

# 2017 STATUS REPORT ON THE SOUTH CAROLINA COASTAL PROPERTY INSURANCE MARKET



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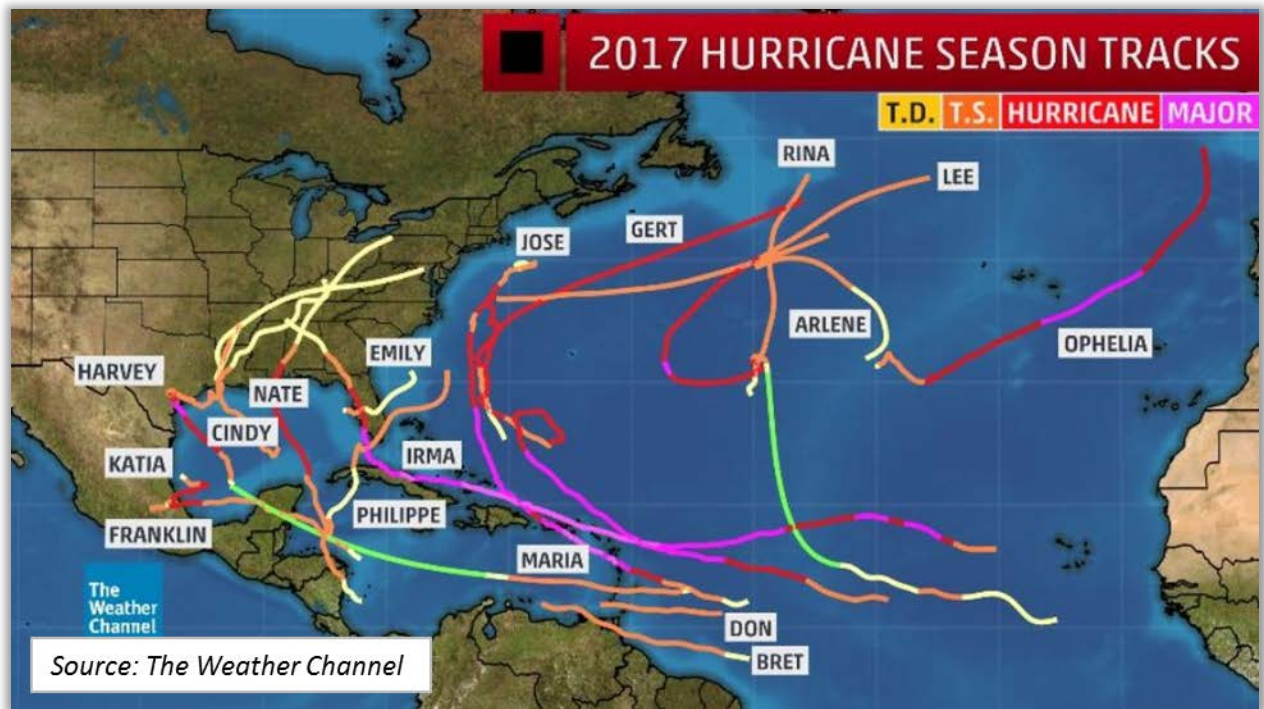
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# I. Executive Summary

## A. Overview of 2017 Hurricane Season

The 2017 Atlantic Hurricane Season produced 17 named storms, ten total hurricanes, and six major (Category 3 or stronger) hurricanes. While 2005 still holds the record with 28 storms, the 2017 numbers are notably higher than the 30-year average of 12 named storms, six hurricanes, and two major hurricanes. Despite not being the most active hurricane season, the paths and strength of several storms ultimately pushed the 2017 season to become the most expensive to date with damages exceeding \$202 billion.<sup>1</sup>



Following a 12 year drought of major hurricane landfalls in the United States, 2017 was the first year on record in which the United States was struck by three Category 4 hurricanes: Harvey (Texas), Irma (Florida), and Maria (Puerto Rico). Harvey set a new tropical rainfall record with just over 60 inches while Irma maintained Category 5 strength for 37 hours, smashing the prior longest stretch of 24 hours set by

<sup>1</sup> These losses do not include Hurricane Ophelia which was able to maintain hurricane strength within 12 hours of nearing Ireland; Ophelia was the worst tropical storm to impact Ireland since 1961.

Typhoon Haiyan.<sup>2</sup> Accumulated Cyclone Energy (ACE) is a measure of hurricane activity based on the number, strength, and duration of all tropical storms and hurricanes in a given period. September 2017 generated more ACE than any other calendar month on record according to Colorado State University meteorologist Dr. Phil Klotzbach.<sup>3</sup>

Despite the record breaking year, South Carolina was fortunate in that it had limited impact from the storms. Although the state was in Irma's forecasted cone of uncertainty for a time, the hurricane's actual path diverted west. This resulted in Irma causing much less damage in South Carolina than Hurricane Matthew did in 2016.

## **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).<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup>

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 2017.

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<sup>2</sup> "2017 Hurricane Season Ranks As Costliest Ever for U.S.," Insurancejournal.com, November 28, 2017.

<sup>3</sup> "2017 Atlantic Hurricane Season Recap: 17 Moments We'll Never Forget," Weather.com, November 28, 2017.

<sup>4</sup> 2007 S.C. Act No. 78.

<sup>5</sup> 2014 S.C. Act No. 191.

<sup>6</sup> S.C. Code Ann. § 38-3-110 (2014).

### **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 Association), an insurer data call, consumer complaints, and consumer assistance provided through the SCDOI's Market Assistance Program. 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 2016 and 2017 via the insurer data call show that policy counts increased over that time period for both personal and commercial lines. 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 Market Assistance Program 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 10 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.<sup>7</sup> 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.<sup>8</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>9</sup>

### 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.<sup>10</sup> All admitted property insurance companies licensed by the SCDOI are members of and are required to participate in the SCWHUA.<sup>11</sup>

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.<sup>12</sup> 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

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<sup>7</sup> S.C. Code Ann. § 38-75-330(A) (2014).

<sup>8</sup> S.C. Code Ann. § 38-75-400(B) (2014).

<sup>9</sup> *Id.*

<sup>10</sup> S.C. Code Ann. § 38-75-320 (2014).

<sup>11</sup> S.C. Code Ann. § 38-75-330(B) (2014).

<sup>12</sup> 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.<sup>13</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 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-200 year event number. Over an extended period of time, for example, 10,000 years, the SCWHUA should expect to see a 1-in-200 year storm once every 200 years. This is a long-term, statistical number; it means that there is approximately a 0.5% 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-200 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-200 year event number and beyond is expensive and can impact assessment amounts if not bought. In 2007 and 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

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<sup>13</sup> S.C. Code Ann. § 38-75-370 (2014).

companies can properly record their liabilities at year end for their financial statements. The 2014 refund

**Table 2.1: SCWHUA Assessments**

Association Year (11/1 to 10/31)	Assessments (Refunds)
2007	(\$8,134,390)
2008	(\$4,211,333)
2009	\$4,882,917
2010	\$2,887,962
2011	\$4,211,333
2012	\$6,422,460
2013	\$4,227,955
2014	(\$7,281,366)
2015	Not Finalized
2016	\$8,000,000

*Source: SCWHUA*

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; this is the reason 2015 has not been closed at the time of this report's submission. One of the goals of the SCWHUA is to break even financially. SCWHUA data show that from Fiscal Years 1973 to 2017, the SCWHUA incurred a net operating loss of \$1,034,108. This is based on written premium for that time period of \$1.3 billion.<sup>14</sup>

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 \$22 million incurred loss estimate, only \$10 million will be paid by member insurers.

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 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 modified coverage at a lower price during the two years following a major event. The program is with

<sup>14</sup> It should be noted that the SCWHUA was formed in 1971, but financial records for 1971 and 1972 are not available.



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.

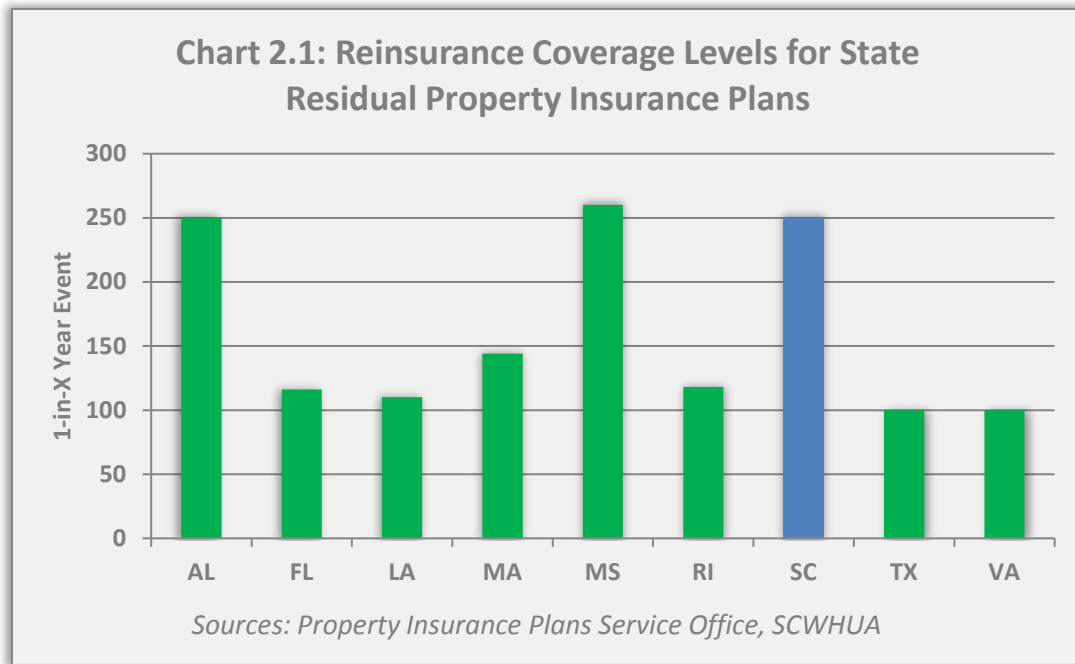


Chart 2.1, above, compares the reinsurance coverage levels (in terms of event likelihood levels as discussed above) among various residual markets providing wind coverage throughout the United States. Other states' residual property insurance plans have taken different approaches. North Carolina, for 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.

