STATUS OF THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION

STATUS REPORT FOR 2013

SUBMITTED BY:

South Carolina Department of Insurance

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I. Executive Summary

A. Overview of 2013 Hurricane Season

The 2013 hurricane season included 13 named storms and had an early start on June 5, 2013 with the formation of Tropical Storm Andrea. However, the 2013 season turned out to be, in many ways, considered average when compared to the long-term median of 12 named storms per year. Further analysis of the 2013 hurricane season shows that it was well below average in terms of hurricanes. Only two storms, Humberto and Ingrid, made it to hurricane status. There was not a single major hurricane, a storm determined to be category 3 or higher. In fact, the U. S. has not seen a major hurricane make landfall in the last eight years.[1]

Further, the 2013 hurricane season included the fewest number of hurricanes since 1982. South Carolina was affected by only two named storms. While Andrea made landfall in the Gulf of Mexico as a tropical storm, it drenched rain on South Carolina on June 7, 2013. Dorian never made it past tropical depression status; however, it did create some minor beach erosion as it passed the South Carolina shoreline in early August.[2]

Despite predictions of a more active season, the reality of 2013 was a much quieter season. The reason for the limited activity may be that cooler, calmer, dryer air from the midlevel of the atmosphere (10,000 – 25,000 feet) limited the ability of tropical storms to advance to hurricane status. "Hurricanes need a moist, stable environment, and we just didn't see this in the Atlantic development region in 2013," noted James Waller, a Philadelphia-based research meteorologist with Guy Carpenter. While the limited storm activity may be viewed as positive news for the insurance industry and coastal consumers, Karen Clark, President and CEO of Karen Clark & Co., pointed out that "insured losses from hurricanes are not driven by frequency; they are driven by severity."[3]

It is important to remember that the eventual damage caused by a storm is a key factor in driving homeowners rates and reinsurance pricing. It should also be noted that property catastrophe reinsurance pricing is not focused on the state of South Carolina. Rather, it is part of an international

[1] "2013 Atlantic Season Review;" Willis Re, December 12, 2013.
[2] "Ho Hum Hurricane Season Defies Forecast," TheState.com, November 24, 2013.
[3] "Quiet Atlantic Hurricane Season Puts Downward Pressure on Reinsurance Rates," *Business Insurance*, December 1, 2013.

system of risk transfer. Furthermore, insurance and reinsurance rates are based on potential future losses as opposed to simply what occurred in the prior year.

Looking back on 2012, the National Climatic Data Center reports that there were 11 individual disasters causing more than $1 billion each in damage in the United States alone. Combined, these events resulted in more than $110 billion in total damages and 377 deaths. This made 2012 the costliest year on record. It should be mentioned that Superstorm Sandy alone accounted for $65 billion of those losses.[4]

When reviewing the experience from an international perspective, Swiss Re produced a study showing that insured losses from disasters in 2013 were down significantly from those in 2012. Worldwide economic losses from catastrophes in 2013 totaled about $130 billion compared to $196 billion in 2012.[5] In 2013, approximately 25,000 lives were lost worldwide as a result of natural and manmade disasters with over 7,000 of those resulting from Typhoon Haiyan in the Philippines. By contrast, there were approximately 14,000 such deaths in 2012.

B. Background

The Omnibus Coastal Property Insurance Reform Act of 2007 (Omnibus Act)[6] established numerous initiatives, including a provision that requires the Director of Insurance (Director) to submit an annual report to the President *Pro Tempore* of the Senate and to the Speaker of the House of Representatives on the status of the South Carolina Wind and Hail Underwriting Association (SCWHUA or Association). These provisions state, in pertinent part:

> The director must submit a report to the President Pro Tempore of the South Carolina Senate and the Speaker of the House of Representatives by no later than January thirty-first of each year regarding the status of the South Carolina Wind and Hail Underwriting Association, including any recommended modifications to statutory or regulatory law regarding the operation of the South Carolina Wind and Hail Underwriting Association and its territory.[7]

[4] "Research Lab in Rural SC Aims to Change Building Habits, Lower Costs of Natural Disasters," *Associated Press*, November 30, 2013.
[5] "2013 Catastrophes Result in $44 Billion in Insured Losses: Swiss Re," *Business Insurance*, December 18, 2013.
[6] 2007 S.C. Act No. 78.
[7] S.C. Code Ann. § 38-3-110 (2007).

