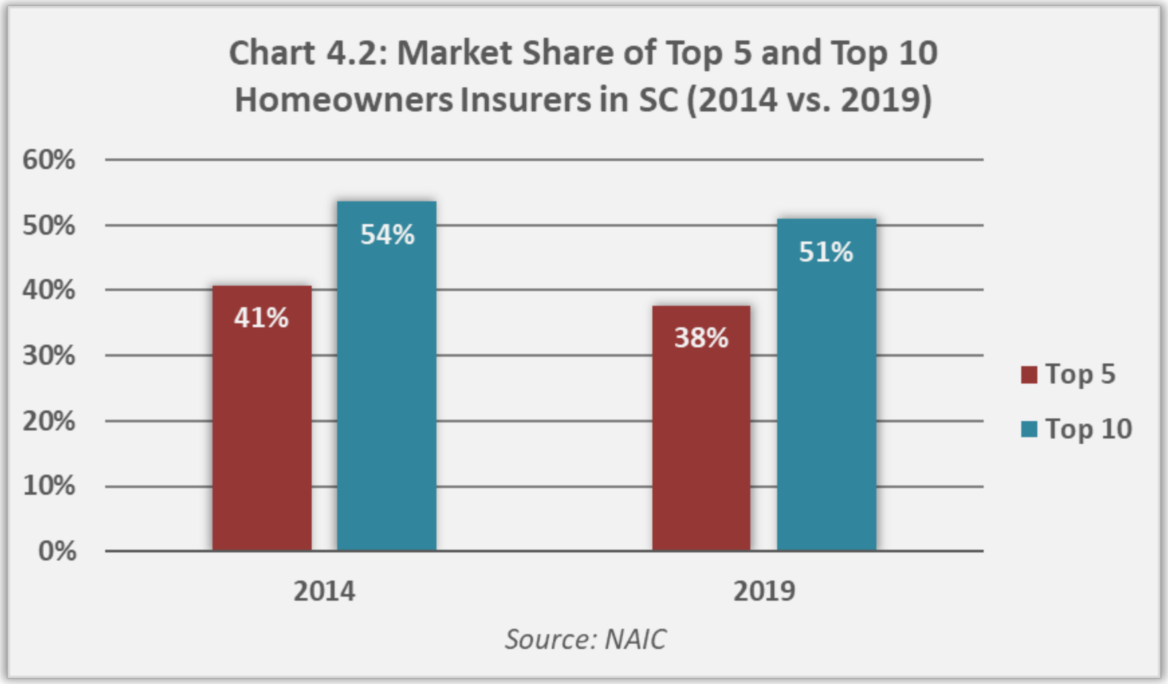
Table 4.3: Coastal Premium Tax Credits

Year	Total Amount of Credits
2010	$74,528
2011	$56,309
2012	$50,576
2013	$63,734
2014	$69,692
2015	$74,312
2016	$94,835
2017	$73,122
2018	$38,348
2019	$25,250
Total	**$620,706**

Source: SCDOI

[33] S.C. Code Ann. § 38-7-200 (2014).
[34] 2019 data will not be available until mid-2020.

Another measure is the market share of the top writers; over the last five years (2014 to 2019, which is the latest data year available), the largest five and ten homeowners insurers both saw their collective market share decrease by 3% and 2.7%, respectively.