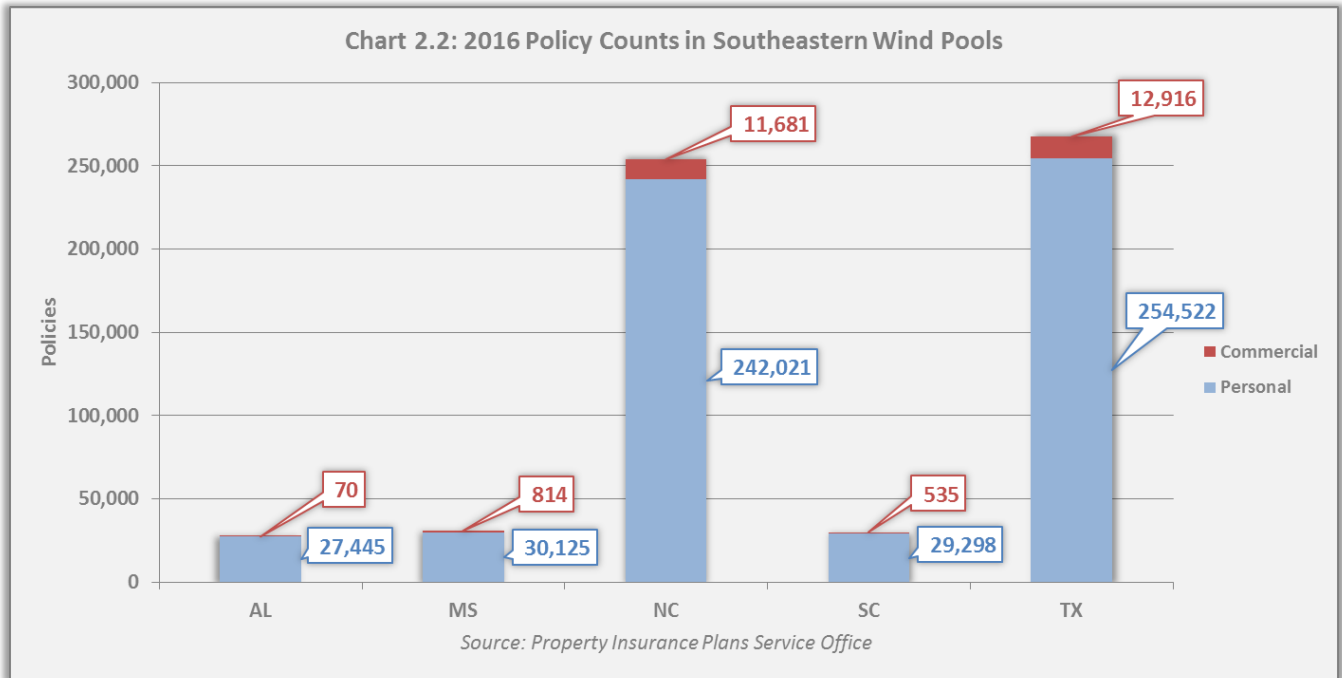


Chart 2.2 illustrates the standing of the SCWHUA in terms of policy counts relative to other wind pools in the Southeastern United States in 2016 (latest data available). South Carolina is significantly below several other states in the region. Although this can partially be explained by population differences 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 market of last resort, Citizens Property Insurance Corporation (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; although its policy count has declined to less than 450,000, CPIC still represented 8% of the Florida homeowners insurance market as of June 30, 2017.<sup>15</sup>

## 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

<sup>15</sup> “Florida Residential Property Market Share June 30, 2017 Report,” Citizens Property Insurance Corporation, 2017.

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.

#### **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."<sup>16</sup> 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

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<sup>16</sup> S.C. Code Ann. § 38-75-310(1) (2014).

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, and 2017-01.

Prior to the issuance of the latest renewal via Order 2017-01, 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 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 2017-01 on January 26, 2017 to renew Order 2015-01 and keep the territory expansion in effect until March 29, 2019 based on the SCDOI's review, which included the aforementioned feedback from the SCWHUA. It is anticipated that the SCDOI will review the territory expansion during late 2018 to determine if conditions warrant leaving the territory in its current format and renewing the expansion order once again. The SCWHUA will participate in those discussions.

#### **b. Deductibles**

The SCWHUA utilizes a lower deductible 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.

**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, 2017, 408 policyholders were using eFinance, the electronic financing option. This represents 2% of the current book of business. Another 241 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. During Hurricane Matthew, the next phase of eClaims was implemented. This system upgrade includes features to allow the assigned examiner to manage the day to day activity of a claim.

On October 8, 2016, Hurricane Matthew struck the South Carolina coast from Daufuskie Island to Little River, leaving varying levels of damage. The SCWHUA had previously implemented its catastrophe plan as the storm traveled up the Florida coastline.

One of the first steps was to move the claims call center. Using a third party vendor based in Tampa and Jacksonville, the SCWHUA requested that the backup facility based in Indianapolis be activated immediately. Call centers in Dallas and Denver were put on notice to be ready to respond in the event that the storm somehow went in to the Midwest and damaged the Indianapolis facility. The SCWHUA's key contact with the claims call center immediately traveled to Indianapolis to conduct a refresher course

for the staff who would be receiving reports of loss. The call center was put on notice that calls could be coming at all hours any day of the week until further notice.

Preparations for the implementation of the SCWHUA storm office were also put in place. On October 10, 2016, the storm office was operational with five examiners onsite. The staffing of the storm office ultimately grew to 21 storm examiners. The initial role of the storm office examiners was to contact each claimant to establish a line of communication. Because an adjuster was often on a roof or underneath a house, claimants and policyholders might find it difficult to immediately reach the assigned adjuster. As a result, they were requested to contact the storm examiner using a direct telephone number. In the event that their assigned examiner was on another line or temporarily away from his or her desk, the phone call would automatically rotate to the next available examiner who would assist the consumer and then brief the assigned examiner.

The storm examiners assumed responsibility for claims and provided supervision of the individual claim files including the adjuster and any assigned experts (e.g., an engineer). They also performed quality control activities on the work products submitted by the individual adjusters. The storm office examiners worked from 7:00 a.m. to 7:00 p.m. each day. The operation began on October 10, 2016 and was only closed three days—Thanksgiving Day, Christmas Day, and New Year’s Day. At all other times, the storm office was operational to assist consumers. The storm office closed on July 19, 2017; remaining claims were handled by SCWHUA staff.

Seven adjusting firms provided over 100 adjusters to work in the field. They were aided by teams of engineers who were available to assist with the analysis of structural damage as well as wind versus water issues. Engineers were also charged with the responsibility of trying to determine if there was any additional wind damage which may not have been detected by the consumer, the adjuster, or the consumer’s contractor.

This report previously highlighted the online reporting system used by insurance producers and the claims call center to electronically report claims to the SCWHUA claims assignments system. For the 2016 hurricane season, two additional phases of this system were implemented. The second phase of the system involved the SCWHUA posting claims assignments on the internet behind a secure adjusting firm portal. Adjusting firms were notified when assignments had been made and were instructed to login to the network to download their files. This process allowed the SCWHUA to determine when files had been accepted to the 100<sup>th</sup> of a second. It also provided information as to which individual adjuster the file had

been assigned to and included contact information. The third phase was also implemented prior to Matthew. This allowed adjusters and adjusting firms to upload their work product for review by SCWHUA storm examiners. Due to the advice and guidance provided by the storm examiners, a number of additional enhancements were made to the system. The system now documents all communications by the storm examiner with the adjuster, storm experts, consumers, insurance producers, and other involved in the claim. This information is made available to the entire SCWHUA claims staff so that they will be able to promptly respond to any inquiries.

**Table 2.2: SCWHUA Hurricane Matthew Claim Reporting through 12/31/2017**

<b>County</b>	<b>Reported Claims</b>	<b>Closed Claims</b>	<b>Open Claims</b>	<b>% Closed</b>	<b>Total Incurred Loss</b>	<b>Average Incurred Loss</b>
Beaufort	1,770	1,765	5	99.7%	\$14,476,319	\$8,179
Charleston	316	316	0	100.0%	\$603,512	\$1,910
Colleton	189	189	0	100.0%	\$685,691	\$3,628
Georgetown	436	436	0	100.0%	\$1,455,529	\$3,338
Horry	1,317	1,317	0	100.0%	\$5,090,064	\$3,865
<b>Total</b>	<b>4,028</b>	<b>4,023</b>	<b>5</b>	<b>99.9%</b>	<b>\$22,311,115</b>	<b>\$5,539</b>

*Source: SCWHUA*

Due to the nature of the South Carolina coast and the predominance of secondary homes, the reporting of Matthew claims took place over an extended time. Table 2.2 shows the status of the SCWHUA's Matthew claims as of December 31, 2017. As of December 31, 2017, the SCWHUA had closed 99.9% of its Matthew claims with payouts for the storm estimated to be \$22.3 million.