This report is submitted in accordance with the requirements of S.C. Code of Laws Section 38-3-110(5). It examines the status of the SCWHUA specifically and the coastal property insurance marketplace generally through 2013.

C. Status of the South Carolina Coastal Property Insurance Market

In preparing this report, the South Carolina Department of Insurance (SCDOI) relied upon information obtained from the SCWHUA, an insurer data call, and consumer complaints. Each of these three sources would suggest that the coastal property insurance market is stable. The SCWHUA has seen a decrease in the number of policies and insured values in both personal and commercial lines of insurance. While data gathered for 2012 and 2013 via the insurer data call show that policy counts decreased over that time period for both personal and commercial lines, the numbers year over year are fairly consistent. Finally, anecdotal information from the SCDOI's Office of Consumer Services indicates that consumer complaints have dropped significantly since the 2007 SCWHUA territorial expansion.

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. Additionally, the top five property insurers have seen their market shares decrease, which generally indicates increased competition in the marketplace. The concentration in the market is decreasing modestly, and there is less reliance upon the market of last resort. Finally, the insurers that write property insurance on an Excess and Surplus 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 South Carolina's Catastrophe Model Panel and the Biggert-Waters Act are given as well. 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.[8] 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. By South Carolina law, the SCWHUA is not intended to offer rates that are competitive with the admitted market.[9] 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.[10]

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.[11] All admitted property insurance companies licensed by the SCDOI are members of and are required to participate in the SCWHUA.[12]

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.[13] 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

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[8] S.C. Code Ann. § 38-75-330(A) (2002).
[9] S.C. Code Ann. § 38-75-400(B) (2002).
[10] *Id.*
[11] S.C. Code Ann. § 38-75-320 (2002).
[12] S.C. Code Ann. § 38-75-330(B) (2002).
[13] S.C. Code Ann. § 38-75-1230 (2004).

SCWHUA. As a result, the consumer will have a wind insurance policy with the SCWHUA and a separate insurance policy with a voluntary insurer for all other property perils. 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.[14]

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 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 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

[14] S.C. Code Ann. § 38-75-370 (2002).

that member companies can properly record their liabilities at year end for their financial statements. The 2012 Association Year ended October 31, 2012. All losses and expenses have not been paid for 2012 yet, so final data is not yet available. Therefore, the value shown in Table 2.1 is the pending amount, which is what the assessment would be if Association Year 2012 were to be closed immediately. Including the years in which it made a profit, the SCWHUA has a net operating loss of $100 million since 1971.

Table 2.1: SCWHUA Assessments

Year	Assessments (Refunds)
2012	$6,375,091
2011	$4,270,897
2010	$2,887,962
2009	$4,882,917
2008	($4,211,333)
2007	($8,134,390)

Source: SCWHUA

Buying coverage at a higher year event level means the residual market is more likely to have reinsurance coverage if storm damages occur. Georgia is the only state whose residual market mechanism purchases reinsurance coverage beyond the level obtained by the SCWHUA. Several of the states shown would like to purchase more reinsurance but are unable to do so due to lack of funding. One of the reasons for Florida's relatively low reinsurance level is that it also issues catastrophe bonds in addition to purchasing reinsurance.

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.