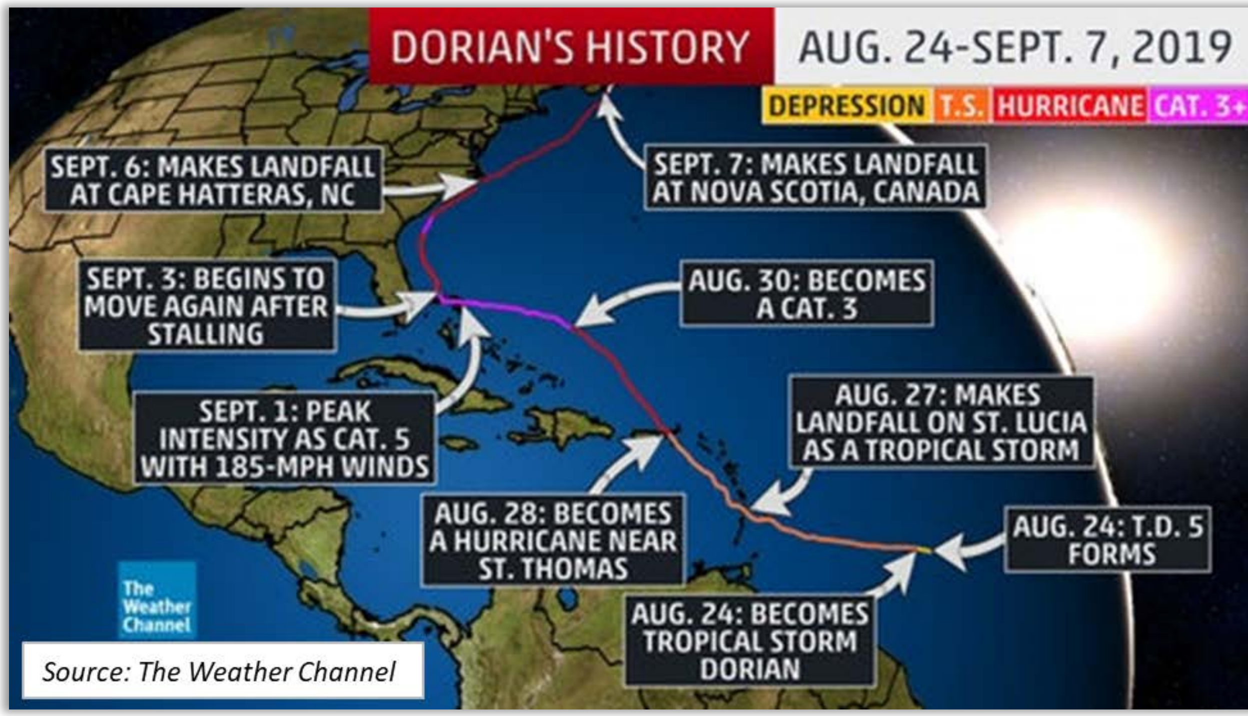


These efforts of the SCDOI, coupled with its recruitment of new insurers to write coastal property insurance coverage, have resulted in improved market stability. While there are many positive signs to indicate market improvements in coastal coverage availability, the SCDOI continues to monitor the coastal property insurance marketplace. To maintain a healthy voluntary market, it is imperative that the SCWHUA remain a market of last resort, a safety net for those that cannot find coverage elsewhere, and not become the primary market for property insurance. Having a healthy voluntary market also requires that exposure be spread among many carriers as opposed to it being concentrated in a small number of companies.

V. Hurricane Dorian

On September 1, 2019, Governor McMaster declared a state of emergency[35] due to the possibility of Hurricane Dorian impacting South Carolina. After peaking as a Category 5 hurricane, Dorian weakened to a Category 1 storm prior to making landfall in North Carolina on September 6. The damage caused by Dorian in South Carolina was limited relative to the destruction resulting from other hurricanes striking the state in recent years.

The SCDOI issued Bulletin 2019-08 to communicate the expectation that the insurance industry work with South Carolina citizens and businesses directly affected by Dorian to provide relief from certain insurance requirements. Some examples of this relief would be extending premium payment deadlines and giving additional time before cancellations or non-renewals became effective.



A. Regulatory Actions to Expedite Claims Process

Following a catastrophic event, the SCDOI must ensure that there are adequate resources on the ground in order to respond to and process insurance claims. As such, the SCDOI took action prior to Hurricane Dorian's arrival to ensure that insurance companies could activate additional adjusters to assist

[35] Executive Order No. 2019-28

in the recovery. On September 3, 2019, the SCDOI issued Bulletin 2019-07 to permit emergency insurance adjusters to enter the state to expedite the claims handling process. Following the bulletin's issuance, 2,112 new adjusters were authorized to enter the state to respond to insurance claims via emergency permits.

B. SCDOI Data Call for Catastrophe Claims Information

The SCDOI issued a data call on September 6, 2019 requiring all authorized property and casualty insurance companies, including licensed insurers, eligible surplus lines insurers, and companies that write private and/or excess flood insurance coverage to submit data relating to the claims that were filed following Hurricane Dorian. Lines of business highly unlikely to have claims directly resulting from the storm (e.g., life and health, workers compensation, etc.) were excluded from the data call. The main purposes of this data call were to monitor insurance companies' claims handling progress and determine Dorian's insurance impact.