When Hurricane Irma was approaching the state, the SCWHUA implemented its catastrophe plan. This included reviewing its disaster recovery plan. Fortunately for South Carolinians, the storm veered west to Florida. As a result, the Storm Office was not activated. The status of claims resulting from Irma can be found in Table 2.3.



**Table 2.3: SCWHUA Hurricane Irma Claim Reporting through 12/31/2017**

County	Reported Claims	Closed Claims	Open Claims	% Closed	Total Incurred Loss	Average Incurred Loss
Beaufort	60	59	1	98.3%	\$67,459	\$1,124
Charleston	61	58	3	95.1%	\$466,204	\$7,643
Colleton	11	11	0	100.0%	\$11,716	\$1,065
Georgetown	8	7	1	87.5%	\$12,761	\$1,595
Horry	39	38	1	97.4%	\$75,827	\$1,944
<b>Total</b>	<b>179</b>	<b>173</b>	<b>6</b>	<b>96.6%</b>	<b>\$633,967</b>	<b>\$3,542</b>

Source: SCWHUA

#### 4. Security Issues

Following several well publicized data breaches in the state, in 2014, Director Farmer called on all residual markets to review their security measures and report back to the SCDOI. The SCWHUA prepared an initial audit in response to that request; however, it is important to note that this is not a project but rather an ongoing process to secure the policy level data. Highlights of the on-going security audit include:

- An upgraded camera system for monitoring the office
- Keypad access to outside doors with a camera monitoring persons requesting admission
- An additional camera system to be installed in the storm office
- Additional training for staff on security and the protection of non-public information
- Implementation of a virtual machine computer network to provide improved security and back-up services
- Currently upgrading password security for employees
- A review of laptops for any non-public data
- Upgraded privacy wording in reinsurance contracts
- Moving from Windows XP to Windows 8.1

The SCWHUA reports that, during 2016, every staff member participated in a second Cyber Security Course. This online program consisted of ten modules covering various aspects of cyber security. Each staff member successfully completed the program. In 2018, staff members will participate in another Cyber Security Course. In 2017, the SCWHUA undertook a major IT security effort in which hacking software was purchased and used to test systems. Any noted areas of concern have been addressed or

are in the process of being rectified. Two staff members will be obtaining additional cyber security training during the first quarter of 2018.

## **5. 2018 Tri-Annual Audit**

As this report is being prepared, it is anticipated that the Tri-Annual Audit will be conducted by the SCDOI in 2018. The previous audit was conducted during the first quarter of 2015. The upcoming audit will cover Association Years 2015, 2016, and 2017. The audit team will sample transactions, verify assets, and examine regulatory requirements. A full report will be prepared by the SCDOI and signed by the Director of Insurance. A copy of the report will be formally submitted to each board member of the SCWHUA.

## **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 is also being 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. The next step in this process is to run a test recovery from the primary backup site and later the secondary backup site. Limited internal testing was done in 2016 with a formal data penetration test conducted in 2017.

The ERM disaster plan was tested during the October 2015 severe weather. Due to damaged roads and bridges, the Governor requested all citizens to stay in their homes. Many businesses and government agencies were closed. As a result, the SCWHUA implemented its disaster plan. Incoming

business was handled remotely. Reported claims were received and assigned to available adjusters. Phone calls and emails were returned.

During 2016, the SCWHUA updated the ERM Document. It was noted that the response to the October 2015 severe storms and flooding, the response to the 2016 hurricane season, and the disaster recovery testing documented the success and adequacy of the plans. During September 2016, the SCWHUA did an extensive review of its ERM program. As a part of this process, detailed testing was done for the Disaster Recovery Plan. After notifying insurance producers that the producer portal would not be available on Sunday, August 21, 2016, the SCWHUA IT staff took down the website ([www.scwind.com](http://www.scwind.com)). The IT staff immediately took steps to bring up the system and make it operational at the primary backup site. This was successfully accomplished and the updated web address was populated throughout the internet within a matter of hours.

Key members of the SCWHUA staff then began a detailed testing procedure utilizing the backup system. Policies were entered, cancelled, and modified by endorsement; payments were applied. All aspects of normal transactions were tested, and the results were documented. Operational employees ran cycles, policies were produced, and normal operational reports were generated. The most significant flaw found in the process was the need to have access to a high speed printer. Such a printer was ordered and installed at the primary backup site. The following week, SCWHUA employees tested other systems, such as the general ledger system. All functions tested worked successfully, and the process was documented. Although the primary backup site has not been needed in response to a catastrophic event, it has been available to receive and assign claims if needed. Operational functions would have been able to continue until the main SCWHUA office could be restored.

### **C. SCWHUA Book of Business**

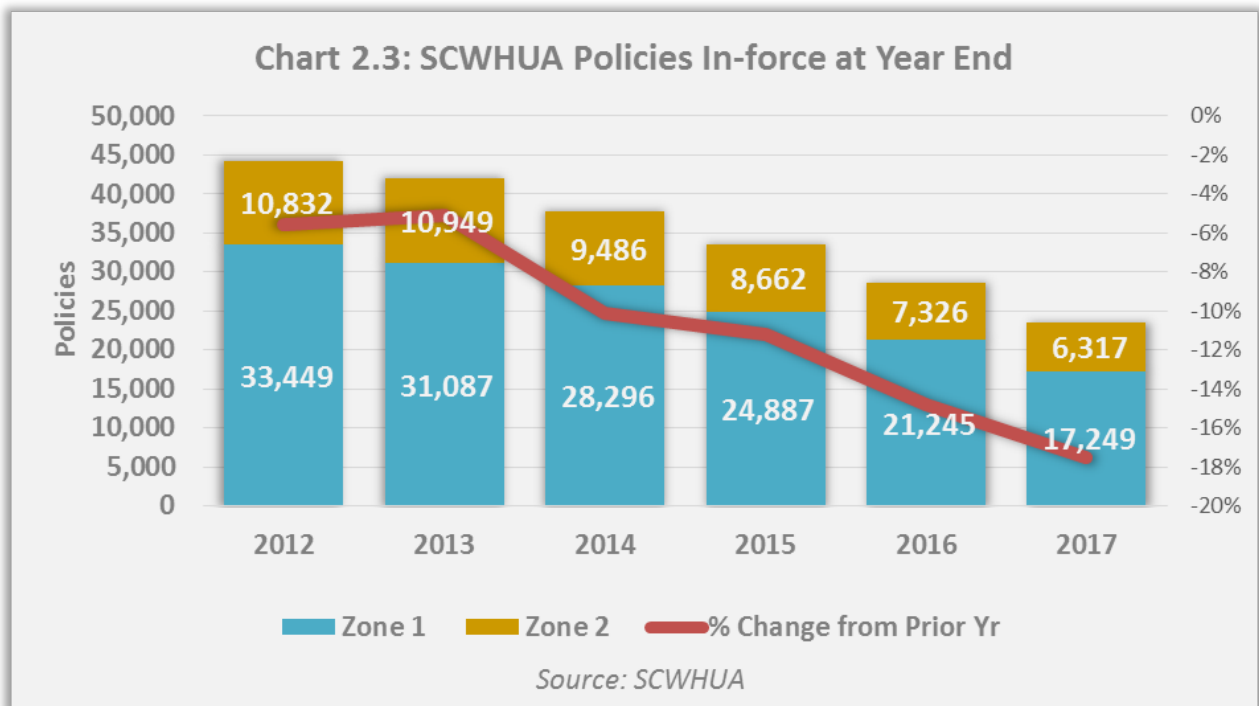
As noted in previous annual reports, there are positive trends occurring in terms of the coastal property insurance marketplace in South Carolina. Anecdotal reports from insurance producers indicate that they have markets and/or alternatives for clients seeking coastal property insurance. Consumer complaints 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 12/31/2017**

	08/31/2011	12/31/2017	Change
<b>Policy Count</b>	47,366	23,566	-50.2%
<b>Premium</b>	\$97,007,667	\$47,977,611	-50.5%
<b>Total Insured Limits</b>	\$17,310,330,477	\$7,623,866,784	-56.0%

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, 2017, 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 almost \$9.7 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 \$9.7 billion decrease in total insured limits equates to more than ten times the total exposure that the Association had when Hurricane Hugo made landfall in 1989.



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 since the 2011 peak. 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 2017.