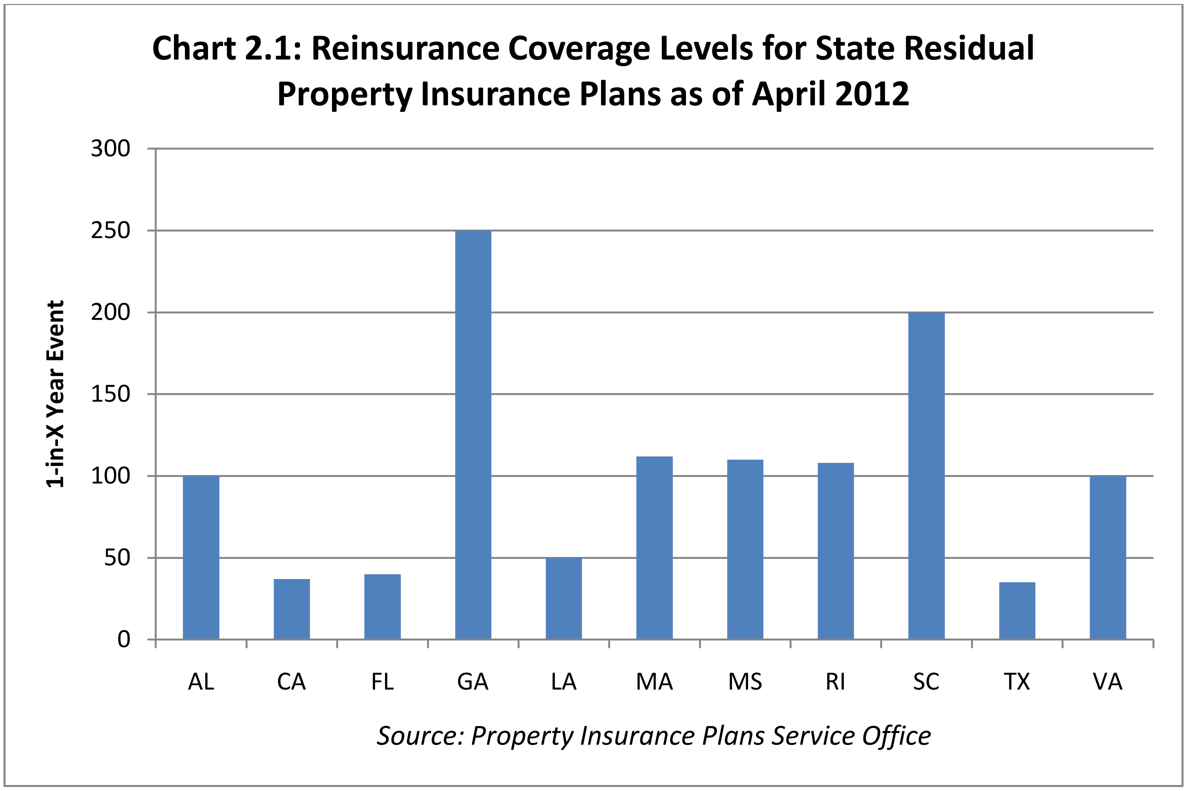


Chart 2.1 compares the reinsurance coverage levels (in terms of event likelihood levels as discussed above) among various residual markets providing wind coverage throughout the United States. Other states' residual property insurance plans have taken different approaches. North Carolina relies on consumer 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 making annual assessments on all policyholders in the state for all lines of business other than workers' compensation and medical malpractice to pay for the issuance of bonds. There is a delay measured in months as Florida's Citizens Property Insurance Corporation (the state's market of last resort) attempts to sell these bonds. The cost of these bonds will then be passed on to all consumers in the state via policyholder assessments. Mississippi has linked its association to state government, allowing it to retain cash and assess all consumers in the state. This approach poses potential financial liabilities to the state of Mississippi.