In an effort to reduce the reporting burden on insurers, the SCDOI used the data call procedure that was employed by the SCDOI following other recent catastrophic events as well as by state departments of insurance in the Northeast following similar events. As in past years, the SCDOI coordinated this reporting with the National Association of Insurance Commissioners and leveraged their technical resources for aggregation of the submissions.

The fourth and final round of data call submissions contained information on claims associated with Hurricane Dorian as of April 1, 2020, which are aggregated in Table 5.1.

Table 5.1: Insurance Claims Related to Hurricane Dorian (Data as of 4/1/2020)

Line of Business	# Claims Reported	Paid Losses	Case Incurred Losses	% of Claims Closed with Payment	% of Claims Closed Overall
Residential Property	11,865	$35,268,496	$40,026,559	52.1%	94.1%
Commercial Property	1,542	$24,087,113	$48,652,817	31.5%	74.4%
Personal Auto	1,815	$5,067,687	$6,056,998	79.1%	97.7%
Commercial Auto	37	$207,267	$216,450	70.3%	97.3%
Business Interruption	243	$1,864,473	$2,416,938	65.8%	93.8%
Flood	18	$69,491	$87,064	38.9%	83.3%
All Other Lines	607	$6,694,474	$6,635,720	71.0%	94.9%
Totals	**16,127**	**$73,259,002**	**$104,092,545**	**54.1%**	**92.6%**

Source: SCDOI Data Call

Below are explanations for each of the column headings in Table 5.1:

- *# Claims Reported* – total number of claims (losses) filed with insurance companies that are related to this event, regardless of whether they are still open or if they have been closed
- *Paid Losses* – dollar amount of claims payments made by insurance companies to policyholders and third-party claimants
- *Case Incurred Losses* – dollar amount already paid out by insurance companies plus the amount these companies expect to pay out on claims that are still open (excluding loss adjustment costs)
- *% of Claims Closed with Payment* – those claims that have been finalized and resulted in a payment to the policyholder or third-party claimant for all or some of the losses expressed as a percentage of the total number of claims (losses) filed
- *% of Claims Closed Overall* – those claims that have been finalized – with or without payment – as a percentage of the total number of claims (losses) filed

C. Consumer Outreach

The SCDOI encouraged South Carolinians to develop an emergency plan, review their insurance policy, take an inventory of belongings, and make their home as safe as possible. All media releases, as well as other useful information, were published via the SCDOI's website and social media accounts. In anticipation of increased call volume, the SCDOI Office of Consumer Services added phone lines and enlisted other SCDOI staff to assist consumers. The SCDOI utilized a dedicated webpage (http://www.doi.sc.gov/stormready) on its website to serve as a central hub for all content related to Dorian and provide links to other valuable resources for consumers.

VI. Catastrophe Modeling

By law, the Director may cause an evaluation to be made of any natural catastrophe model used in property insurance rate filings in South Carolina.[36] In 2012, the SCDOI solicited a Request for Proposals for a review and study of the computer simulation models that are designed to produce hurricane insurance loss costs for insuring properties in South Carolina. The assembled Catastrophe Model Panel reviewed the major hurricane models used to develop insurance rates in South Carolina. These included models from AIR Worldwide (AIR), Applied Research Associates (ARA), EQECAT, and Risk Management Solutions (RMS).[37]

In 2015, the SCDOI began reviewing new hurricane model versions internally to determine their appropriateness for use in ratemaking. This process is largely based upon the findings and recommendations of the Catastrophe Model Panel and includes an examination of changes to the model as well as rate impacts. Once a new model is approved for use in South Carolina, anticipated expiration dates are set for prior versions. Table 6.1 lists the hurricane models currently permitted for use.