**Table 2.5: SCWHUA In-Force Policy Changes from 8/31/2011 to 12/31/2017**

Zone	County	Policy Count	Policy Count % Change	In-Force Premiums	In-Force Insured Limits
1	Beaufort	-6,324	-65%	-\$16,695,955	-\$3,675,857,146
1	Charleston	-2,940	-57%	-\$9,273,815	-\$1,706,390,498
1	Colleton	-623	-55%	-\$1,322,689	-\$243,672,185
1	Georgetown	-1,226	-45%	-\$2,907,281	-\$548,398,414
1	Horry	-8,333	-47%	-\$13,318,149	-\$2,356,081,819
<b>Total Zone 1</b>		<b>-19,446</b>	<b>-53%</b>	<b>-\$43,517,889</b>	<b>-\$8,530,400,062</b>
2	Beaufort	-477	-38%	-\$745,863	-\$169,947,933
2	Charleston	-2,282	-47%	-\$3,034,054	-\$608,708,065
2	Colleton	-2	-100%	-\$6,848	-\$1,320,800
2	Georgetown	-28	-3%	-\$4,072	-\$2,277,571
2	Horry	-1,565	-43%	-\$1,721,330	-\$373,809,262
<b>Total Zone 2</b>		<b>-4,354</b>	<b>-41%</b>	<b>-\$5,512,167</b>	<b>-\$1,156,063,631</b>
<b>Grand Total</b>		<b>-23,800</b>	<b>-50%</b>	<b>-\$49,030,056</b>	<b>-\$9,686,463,693</b>

Source: SCWHUA

As seen in Table 2.6, Horry County has the highest exposure with just under \$2.5 billion of in-force liability (“Insured Limits”); Beaufort County has the second highest with \$1.9 billion. Despite these large values, the downward trends during the past six years (discussed earlier in this section) are encouraging. The SCWHUA reports these trends are continuing—even after the impacts of Hurricanes Matthew and Irma. 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 12/31/2017 by Wind Pool Zone and by County**

Zone	County	Policy Count	% of Total Policies	In-Force Premiums	% of Total Premium	Insured Limits
1	Beaufort	3,437	15%	\$8,431,305	18%	\$1,649,632,145
1	Charleston	2,252	10%	\$8,229,846	17%	\$1,198,483,190
1	Colleton	513	2%	\$1,284,168	3%	\$188,012,594
1	Georgetown	1,477	6%	\$3,870,787	8%	\$615,694,055
1	Horry	9,570	41%	\$15,920,997	33%	\$2,038,482,263
<b>Total Zone 1</b>		<b>17,249</b>	<b>73%</b>	<b>\$37,737,103</b>	<b>79%</b>	<b>\$5,690,304,247</b>
2	Beaufort	778	3%	\$1,197,357	2%	\$290,483,848
2	Charleston	2,584	11%	\$5,129,446	11%	\$936,477,335
2	Colleton	0	0%	\$0	0%	\$0
2	Georgetown	873	4%	\$1,346,168	3%	\$263,351,437
2	Horry	2,082	9%	\$2,567,537	5%	\$443,249,917
<b>Total Zone 2</b>		<b>6,317</b>	<b>27%</b>	<b>\$10,240,508</b>	<b>21%</b>	<b>\$1,933,562,537</b>
<b>Grand Total</b>		<b>23,566</b>	<b>100%</b>	<b>\$47,977,611</b>	<b>100%</b>	<b>\$7,623,866,784</b>

Source: SCWHUA

### III. Department of Insurance Data Call

In October 2007, the SCDOI issued an ongoing data call to all admitted carriers<sup>17</sup> 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.<sup>18</sup> Due to the timing of these quarterly submissions, this report includes data for the first three quarters of 2016 and 2017.

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.<sup>19</sup> Therefore, in order to minimize any distortion, we believe it is most appropriate to focus on the changes between 2016 and 2017 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 90 carriers reporting in 2017 compared to 94 carriers reporting in 2016 and 89 in 2015. These numbers vary as carriers reach or fall below the established premium threshold for reporting. The number of companies reporting has remained relatively steady over the data call period.

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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.

<sup>19</sup> Carrier data submissions with clear data inconsistencies which could not be resolved were 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	% With Wind	% Without Wind
Sep 2016	14,115	4,278	18,393	76.7%	23.3%
Sep 2017	13,686	3,615	17,301	79.1%	20.9%
% Change	-3.0%	-15.5%	-5.9%		

Source: SCDOI Data Call

The total number of new policies issued by admitted carriers in the Wind Pool area decreased by 5.9% for the first three quarters of 2017 as compared to the first three quarters of 2016. By comparison, there was a net increase of 8.3% in new policies issued for the same nine-month period between 2015 and 2016. However, the percentage of new, personal lines property insurance policies written in the Wind Pool that included wind increased, with a 2.4% net increase (from 76.7% in 2016 to 79.1% in 2017). While new policies written is one indication of the willingness of companies to expand their books of business in the Wind Pool area, we look to 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 Policies In-Force	% With Wind	% Without Wind
Sep 2016	73,244	38,480	111,724	65.6%	34.4%
Sep 2017	77,960	35,545	113,505	68.7%	31.3%
% Change	6.4%	-7.6%	1.6%		

Source: SCDOI Data Call

The total number of policies in-force reported by admitted carriers in the Wind Pool area increased by 1.6% from 2016 to 2017. The percent of policies in-force that included wind coverage rose



from 65.6% in 2016 to 68.7% in 2017. 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 positive indications that there is, generally speaking, availability of coverage outside of the residual market for most personal lines coastal property insurance consumers along our coast.

## B. Data Call Results for the Commercial Lines Admitted Market

There were 91 carriers reporting data for 2017 compared to 94 carriers reporting in 2016 and 93 in 2015. As with the personal lines data, 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	% With Wind	% Without Wind
Sep 2016	292	238	530	55.1%	44.9%
Sep 2017	772	244	1016	76.0%	24.0%
% Change	164.4%	2.5%	91.7%		

*Source: SCDOI Data Call*

A much larger portion of new policies were reported as being written with wind coverage in the first three quarters of 2017 as compared to the same period in 2016. The number of new policies issued increased drastically. These developments are due in large part to the entrance of two new insurers in the market; both of these carriers have an appetite for writing wind coverage along the coast.

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

Month	PIF With Wind	PIF Without Wind	Total Policies In-Force	% With Wind	% Without Wind
Sep 2016	3,109	2,048	5,156	60.3%	39.7%
Sep 2017	3,564	2,135	5,699	62.5%	37.5%
% Change	14.7%	4.3%	10.5%		

*Source: SCDOI Data Call*

Total in-force commercial policies written with wind coverage in the admitted market increased significantly in 2017, while policies written without wind coverage increased to a lesser degree. Again, the higher number of policies written with wind coverage is largely the result of the two new market entrants discussed earlier in this section. 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 increased from 60.3% in 2016 to 62.5% in 2017. As noted under the personal lines data call section, there are limitations to this data call, but these trends indicate positive developments in regards to the availability of admitted property insurance coverage to commercial consumers along our 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.<sup>20</sup> It provides consumers with information and assistance via its website ([www.doi.sc.gov](http://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 Market Assistance Program 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.

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<sup>20</sup> 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.

The 2017 annual public hearing was held on June 8, 2017, at the Bluffton Town Hall. In keeping with prior practice, the agenda covered a variety of subjects relative to coastal property insurance in addition to specifically addressing the status of and hearing public input relating to the SCWHUA. The 2017 public hearing began with comments about Beaufort County's response to Hurricane Matthew from Lieutenant Colonel Neil Baxley, the Beaufort County Sheriff's Office Emergency Management Division



Commander. Lisa Sharrard of U.S. Flood Solutions, LLC then spoke about flood risk and insurance coverage availability. Jay Taylor, a managing partner of the Kinghorn Insurance Agency in Beaufort, provided information about homeowners coverage and

deductible options offered by insurers. The agenda also included a presentation from Smitty Harrison (Executive Director of the SCWHUA). Director Farmer moderated the hearing and provided information on the impact of Hurricane Matthew and relevant SCDOI consumer initiatives. The meeting concluded with a question and answer session in which consumers were invited to ask the panel questions regarding insurance, flood perils and other risks, mitigation measures, and ways that they might prepare their properties for the upcoming storm hurricane season. In addition to SCDOI staff, a number of exhibitors were available to answer questions before and after the hearing.

## **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 a Market Assistance Program and by implementing additional coastal outreach in 2013. Due to its increasing success, the Market Assistance Program was expanded statewide in 2014. The SCDOI encourages consumers to shop around for coverage, and the Market Assistance Program was established to help consumers do so. This Program 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 Market Assistance Program has helped 566 consumers shop the coastal 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 consumers helped in this way statewide is 813 (70% of which were coastal consumers). Table 4.1 provides a breakdown of the coastal versus non-coastal consumers assisted in 2017.

**Table 4.1: SCDOI Market Assistance Program Consumer Requests in 2017**

	Number	Percent of Total
<b>Coastal</b>	89	57%
<b>Non-Coastal</b>	66	43%
<b>Total</b>	155	

*Source: SCDOI Market Assistance Program*

Furthermore, the SCDOI has developed a page on its website ([doi.sc.gov/marketassist](http://doi.sc.gov/marketassist)) that is specifically dedicated to market assistance. 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 Market Assistance Program. This service is free and allows consumers to make their information available to agents and companies.

The SCDOI also developed an online Price Comparison Tool ([doi.sc.gov/pricecompare](http://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's coastal consumer liaison has continued an effort the Department began in 2013 to provide assistance to consumers in their local communities on a regular basis. Biweekly, the SCDOI has sent its coastal consumer liaison to meet coastal property insurance consumers closer to where they live and in a more convenient location for them. From January 2016 to May 2017, this assistance program was expanded to include office hours at the Hilton Head Island-Bluffton Chamber of Commerce (in Beaufort County) every other week. The SCDOI continues to work with local contacts to incorporate other areas throughout the state in this outreach schedule so that a representative may spend more time on the ground and be accessible to as many consumers as possible in as many locations as possible.

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 was first demonstrated in February 2014 when the state was hit by the second of two ice and snow storms that left Aiken County particularly devastated. This training was also put to good use during the many consumer outreach events following Hurricane Matthew and the October 2015 flooding.

## **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 5,300 grants totaling more than \$22.8 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.<sup>21</sup> 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.

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<sup>21</sup> See SCDOT Bulletin 2017-13 for more details.