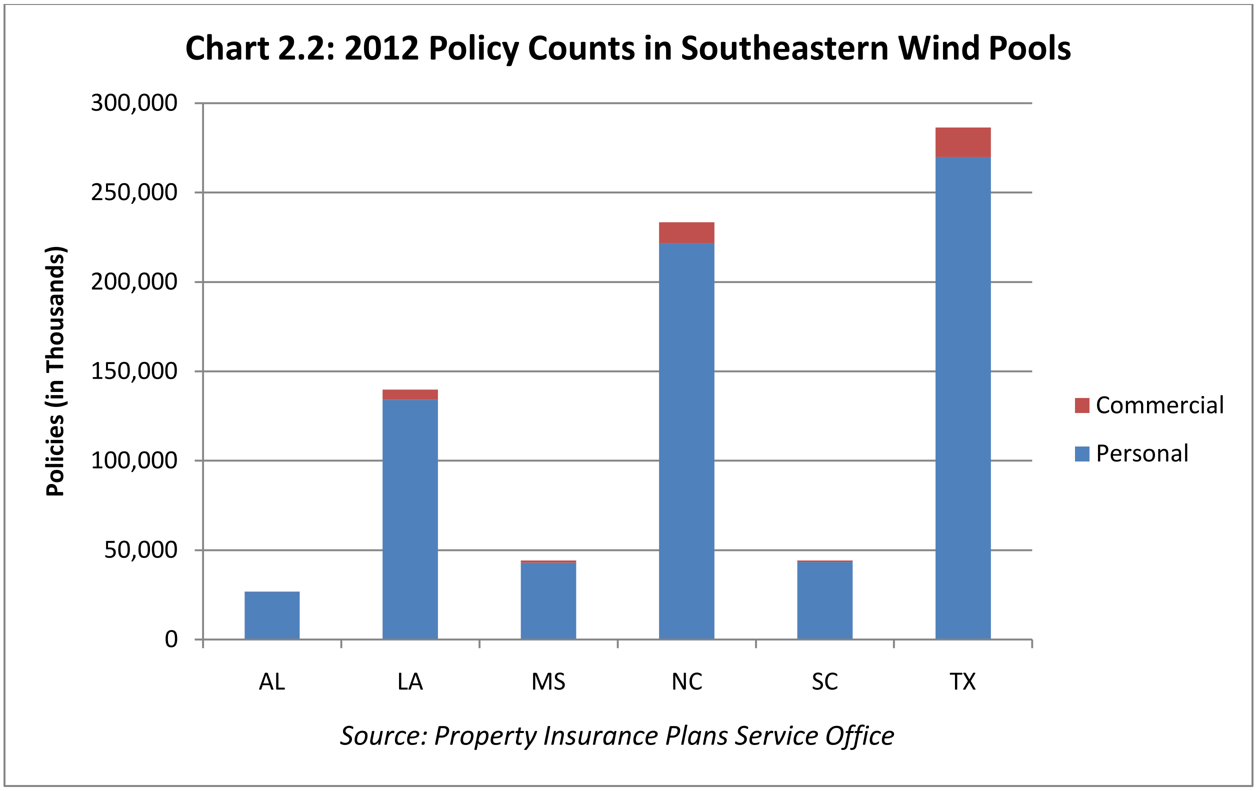


Chart 2.2 illustrates the standing of the SCWHUA in terms of policy counts relative to other wind pools in the Southeastern United States. South Carolina is significantly below several other states in the region. Although this can partially be explained by population differences among this group of states, 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 as CPIC is actually the top homeowners writer in the state with a market share of 19.5% in 2012. CPIC wrote 1.5 million personal and 46,948 commercial policies in 2012.

2. Operation

The SCWHUA is an unincorporated association governed by a seventeen member Board of Directors (Board) and is not a part of the SCDOI. Day to day operations of the Association are overseen by its Executive Director and SCWHUA staff. However, its rates, forms, and business plan are regulated by the SCDOI pursuant to state law. The SCWHUA submits rate, rule, and form change requests to the SCDOI for review and approval like voluntary insurers. Consistent with other residual market mechanisms, the SCWHUA must also receive SCDOI approval for changes to its plan of operation. SCWHUA Board membership consists of two insurance producers and four consumer representatives appointed by the Director as well as eleven members of the insurance industry nominated and elected by member insurers. An annual meeting is held in the state at a time and place determined by the Board. Special meetings may be held upon the call of the chairman of the Board or, in the event of his death or incapacity, upon the call of the vice chairman. Any eight members may request the chairman to call a meeting.