Table 6.1: Hurricane Models Approved for Use in South Carolina

Modeler	Hurricane Model	Version	Approval Date	Anticipated Expiration Date
AIR	Hurricane Model for the U.S.	16.0.0	2/13/2018	7/1/2021
AIR	Hurricane Model for the U.S.	16.1.0	2/13/2018	7/1/2021
AIR	Hurricane Model for the U.S.	17.0.0	8/28/2019	TBD
AIR	Hurricane Model for the U.S.	17.0.1	8/28/2019	TBD
CoreLogic	Risk Quantification and Engineering	16	7/14/2016	TBD
RMS	RiskLink	17.0	8/8/2018	7/1/2022
RMS	RiskLink	17.0.1	8/8/2018	7/1/2022
RMS	RiskLink	18.1	12/14/2020	TBD

Source: SCDOI

[36] S.C. Code Ann. § 38-75-1140 (2014).
[37] See the 2014 and 2015 South Carolina Coastal Property Market Status Reports for further details on this process.

VII. Flood Insurance

A. The National Flood Insurance Program

The National Flood Insurance Program (NFIP) is a federal program managed by the Federal Emergency Management Administration (FEMA). Congress originally enacted the NFIP primarily because flood insurance was virtually unavailable in the private insurance market following frequent widespread flooding along the Mississippi River in the early 1960s.

The potential losses generated by NFIP have created substantial financial exposure for the federal government and U.S. taxpayers. Although Congress and FEMA intended that the NFIP be funded with premiums collected from policyholders and not with tax dollars, the program is, by design, not actuarially sound. The NFIP is currently $20.525 billion in debt to the Treasury.

Beyond natural disasters, weaknesses in the management and operations of the NFIP also create a risk that funds allocated to NFIP and premiums paid by policyholders are not being used efficiently or effectively. The most recent NFIP reauthorization will expire on September 30, 2021. There have been numerous short-term extensions over the past several years. During the reauthorization process, Congress considers potential changes and improvements while trying to balance the financial solvency of the NFIP, taxpayer exposure, and affordability concerns.

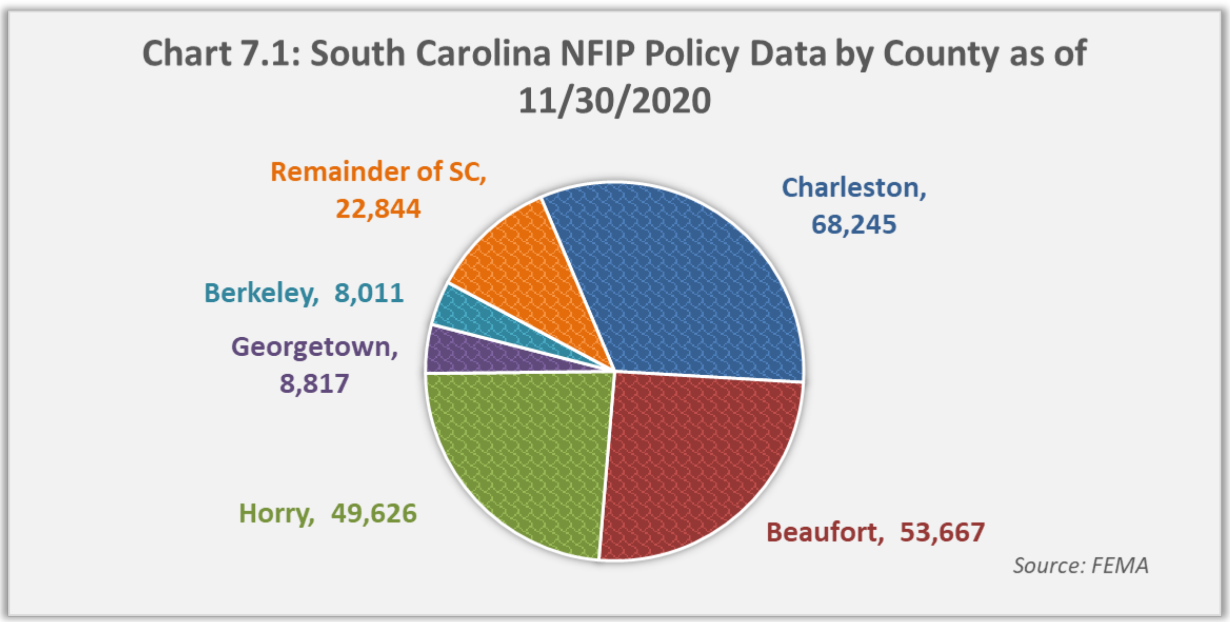
It comes as no surprise that the vast majority of NFIP policies are written in states with coastal exposure. In fact, the ten states with the most NFIP policies comprise nearly 82% of total policies in-force. As shown in Table 7.1, Florida accounts for the most NFIP policies and has more policies than Texas, Louisiana, New Jersey, and California—the next four highest states—combined. Florida also contributes the most written premium and insured value to the NFIP. South Carolina is sixth in NFIP policy count with 211,210 policies which insure $57.5 billion of property. The NFIP has a total insured value of approximately $1.35 trillion and roughly $3.8 billion in annual written premium.