In 2017, the program awarded 55 grants totaling \$258,861. Over the same period, program staff worked with web developers to create an online portal through which consumers can apply for grants. This portal was opened on December 1, 2017 with more than 368 grant applications received online as of January 17, 2018. 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

**Table 4.2: 2017 SC Safe Home Grants Awarded by County**

County	Grants	Awards
Beaufort	0	\$0
Berkeley	6	\$27,505
Charleston	12	\$56,075
Colleton	0	\$0
Dorchester	2	\$8,156
Florence	1	\$5,000
Georgetown	3	\$12,250
Horry	31	\$149,875
Jasper	0	\$0
Marion	0	\$0
Williamsburg	0	\$0
<b>2017 Total</b>	<b>55</b>	<b>\$258,861</b>

*Source: SC Safe Home*

total number of approved contractors and inspectors working with the program is 103, with many of these individuals approved to work in multiple counties. The SC Safe Home website ([www.scsafehome.com](http://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, 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.<sup>22</sup> Based on this statement, it is estimated that grants

<sup>22</sup> *Natural Hazard Mitigation Saves: 2017 Interim Report*, National Institute of Building Sciences, 2017.

awarded by SC Safe Home have reduced the potential costs from future hurricanes and severe wind events by more than \$136 million.

## 2. Annual Hurricane Expo

The Department partnered with The Home Depot, iHeart Media, , and others to host hurricane expo events in Bluffton on June 8, 2017 and in Myrtle Beach on June 24, 2017 to kick off the hurricane season. In its fifth year, this outreach initiative provides 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 took 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.



## 3. Catastrophe Savings Account

One of the many consumer-based initiatives included in the Omnibus Act is the creation of catastrophe savings accounts (CSAs).<sup>23</sup> 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

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<sup>23</sup> S.C. Code Ann. § 12-6-1620 (2007).



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. In the 2016 tax year, 135 taxpayers made excess withdrawals from their CSAs, resulting in a total tax amount of \$58,657.<sup>24</sup>

#### 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

**Table 4.4: Tax Credits for Fortification Measures**

Calendar Year	Number of Credits	Total Amount of Credits
2009	155	\$168,364
2010	217	\$230,753
2011	214	\$232,419
2012	130	\$149,686
2013	163	\$179,833
2014	159	\$178,960
2015	163	\$200,296
2016	208	\$228,455
<b>Total</b>	<b>1,409</b>	<b>\$1,568,766</b>

*Source: SC Department of Revenue*

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.<sup>25</sup> 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.<sup>26</sup> 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.

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.<sup>25</sup> 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

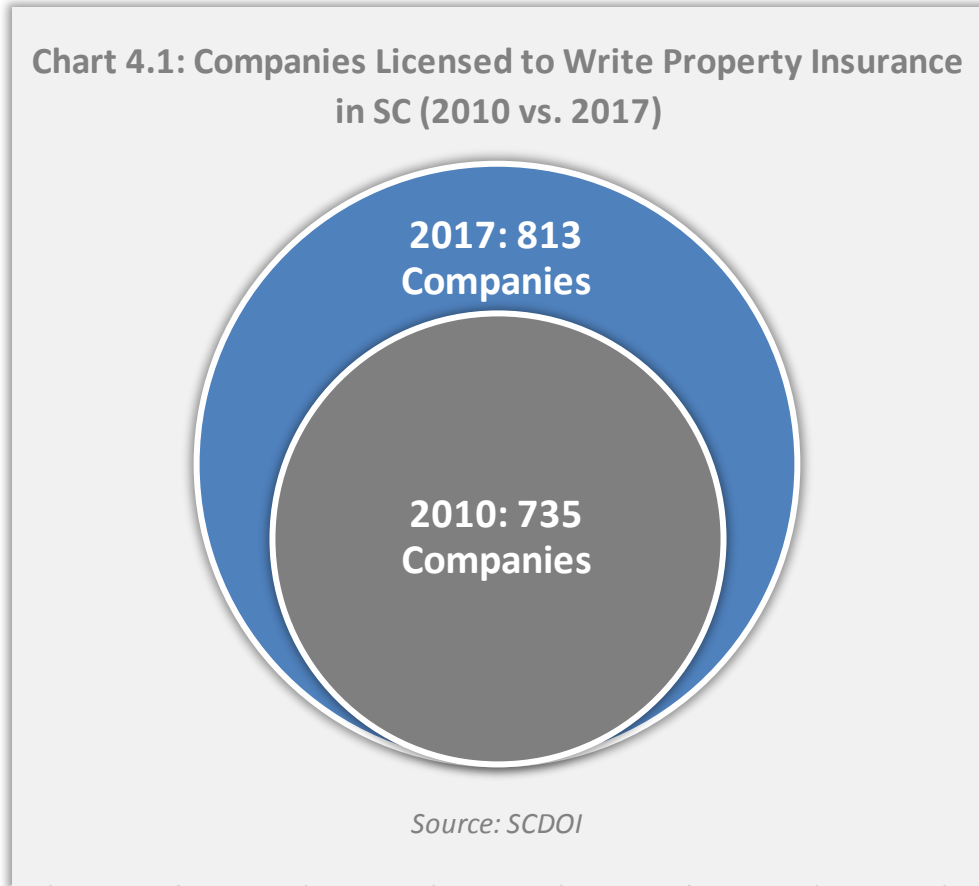
<sup>24</sup> Data on the number of consumers claiming tax breaks for CSAs is not available due to SCDOI reporting limitations.

<sup>25</sup> S.C. Code Ann. § 12-6-3660 (2007).

<sup>26</sup> 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 79 companies.



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.<sup>27</sup> As shown in Table 4.5, the amount of the credit taken by companies decreased from 2010 to 2012 but has risen each subsequent year.<sup>28</sup> 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.

**Table 4.5: 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
<b>Total</b>	<b>\$483,986</b>

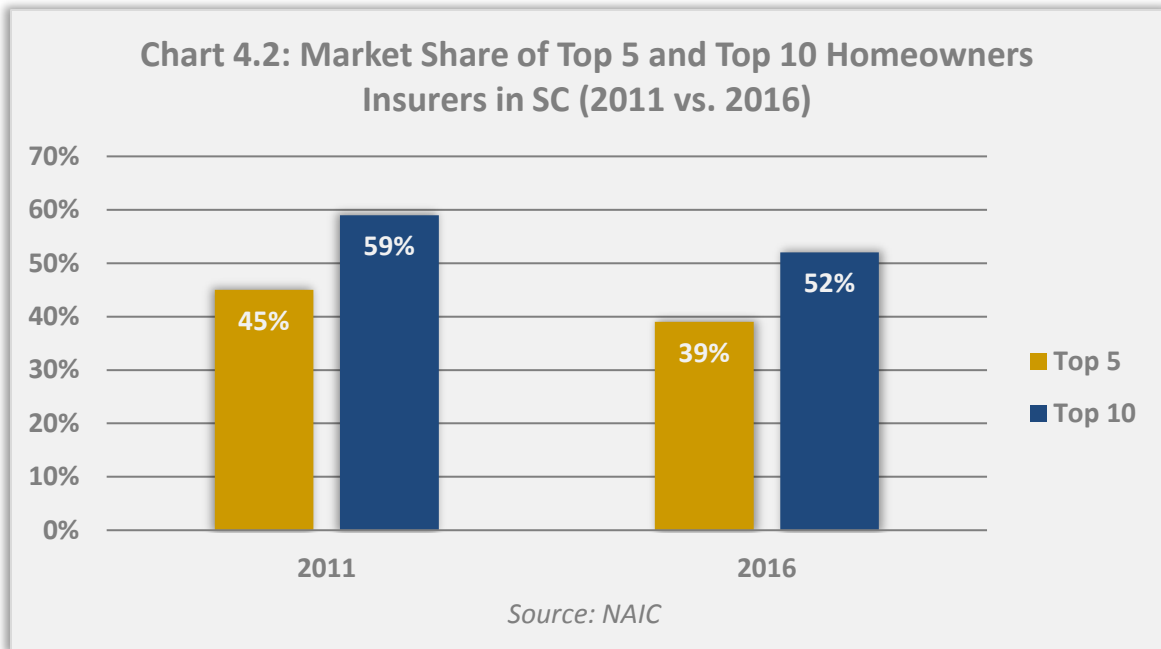
*Source: SCDOI*

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 2017, the Department’s Office of Market Services approved rates, rules, and policy forms filings for nearly a dozen new programs, the majority of which indicated plans to write coverage along the coast.

Another measure is the market share of the top writers; over the last five years (2011-2016, which is the latest data year available), the largest five to ten homeowners insurers saw their collective market share decrease by 6% and 7%, respectively.

<sup>27</sup> S.C. Code Ann. § 38-7-200 (2014).

<sup>28</sup> 2017 data will not be available until mid-2018.



All of 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 Irma

On September 6, 2017, Governor McMaster declared a state of emergency<sup>29</sup> due to the possibility of Hurricane Irma impacting South Carolina. Fortunately, South Carolina was able to avoid a direct strike from this devastating storm. Irma made landfall in the Florida Keys as a category four hurricane on September 10 prior to traveling north over the Florida mainland and into Georgia. Due to the size of the storm, some portions of South Carolina still experienced damaging winds and rain.



### A. Regulatory Actions to Expedite Claims Process

According to SCDOI data, 3,375 resident adjusters and 647 resident appraisers were licensed in the state prior to Hurricane Irma. 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 in the week leading up to Hurricane Irma's arrival to ensure that insurance companies could activate additional adjusters and appraisers to assist in the recovery.