3. SCWHUA Reforms

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."[15] 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

[15] S.C. Code Ann. § 38-75-310(1) (2007).

territory remains as defined in Order 2007-03 after having been renewed via SCDOI Orders 2009-01, 2011-01, and 2013-01.

Prior to the issuance of the latest renewal via Order 2013-01, 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 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 where the SCWHUA does not currently have policies. Any effort to reduce the territory would result in consumers losing their coverage through the SCWHUA. It is believed that these consumers could find it difficult to secure replacement coverage. If coverage were found, it is believed it would be at a higher rate.

- The SCWHUA portfolio is currently decreasing. The SCWHUA staff believes that this indicates that the corresponding coastal market is also relatively stable. Part of the reason for this condition was the action taken by the SCDOI through the expansion of the SCWHUA territory in 2007 (and subsequent renewals).

- No one has contacted the SCWHUA asking that the territory be reduced. It should be noted that when the territory was first expanded, there were such inquiries. They were based on consumers misunderstanding what was taking place. They felt that if the territory was reduced, that companies would rush back into the marketplace. Since the initial expansion, the SCWHUA has not received such calls.

- The SCWHUA staff believes that insurance companies do not prefer to operate under conditions of uncertainty. The current status of the territory is well known to the member insurance companies. Insurers have not been contacting the SCWHUA asking for any changes in the territory. Continuation of the status quo reduces uncertainty and should continue to allow companies to view South Carolina in a positive manner.

The Director issued Order 2013-01 on February 22, 2013 to renew Order 2011-01 and keep the territory expansion in effect until March 29, 2015 based on the SCDOI's review, which included the aforementioned feedback from the SCWHUA.

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.

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 15, 2013, 837 policyholders were using eFinance, the electronic financing option. Another 562 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. Service Levels

The SCWHUA remains committed to providing a high level of service to both consumers and insurance producers. According to the Association's Executive Director, applications are submitted over the internet on day one. The applications are processed by the underwriters on day two, and policies are printed during that day's nightly cycle. On the third day, policies are mailed to the insurance producers.

e. 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, will benefit 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 consumers.

Using its updated claims system, the SCWHUA will automatically assign the claim to the next available adjuster and post the loss notice, underwriting file, and other pertinent information on a secure website for the assigned adjusting firm. An email will immediately be sent to the adjusting firm to let them know that new assigned claims are waiting for their download. The SCWHUA staff will monitor how quickly the claims are downloaded and when initial contact is made with the consumer. During 2013, SCWHUA staff reviewed the plans for the response to a hypothetical major hurricane. The plans, along with the established storm office, were found to be in order. The storm office was not activated in 2013.

4. SCWHUA Book of Business

Over the past year, the staff of the SCWHUA conducted an analysis of the SCWHUA's book of business. It was determined that the SCWHUA's book of business peaked on August 31, 2011. The staff then examined the changes that took place over the following two years. The $2.4 billion reduction in coverage limits noted in Table 2.2 below is two and a half times the total liability of the SCWHUA on the day that Hurricane Hugo hit South Carolina.

Table 2.2: Book of Business Changes from 2011 to 2013

	August 31, 2011	August 31, 2013	Change
Policy County	47,366	42,543	-10.2%
Premium	$97,007,667	$93,269,507	-3.9%
Total Insured Limits	$17,310,330,477	$14,897,624,594	-13.9%