Table 7.1: NFIP Policy Data by State as of 11/30/2020

State	Policies	% of Total Policies	Total Insured Value	% of Total TIV	Written Premium	% of Total Written Premium
FL	1,732,600	33.9%	$442,413,980,954	32.8%	$1,026,255,075	27.3%
TX	793,854	15.5%	$231,722,597,940	17.2%	$490,440,251	13.0%
LA	504,332	9.9%	$138,912,270,384	10.3%	$356,634,744	9.5%
NJ	214,832	4.2%	$55,239,356,600	4.1%	$204,115,066	5.4%
CA	211,353	4.1%	$62,689,365,000	4.6%	$180,159,810	4.8%
SC	**211,210**	**4.1%**	**$57,532,982,500**	**4.3%**	**$147,574,677**	**3.9%**
NY	169,439	3.3%	$47,407,212,400	3.5%	$208,536,423	5.5%
NC	142,679	2.8%	$37,944,833,600	2.8%	$105,413,230	2.8%
VA	103,839	2.0%	$28,301,559,500	2.1%	$80,207,700	2.1%
GA	81,643	1.6%	$22,730,509,400	1.7%	$56,286,048	1.5%
NFIP Total	**5,105,886**		**$1,350,297,045,078**		**$3,762,184,105**	

Source: FEMA

As expected, the bulk of NFIP policies in South Carolina are located in coastal counties. Charleston, Beaufort, Horry, Georgetown, and Berkeley counties account for roughly 89% of South Carolina's NFIP policies and total insured value; these same counties account for 90% of the annual written premium.



B. Private Flood Insurance

The SCDOI recognizes the benefits of a competitive marketplace and thus desires to increase the number of flood insurance coverage options available to South Carolina consumers. Overall, the SCDOI, as a member of the NAIC leadership and the Property and Casualty (C) Committee, is active in the NAIC's work on this subject and strongly supports the expansion of the private flood insurance market. The SCDOI is encouraging companies to begin writing private flood coverage in South Carolina and has had many discussions with potential carriers regarding new flood programs. To that end, the SCDOI drafted legislation designed to enhance the private flood insurance market in the state. On September 28, 2020, Governor Henry McMaster signed the South Carolina Private Flood Insurance Act into law (S. 882). This Act aims to foster innovative flood insurance coverage in South Carolina, allowing insurers the ability to test products in the market and offer consumers greater choice for flood insurance coverage. The S.C. Private Flood Insurance Act became effective November 28, 2020. The main provisions in the Act are:

- recognizing the various forms of private flood insurance available today—those meeting NFIP standards, discretionary acceptance policies, and any other type of coverage that covers losses resulting from flood;
- streamlining the regulatory oversight of forms and rates for private flood insurance coverage;
- allowing additional underwriting flexibility to incentivize carriers to offer coverage where and when it meets their underwriting criteria; and
- requiring 45 days' notice before a private flood insurance policy is canceled or nonrenewed to allow consumers time to purchase alternative coverage.

While certain statutory requirements must be met, the SCDOI is open to innovative flood coverage ideas and works with insurers on ways to meet their goals in a compliant manner in all regards—from the company licensing phase through implementation of new products. From 2016 to 2019 (the most recent year with data available), the number of private flood carriers writing business in South Carolina grew from 12 to 48 while aggregate written premium increased from $6.9 million to $14.7 million.