On September 7, 2017, the SCDOI issued Bulletin 2017-10 to permit emergency insurance adjusters to enter the state in order to expedite the claims handling process. Following the bulletin's

<sup>29</sup> Executive Order No. 2017-21

issuance, 2,273 new adjusters and appraisers were authorized to enter the state to respond to insurance claims via emergency permits.

## **B. Insurance Claims**

### **1. SCDOI Data Call for Catastrophe Claims Information**

The SCDOI issued a data call on October 13, 2017 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 Irma. 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 second and final reporting cycle for this data call concluded in January 2018. The main purposes of this data call were to monitor insurance companies' claims handling progress and determine Irma'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 Superstorm Sandy. As in 2015 and 2016, the SCDOI coordinated this reporting with the National Association of Insurance Commissioners and leveraged their technical resources for aggregation of the submissions.

The final data call submissions contained information on claims associated with Hurricane Irma as of January 3, 2018, which are aggregated in Table 5.1.

**Table 5.1: Insurance Claims Related to Hurricane Irma (Data as of 1/3/2018)**

Line of Business	# Claims Reported	Paid Losses	Case Incurred Losses	% of Claims Closed with Payment	% of Claims Closed Overall
Residential Property	16,810	\$50,546,888	\$56,890,448	59.8%	93.5%
Commercial Property	1,436	\$9,066,222	\$35,001,025	38.6%	66.7%
Personal Auto	3,638	\$17,809,626	\$18,088,261	64.7%	81.9%
Commercial Auto	116	\$600,687	\$648,542	56.0%	79.3%
Business Interruption	82	\$333,947	\$1,058,634	32.9%	72.0%
Flood	94	\$469,281	\$1,568,857	41.5%	57.4%
All Other Lines	721	\$3,704,242	\$7,187,015	64.5%	84.6%
<b>Totals</b>	<b>22,897</b>	<b>\$82,530,893</b>	<b>\$120,442,782</b>	<b>59.2%</b>	<b>89.4%</b>

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

## 2. National Flood Insurance Program Claims

As discussed at length in the Flood Insurance section of this report, most property insurance policies exclude flood insurance; the majority of insurance consumers that purchase flood insurance do so through the National Flood Insurance Program (NFIP), which is overseen by FEMA. The SCDOI requested that the NFIP share its claims information with our agency. As of January 5, 2018, the NFIP reported that more than 2,300 Hurricane Irma-related claims had been submitted in South Carolina with payments exceeding \$43 million.

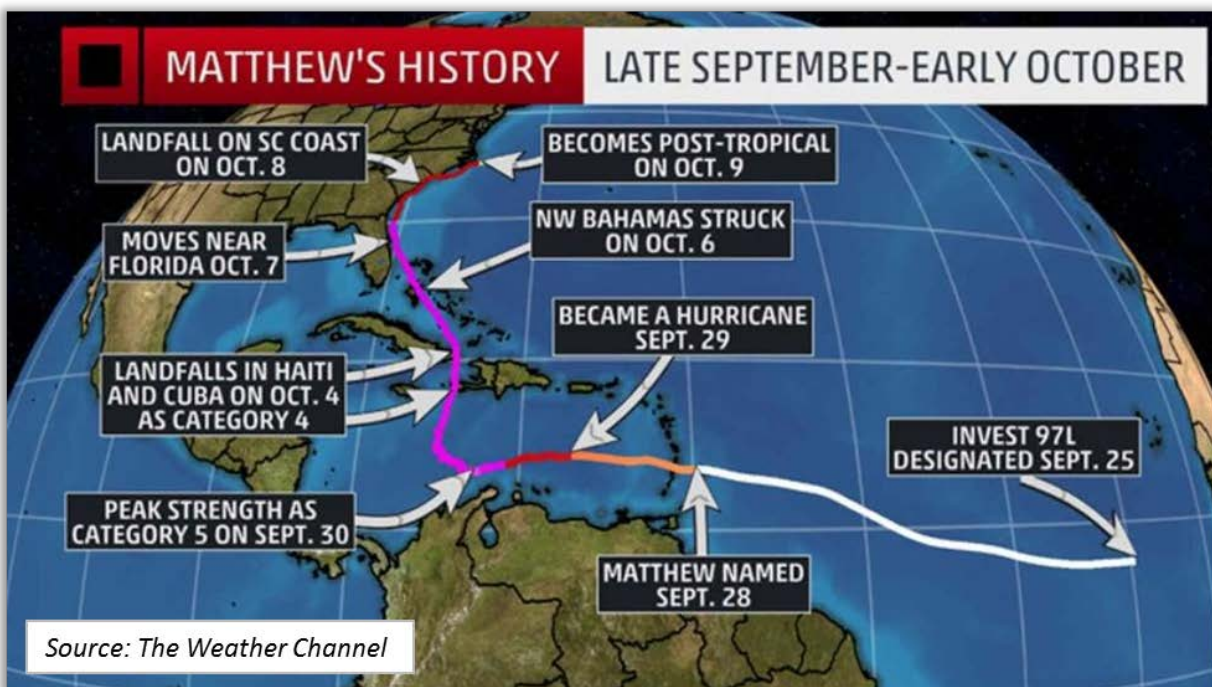
### C. Consumer Outreach

The SCDOI began its outreach efforts on September 6, 2017 with a media release encouraging 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 Irma and provide links to other valuable resources for consumers.



## VI. Hurricane Matthew

Although Hurricane Matthew was discussed at length in the 2016 South Carolina Coastal Property Insurance Market Status Report, this section has been updated and included in this report due to the continued prominence of catastrophic events as an issue in the insurance industry. On October 4, 2016, Governor Haley declared a state of emergency<sup>30</sup> due to the possibility of Hurricane Matthew impacting South Carolina. Following its arrival off the coast of Hilton Head Island, Matthew made landfall farther north near McClellanville as a Category 1 hurricane on October 8, 2016.



### A. Emergency Protections for South Carolina Insurance Consumers

Pursuant to the emergency powers granted to the Director of Insurance as a part of the 2007 Omnibus Act reforms, the Governor's declaration empowered the Director to issue temporary, standardized requirements to help facilitate the state's recovery and protect insurance consumers. On October 8, 2016, as Hurricane Matthew was moving up the South Carolina coastline, the Director issued Emergency Regulation 69-78 and Emergency Order No. 2016-EO-001 to implement the provisions of the Emergency Regulation.

<sup>30</sup> Executive Order No. 2016-26

Emergency Regulation 69-78 imposed restrictions on cancellations and nonrenewals of insurance coverage and provided for grace periods to give insureds additional time to pay premiums, among other things. The regulation's protections extend to all lines of insurance and all persons licensed by the SCDOI or authorized by South Carolina law to transact the business of insurance in this state; the only exception is workers' compensation insurance. All regulated individuals and entities were required to implement these protections for all counties that were declared for Individual Assistance in the federal disaster declaration as originally issued and subsequently amended. These protections were ultimately extended to South Carolina insureds in the following counties: Allendale, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Chesterfield, Clarendon, Colleton, Darlington, Dillon, Dorchester, Florence, Georgetown, Hampton, Horry, Jasper, Lee, Marion, Marlboro, Orangeburg, Sumter, and Williamsburg.

## **B. Regulatory Actions to Expedite Claims Process**

According to SCDOI data, 3,131 resident adjusters were licensed in the state prior to Hurricane Matthew. 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 in the week leading up to Hurricane Matthew's arrival to ensure that insurance companies could activate additional adjusters and appraisers to assist in the recovery.

On October 4, 2016, the SCDOI issued Bulletin 2016-07 to permit emergency insurance adjusters to enter the state in order to expedite the claims handling process. Following the bulletin's issuance, 5,472 new adjusters were authorized to enter the state to respond to insurance claims via emergency permits.

## **C. Insurance Claims**

### **1. SCDOI Data Call for Catastrophe Claims Information**

The SCDOI issued a data call on October 11, 2016 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 periodically submit data relating to the claims that were filed following Hurricane Matthew. 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 tenth and final reporting cycle for this data call concluded in May 2017. The main purposes of this data call

were to monitor insurance companies' claims handling progress and determine Matthew's insurance impact. In an effort to reduce the reporting burden on insurers, the SCDOI used the data call that was

employed by the SCDOI following the October 2015 Severe Storms and Flooding as well as by state departments of insurance in the Northeast following Superstorm Sandy. As in 2015, the SCDOI coordinated this reporting with the National Association of Insurance Commissioners and leveraged their technical resources for aggregation of the submissions. The final data call submissions contained information on claims associated with Hurricane Matthew as of April 26, 2017, which are aggregated in Table 6.1. Reported Claims are the total number of claims (losses) filed with insurance

**Table 6.1: Insurance Claims Related to Hurricane Matthew (Data as of 4/26/2017)**

Line of Business	Reported Claims	Incurred Losses
Residential Property	84,713	\$379,305,322
Commercial Property	12,034	\$339,147,377
Personal Auto	12,941	\$56,375,947
Commercial Auto	330	\$5,123,513
Business Interruption	863	\$25,093,562
Flood	621	\$17,065,762
All Other Lines	3,899	\$55,969,245
<b>Totals</b>	<b>115,401</b>	<b>\$878,080,727</b>

*Source: SCDOI Data Call*

companies that are related to this event, regardless of whether they are still open or if they have been closed. Incurred Losses refers to the estimated ultimate dollar amount of the reported claims.