Source: SCWHUA

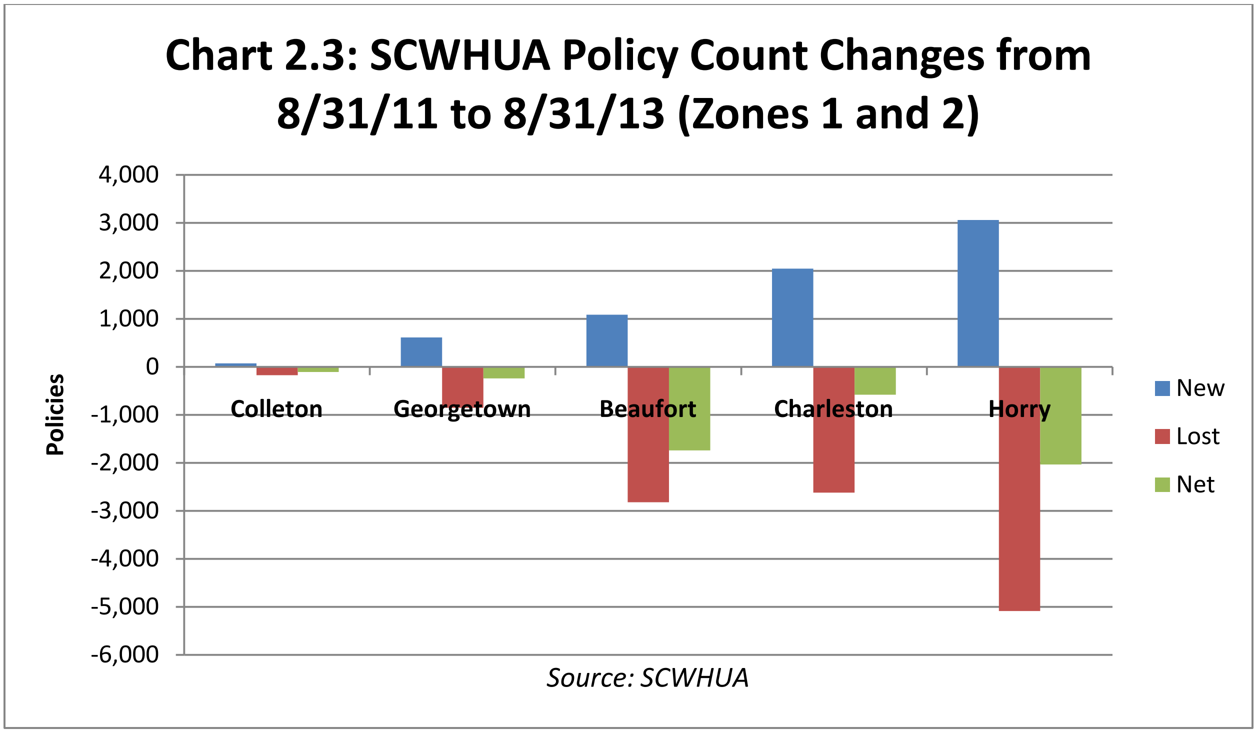
Further analysis on the book of business shows a significant decrease in Zone 1 with a slight increase in Zone 2. In response to an inquiry from the SCDOI, the SCWHUA reports that growth in Charleston County, Zone 2 is based on two factors. First, insurance producers report that SCWHUA can be price competitive in that area. Second, select direct writers enjoy significant brand loyalty; consumers would rather be with the direct writer and the SCWHUA as opposed to shopping for combined coverage even with the potential of realizing lower total premium.

Table 2.3: In-Force Personal and Commercial Policy Changes from 8/31/11 to 8/31/13