VIII. Earthquake Insurance

Although the western United States is more widely known for its exposure to earthquakes, a 2014 report (although somewhat dated, the most recent available) from the United States Geological Survey (USGS) points to increased estimated risk in areas of the eastern and central United States. The USGS report highlights the Charleston, South Carolina seismic zone as an area where earthquake hazard was raised.[38]

The availability of additional and updated data prompted the revision by the USGS. South Carolina is one of 16 states that have been struck by an earthquake of magnitude 6 or greater. As such, the USGS identifies South Carolina as having a relatively high likelihood of experiencing a damaging earthquake within the next 50 years. Charleston's 1886 earthquake is well known and is widely thought to have been of magnitude 7 or greater. There is geological evidence that this was not a standalone event but rather one in a series of recurring quakes every few hundred years. A layer of sand and sediment several kilometers thick covers local faults near Charleston, making it difficult to detect movement.[39]

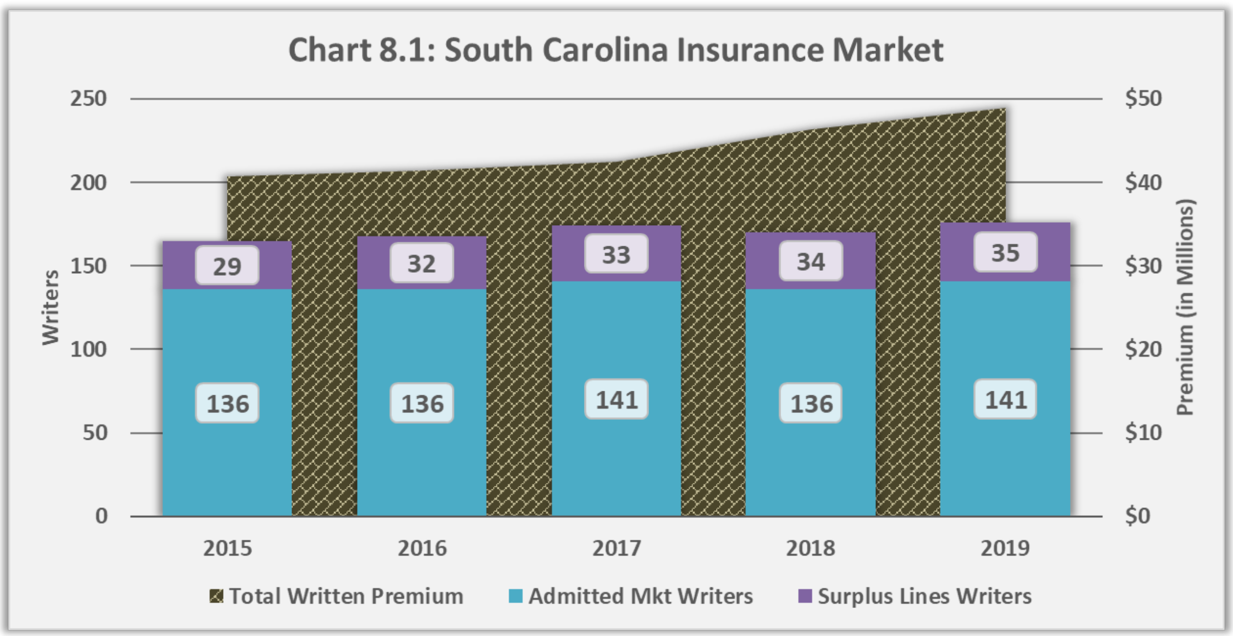
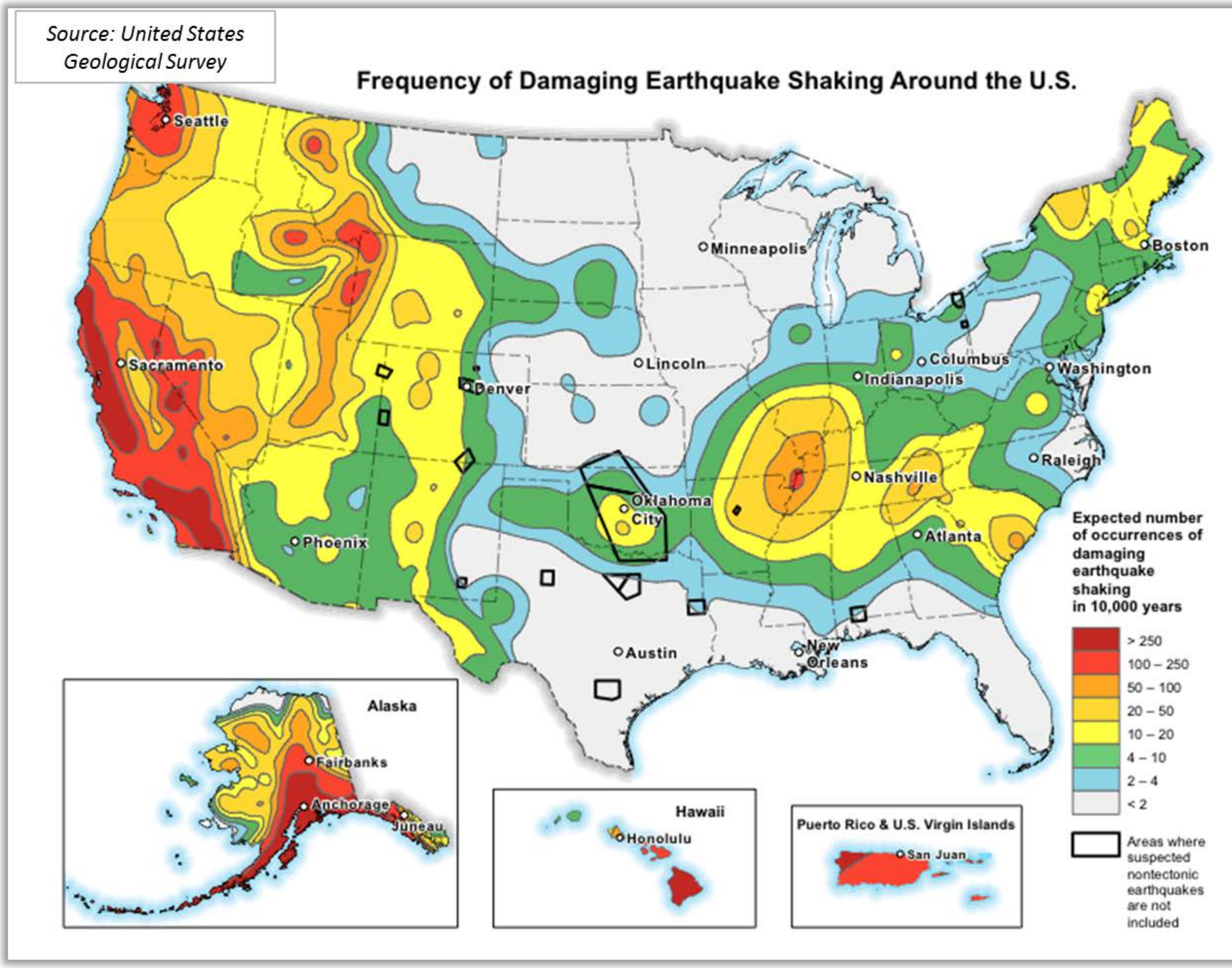