## 2. National Flood Insurance Program Claims

As discussed at length in the Flood Insurance section of this report, most property insurance policies exclude flood insurance; the majority of insurance consumers that purchase flood insurance do so through the National Flood Insurance Program (NFIP), which is overseen by FEMA. The SCDOI worked closely with FEMA and the NFIP throughout this catastrophic event. Additionally, the SCDOI requested that the NFIP share its claims information with our agency. Since October, the NFIP has been sending regular reports of NFIP claims activity to the SCDOI so that the SCDOI is better able to monitor the development of claims associated with this event across the entire insurance industry.

One benefit of the above coordination and oversight of NFIP claims resulted in an extension of the proof of loss deadline for NFIP claims. A standard NFIP policy requires that an insured submit proof of loss documentation within 60 days of the date of loss. At the request of the Director of Insurance,

FEMA issued a memorandum<sup>31</sup> on November 12, 2016 extending the deadline by 60 days (to a total of 120 days) in an effort to provide affected NFIP policyholders with sufficient time to make their claims. The final reported NFIP claims estimates as of June 28, 2017 are detailed in Table 6.2.

**Table 6.2: NFIP Claims Related to Hurricane Matthew in SC  
(Data as of 6/28/2017)**

# Claims Reported	Paid Losses	% of Claims Closed with Payment	Average Closed Claim with Payment
6,935	\$157,963,514	71.6%	\$31,474

*Source: NFIP*

When combined with insurance industry data reported in the SCDOI's data call, Hurricane Matthew ultimately resulted in over \$1 billion in insurance claim payments to South Carolina insureds.

## **D. Consumer Education and Assistance**

### **1. Catastrophe Claims Centers**

Following Hurricane Matthew's passage along the South Carolina coastline, the SCDOI hosted Catastrophe Claims Centers to assist consumers in filing insurance claims. The first of these events took place in Bluffton on October 12, 2016 and October 13, 2016 at the Bluffton Home Depot. In addition to SCDOI staff, representatives from the South Carolina Department of Employment and Workforce, the South Carolina Department of Motor Vehicles, FEMA, and major insurance companies were available to provide assistance. Given the success of the first event, the SCDOI held a second Catastrophe Claims Center in Florence on October 18, 2016 at the Florence Home Depot. In addition to hosting the Catastrophe Claims Centers, the SCDOI took part in a series of Post-Matthew Town Hall Meetings.

### **2. Consumer Outreach**

<sup>31</sup> FEMA Memorandum W-16088 (Notice of the Limited Waiver of the SFIP to Extend the Time for Sending Proofs of Loss)

The SCDOI began its outreach efforts on October 3, 2016 with a media release encouraging South Carolinians to develop an emergency plan, review their insurance policy, take an inventory of belongings, and make their home as safe as possible. To prepare for the impact of Hurricane Matthew, several divisions of the SCDOI stayed open despite state government closures during the days leading up to the storm's landfall on October 8, 2016. Another media release providing information to consumers to make the claims process easier was issued on October 10, 2016. 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 expanded its call center, added phone lines, and enlisted other SCDOI staff to assist consumers. The SCDOI established a dedicated webpage ([www.doi.sc.gov/storm](http://www.doi.sc.gov/storm)) on its website to serve as a central hub for all content related to Matthew and provide links to other valuable resources for consumers.

## VII. 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.<sup>32</sup> 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).<sup>33</sup>

Beginning 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 7.1 lists the hurricane models currently permitted for use.

**Table 7.1: Hurricane Models Approved for Use in South Carolina**

Modeler	Hurricane Model	Version	Approval Date	Anticipated Expiration Date
AIR	Atlantic Tropical Cyclone	14.0.1	03/12/2014	07/01/2018
AIR	Atlantic Tropical Cyclone	14.1.0	01/06/2016	07/01/2018
AIR	Atlantic Tropical Cyclone	15.0.1	07/14/2016	TBD
AIR	Atlantic Tropical Cyclone	15.0.2	11/07/2016	TBD
CoreLogic	Risk Quantification and Engineering	14	03/12/2014	07/01/2018
CoreLogic	Risk Quantification and Engineering	16	07/14/2016	TBD
RMS	RiskLink	13	07/14/2016	07/01/2018
RMS	RiskLink	15	07/14/2016	TBD
RMS	RiskLink	15.0.1	07/14/2016	TBD

*Source: SCDOI*

<sup>32</sup> S.C. Code Ann. § 38-75-1140 (2014).

<sup>33</sup> See the 2014 and 2015 South Carolina Coastal Property Market Status Reports for further details on this process.

## VIII. 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 was, by design, not actuarially sound. Prior to the impact of Hurricanes Harvey and Irma, FEMA owed the Treasury approximately \$24.6 billion. In October 2017, a disaster relief bill was passed by Congress and signed by the President in response to Hurricanes Harvey and Irma. In part, this bill forgave \$16 billion in debt owed by FEMA 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 expired on September 30, 2017. There have been several short term extensions since that time; at the time of this report's writing, the most recent of these is set to end February 8, 2018. During the reauthorization process, Congress is considering 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 approximately 81% of total policies in-force. As shown in Table 8.1, Florida has nearly three times the policies of Texas, the next closest state. Florida also contributes the most written premium and insured value to the NFIP. South Carolina is sixth

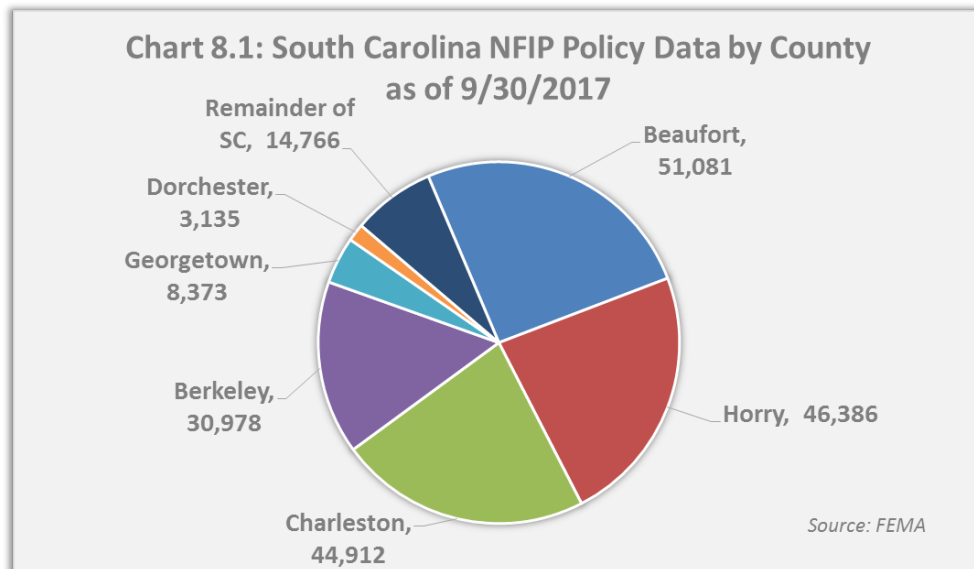
in NFIP policy count with 199,631 policies which insure almost \$52 billion of property. The NFIP has a total insured value of approximately \$1.2 trillion and roughly \$3.5 billion in annual written premium.

**Table 8.1: NFIP Policy Data by State as of 09/30/2017**

State	Policies	% of Total Policies	Total Insured Value	% of Total TIV	Written Premium	% of Total Written Premium
FL	1,729,505	35.0%	\$424,544,992,000	34.3%	\$947,613,390	26.9%
TX	598,815	12.1%	\$164,471,029,600	13.3%	\$368,154,189	10.5%
LA	494,830	10.0%	\$126,970,690,000	10.2%	\$354,958,502	10.1%
CA	243,724	4.9%	\$69,552,920,000	5.6%	\$191,651,489	5.4%
NJ	227,343	4.6%	\$56,377,602,100	4.6%	\$224,318,350	6.4%
<b>SC</b>	<b>199,631</b>	<b>4.0%</b>	<b>\$51,837,134,200</b>	<b>4.2%</b>	<b>\$135,186,750</b>	<b>3.8%</b>
NY	181,042	3.7%	\$49,338,759,000	4.0%	\$205,902,415	5.8%
NC	130,282	2.6%	\$32,218,224,800	2.6%	\$108,412,211	3.1%
VA	103,516	2.1%	\$26,766,546,900	2.2%	\$77,482,534	2.2%
GA	86,302	1.7%	\$22,606,307,600	1.8%	\$66,740,358	1.9%
<b>NFIP Total</b>	<b>4,942,256</b>	<b>100%</b>	<b>\$1,238,839,007,700</b>	<b>100%</b>	<b>\$3,522,192,696</b>	<b>100%</b>

Source: FEMA

As expected, the bulk of NFIP policies in South Carolina are located in coastal counties. Beaufort, Horry, Charleston, Berkeley, Georgetown, and Dorchester counties account for roughly 93% of South Carolina’s NFIP policies and total insured value; these same counties account for 92% 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. 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.

In 2016 (the most recent year with data available), there were 12 private flood carriers with aggregate written premium of \$6.9 million in South Carolina. Additionally, Homeowners Choice Property and Casualty Insurance Company obtained its license to do business in South Carolina in 2017 and promptly filed, and received approval for, a new standalone personal flood program. This company has a great deal of experience in private flood through its similar program in Florida; the program is being marketed as an alternative to the NFIP.

South Carolina has experienced several catastrophic weather events in the last three years: Hurricane Irma (2017), Hurricane Matthew (2016), and severe flooding (2015). The SCDOI conducted industry claims data calls and gathered data from the National Flood Insurance for each of these events. In total, 8% of total reported flood claims were private flood while 9% of total incurred flood losses were private flood.