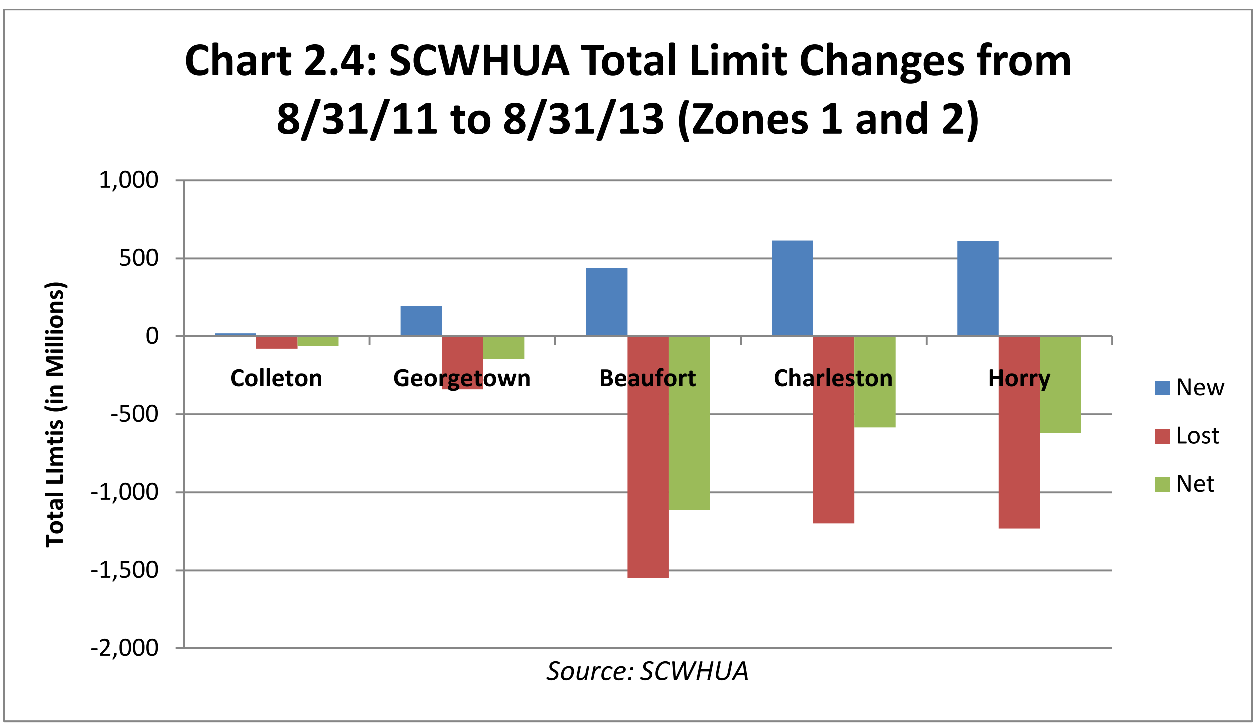
Zone	County	Policy Count	Policy Count % Change	In-Force Premiums	Insured Limits
1	Beaufort	-1,670	-17%	-$3,551,081	-$1,055,108,528
1	Charleston	-956	-18%	-$1,795,155	-$610,593,058
1	Colleton	-101	-9%	$2,677	-$51,979,025
1	Georgetown	-301	-11%	-$222,504	-$141,271,034
1	Horry	-2,062	-12%	$960,265	-$586,700,331
	Total Zone 1	-5,090	-14%	-$4,605,798	-$2,445,651,976
2	Beaufort	-104	-8%	-$208,869	-$39,723,715
2	Charleston	368	8%	$771,432	$85,916,507
2	Colleton	-1	-50%	-$5,375	-$1,018,900
2	Georgetown	65	7%	$62,527	$13,939,429
2	Horry	-61	-2%	$247,923	-$26,167,228
	Total Zone 2	267	3%	$867,638	$32,946,093
	Grand Total	-4,823	-10%	-$3,738,160	-$2,412,705,883

Source: SCWHUA

While the SCWHUA is losing business to the private sector, new business is still flowing into the SCWHUA. The following chart shows the business lost to the private sector as well as the new business to the SCWHUA. The SCWHUA has lost just fewer than 12,000 policies but has partially offset some of that reduction with almost 7,000 new policies over the two year period.



The change in total limits is shown in Chart 2.4. The SCWHUA has seen the greatest rates of change in Zone 1. This is where the larger homes and those associated with larger premiums are located. This makes the risks more attractive to certain markets, particularly the Excess and Surplus Lines markets.



These charts tangibly represent the fact that the private marketplace is working. Consumers are shopping for superior coverage as well as better pricing, and many of them are finding those things. For those who cannot, the SCWHUA is available to assist them. Insurance producers report that not all consumers are able to find alternative coverage to that offered by the SCWHUA. During the shopping process, those consumers are able to obtain new homeowners policies excluding wind but must maintain wind coverage through the SCWHUA.