Chart 8.1 illustrates the number of admitted and surplus lines insurers writing earthquake insurance coverage during the most recent five years for which data are available; total direct written premiums are

[38] "Report: Eastern U.S. at Greater Risk for Earthquakes," usatoday.com, July 18, 2014.
[39] "New Earthquake Maps Show Charleston Still in the Bull's-Eye on East Coast," postandcourier.com, July 17, 2014.

also shown. Total written premium has increased each year from 2015 to 2019. Since policy and exposure information is not available, it cannot be determined how much of this growth is due to more consumers purchasing earthquake coverage as opposed to other factors.

The USGS graphic below presents the expected number of damaging earthquakes occurring every 10,000 years across the United States. The Charleston area is shown to be in the range of 50 to 100 damaging earthquakes expected every 10,000 years. This can be translated to say that Charleston's chance of experiencing a damaging earthquake in an average year ranges from 0.5% to 1.0%.



It is important that policyholders keep all of this information in mind when purchasing insurance coverage for their residential and commercial property. A standard property policy excludes damage resulting from an earthquake. If an insurer offers this coverage, it generally must be added through an optional endorsement. Below are some common characteristics which have an impact on earthquake insurance premiums:

- Location – Being in an earthquake-prone area increases risk of loss
- Age of the Property – Older homes are more likely to be damaged by earth movement
- Construction Type – Earthquake damage varies between frame and masonry (brick) homes
- Amount of Insurance – Higher coverage amounts and insuring to replacement cost as opposed to actual cash value both result in larger premiums
- Deductible – Selecting a smaller deductible decreases the policyholder's out of pocket expenses in the event of a loss but increases the premium charged

IX. Conclusions

In summary, the South Carolina coastal property insurance market is stable. The SCWHUA's overall trend of decreasing premiums, policies, and exposure continued in 2020. The companies in the admitted market reporting in the SCDOI's data call experienced an increased number of personal lines policies in-force but little change in the number of commercial lines policies in-force. The overall combined change for the reporting companies and the SCWHUA was an increase, which is likely due in part to an increased appetite for coastal property risk from admitted carriers.

The overall stability of the market can be influenced by multiple factors. The renewed expansion of the Wind Pool territory, which extends the effective period until March 29, 2023, unless otherwise vacated or superseded, has increased the availability of essential property insurance to consumers along the coast. The SCDOI's efforts to recruit insurers to write business along South Carolina's coastline have also aided availability in the admitted market. It should be noted that some private insurers are issuing wind only policies to compete with the SCWHUA; this is another sign of a healthy marketplace for coastal property insurance. Additionally, the SCDOI will continue to serve consumers by educating and reaching out to them in a proactive manner as well as offering support in the form of programs such as SC Safe Home and the Insurance Locator Service. The recommendations found in the subsequent section would further improve the stability of the coastal property insurance market by addressing various factors related to both availability and affordability.

X. Recommended Enhancements and Modifications

The ultimate solution to coastal property insurance issues is to build stronger structures that are better able to withstand hurricane damage. This, combined with proper land usage regulations, will create the needed long-term solution. In the short-term, efforts should be made to educate consumers on mitigation and retrofitting measures as well as encourage consumers to actively shop for insurance coverage. Accordingly, the Department recommends the following items to provide both long-term and short-term solutions:

- The State should promote education related to flood insurance to increase take up rates in locations that are not considered special flood hazard areas. Mortgage companies often do not require borrowers to purchase flood coverage on properties in these areas even though they may be subject to significant flood risk.

- 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. Counties most prone to hurricane damage should be encouraged to consider adopting code-plus building techniques. Additionally, mechanisms should be put in place to encourage use of and education on IBHS's FORTIFIED programs as well as standards set forth by the Federal Alliance for Safe Homes (FLASH).

- The State should encourage financial institutions to promote Catastrophe Savings Accounts to their customers. The money put into these accounts and the annual interest earnings are not subject to state income taxation. The State should further encourage our Congressional delegation to promote the expansion of this incentive to apply to federal income taxation as well.

XI. Appendix

1. **SCDOI Bulletin 2014-08 (Competitive Insurance Act)**
   http://www.doi.sc.gov/DocumentCenter/View/7667
2. **SCDOI Bulletin 2019-07 (Notice of Unusual Circumstance/Catastrophe Insurance Declaration for South Carolina due to Hurricane Dorian for the Purposes of Licensing Temporary Adjusters and Motor Vehicle Physical Damage Appraisers)**
   http://www.doi.sc.gov/DocumentCenter/View/12150
3. **SCDOI Bulletin 2019-08 (Additional Assistance for Insureds and Covered Persons Directly Impacted by Hurricane Dorian)**
   http://www.doi.sc.gov/DocumentCenter/View/12162
4. **SCDOI Bulletin 2020-06 (SC Safe Home Mitigation Grant Program Award Amount – Notice of Program Revisions and Maximum Grant Amounts)**
   http://www.doi.sc.gov/DocumentCenter/View/12902
5. **SCDOI Hurricane Dorian Catastrophe Claims Data Call Notice**
   https://doi.sc.gov/DocumentCenter/View/12157
6. **SCDOI Order 2020-06 (Wind Pool Expansion Renewal Order)**
   http://doi.sc.gov/DocumentCenter/View/13172