**Table 8.2: Flood Claims in SC from Recent Catastrophic Events**

Catastrophic Event	# Claims Reported			Incurred Losses		
	Private Flood	NFIP	% Private	Private Flood	NFIP	% Private
Hurricane Irma (2017)	94	2,300	4%	\$1,568,857	\$43,000,000	4%
Hurricane Matthew (2016)	621	6,935	8%	\$17,065,762	\$157,963,514	10%
Flooding (2015)	579	5,227	10%	\$13,175,822	\$133,475,290	9%
<b>Total</b>	1,294	14,462	8%	\$31,810,441	\$334,438,804	9%

*Sources: SCDOI Data Calls and NFIP*

## IX. Earthquake Insurance

Although the western United States is more widely known for its exposure to earthquakes, a 2014 report 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.<sup>34</sup>

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.<sup>35</sup>

Table 9.1 displays the number of admitted and surplus lines insurers writing earthquake insurance coverage during the most recent three years for which data are available; the associated direct written premiums are also shown. The total number of writers has grown slightly each year while total written premiums increased by 11.5% from 2014 to 2016. 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.

**Table 9.1: South Carolina Earthquake Insurance Market**

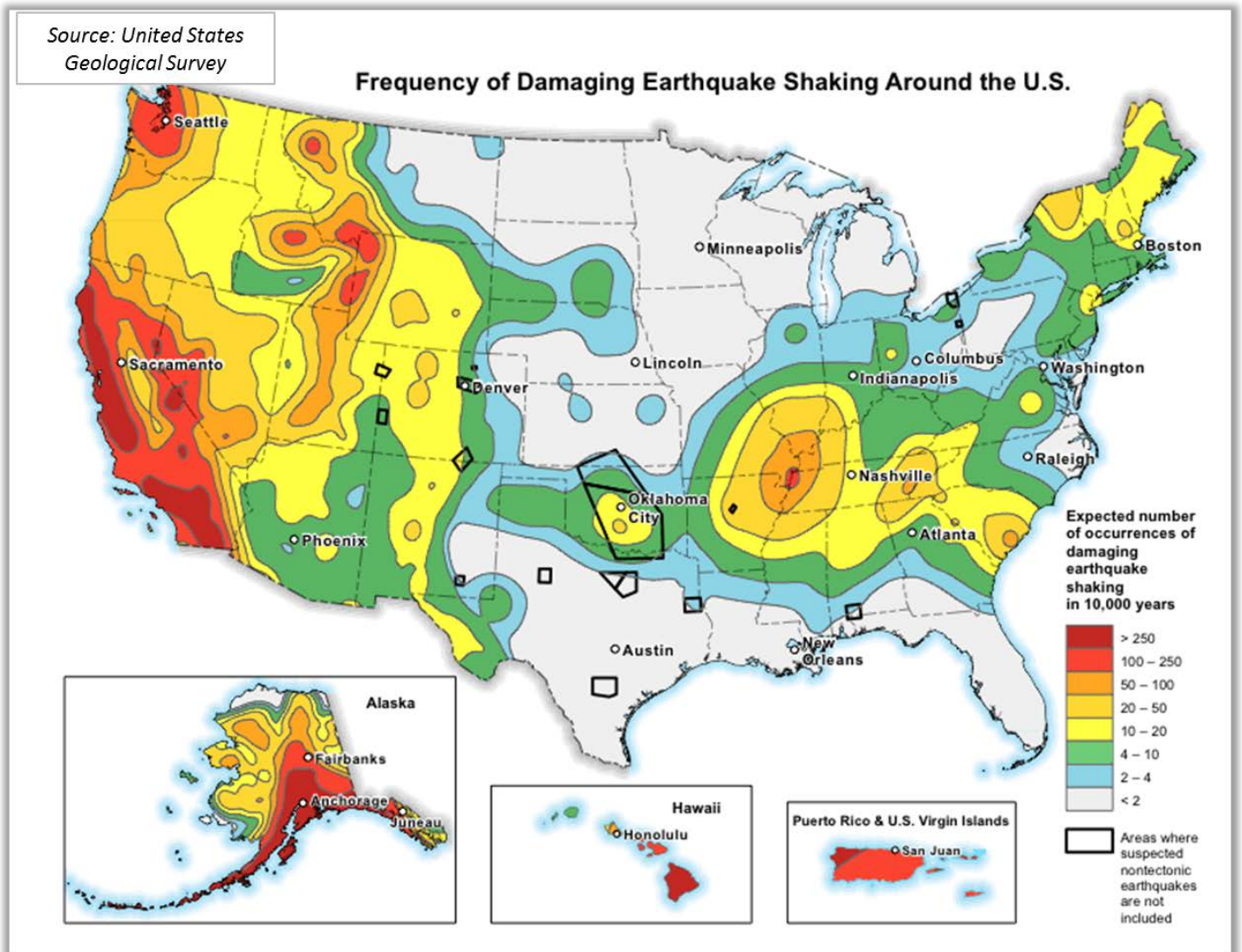
Year	Writers			Direct Written Premium		
	Admitted Mkt	Surplus Lines	Total	Admitted Mkt	Surplus Lines	Total
2014	133	30	163	\$31,779,590	\$5,367,138	\$37,146,728
2015	136	29	165	\$35,647,434	\$5,092,040	\$40,739,474
2016	136	32	168	\$36,329,616	\$5,096,022	\$41,425,638

Source: NAIC

<sup>34</sup> “Report: Eastern U.S. at Greater Risk for Earthquakes,” [usatoday.com](http://usatoday.com), July 18, 2014.

<sup>35</sup> “New Earthquake Maps Show Charleston Still in the Bull’s-Eye on East Coast,” [postandcourier.com](http://postandcourier.com), July 17, 2014.

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

## X. 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 2017. The companies in the admitted market reporting in the SCDOI's data call experienced increases in both personal and commercial lines policies in-force. The overall combined change for the reporting companies and the SCWHUA was a decrease, which is likely due in part to an increased appetite for coastal property risk from both small, new market entrants and Excess and Surplus Lines 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, 2019, 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 entering the marketplace are issuing wind only policies to compete with the SCWHUA; this is another sign of an increasingly 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 Market Assistance Program. 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.

## XI. 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 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 codify the expansion of the SCWHUA territory as initially provided for in SCDOI Order 2007-03. Currently, this expansion is temporary and must be renewed every two years via an order from the Director. The expansion orders of 2007 have worked well to stabilize the coastal property insurance marketplace. The South Carolina General Assembly has already taken action to incorporate the initial expansion (SCDOI Order 2007-01) into the State Insurance Code. Over time, it has become evident that the second expansion should likewise be incorporated into the State Insurance Code.
- 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.
- The State should consider offering a sales tax holiday prior to hurricane season for hurricane supplies such as flashlights, generators, storm shutters, emergency radios, batteries, and similar supplies. This will focus the public's attention on the need to be ready for a possible natural disaster.

- The State should promote 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 promote the development of the private flood insurance marketplace to serve as a secondary source of flood insurance coverage for South Carolina insurance consumers.

## XII. Appendix

1. FEMA Memorandum W-16088 (Notice of the Limited Waiver of the SFIP to Extend the Time for Sending Proofs of Loss)  
<http://nfipiservice.com/Stakeholder/pdf/bulletin/w-16088.pdf>
2. SCDOI Bulletin 2014-08 (Competitive Insurance Act)  
<http://www.doi.sc.gov/DocumentCenter/View/7667>
3. SCDOI Bulletin 2016-07 (Notice of Unusual Circumstance/Catastrophe Insurance Declaration for Hurricane for South Carolina due to Hurricane Matthew for the Purposes of Licensing Temporary Adjusters)  
<http://www.doi.sc.gov/DocumentCenter/View/9603>
4. SCDOI Bulletin 2017-10 (Notice of Unusual Circumstance/Catastrophe Insurance Declaration for Hurricane for South Carolina due to Hurricane Irma for the Purposes of Licensing Temporary Adjusters)  
<http://doi.sc.gov/DocumentCenter/View/10302>
5. SCDOI Bulletin 2017-13 (SC Safe Home Maximum Grant Program Award Amount – Notice of Program Revisions and Maximum Grant Amounts)  
<http://www.doi.sc.gov/DocumentCenter/View/10436>
6. SCDOI Emergency Order 2016-EO-001 (Promulgation of Emergency Insurance Regulation 69-78)  
<http://doi.sc.gov/DocumentCenter/View/9613>
7. SCDOI Emergency Regulation 69-78 (Moratorium on Cancellation Due to Nonpayment of Premiums and Certain Nonrenewals and Extension of Insurance-Related Provisions Affecting Insureds in South Carolina Impacted by Hurricane Matthew)  
<http://www.doi.sc.gov/DocumentCenter/View/9616>
8. SCDOI Emergency Regulation 69-78, Amendment 1 (Moratorium on Cancellation Due to Nonpayment of Premiums and Certain Nonrenewals and Extension of Insurance-Related Provisions Affecting Insureds in South Carolina Impacted by Hurricane Matthew)  
<http://www.doi.sc.gov/DocumentCenter/View/9655>
9. SCDOI Hurricane Irma Catastrophe Claims Data Call Notice  
<http://www.doi.sc.gov/DocumentCenter/View/10311>



**10. SCDOI Hurricane Matthew Catastrophe Claims Data Call Notice**

<http://www.doi.sc.gov/DocumentCenter/View/9625>

**11. SCDOI Order 2017-01 (Wind Pool Expansion Renewal Order)**

<http://doi.sc.gov/DocumentCenter/View/9818>