As seen in Table 2.4, Beaufort County continues to have the highest exposure with $4.6 billion of in-force liability; Horry County has the second highest with $4.4 billion. Despite these large values, the downward trends during the past two years discussed earlier in this section are encouraging.

Table 2.4: In-Force Policies as of 12/15/13 by Wind Pool Zone and by County

Zone	County	Policy Count	% of Total Policies	In-Force Premiums	% of Total Premium	Insured Limits
1	Beaufort	7,939	19%	$21,091,287	23%	$4,197,091,844
1	Charleston	4,149	10%	$15,513,128	17%	$2,252,175,695
1	Colleton	1,021	2%	$2,604,155	3%	$377,500,548
1	Georgetown	2,385	6%	$6,532,519	7%	$1,020,787,082
1	Horry	15,593	37%	$30,278,103	33%	$3,737,484,875
	Total Zone 1	31,087	74%	$76,019,192	82%	$11,585,040,044
2	Beaufort	1,155	3%	$1,744,376	2%	$426,810,188
2	Charleston	5,276	13%	$9,060,210	10%	$1,649,734,992
2	Colleton	0	0%	$0	0%	$0
2	Georgetown	976	2%	$1,418,858	2%	$283,587,186
2	Horry	3,542	8%	$4,568,918	5%	$784,651,375
	Total Zone 2	10,949	26%	$16,792,362	18%	$3,144,783,741
	Grand Total	42,036	100%	$92,811,554	100%	$14,729,823,785

Source: SCWHUA

III. Department of Insurance Data Call

In October 2007, the SCDOI issued an ongoing data call to all admitted carriers writing personal and commercial property insurance coverage in the SCWHUA territory.[16] The purpose of the data call is to evaluate the effect of the expansion on the number of policies written "with wind" and "without wind" in the SCWHUA territory. To provide a comparative analysis, the SCDOI has continued its examination of the data received, which now spans the months of January 2006 through September 2012. 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.[17] This report compiles data submissions from the first three quarters of 2013.

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

1. Number of new policies written
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.[18] Therefore, in order to minimize any distortion, we believe it is most appropriate to focus on the changes between 2012 and 2013 in this year's 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 reports.

A. Personal Lines – Admitted Market

There were 83 carriers reporting in 2013 compared to 78 carriers reporting in 2012 and 79 in 2011. These numbers vary as carriers reach the established premium threshold and as carriers enter or

[16] The data call does not include Excess and Surplus lines policy information.
[17] 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.
[18] Carrier data submissions with clear data inconsistencies which could not be resolved were omitted.

exit the market. The number of companies reporting has remained relatively steady over the analysis period.

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

9 Months Ending	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2012	7,292	4,216	11,508	63.4%	36.6%
Sep 2013	8,313	3,944	12,257	67.8%	32.2%
% Change	14.0%	-6.5%	6.5%		

Source: SCDOI Data Call

The total number of new policies issued by admitted carriers in the Wind Pool area increased by 6.5% in 2013. This is consistent with the upward trend that has persisted since 2009 with 2012 being the lone exception. The growth in 2013 results from the significant uptick in the number of new policies issued with wind coverage. The percent of new policies written with wind increased from less than 64% in 2012 to nearly 68% in 2013.

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

Month	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2012	71,436	46,558	117,994	60.5%	39.5%
Sep 2013	70,680	44,312	114,992	61.5%	38.5%
% Change	-1.1%	-4.8%	-2.5%		

Source: SCDOI Data Call

The total number of new policies issued by admitted carriers in the Wind Pool area decreased by less than 3% in 2013. This continues the downward trend begun in 2012. The percent of policies written with wind coverage rose from 61% in 2012 to a little over 62% in 2013.

B. Commercial Lines – Admitted Market

There were 92 carriers reporting data for 2013 compared to 83 carriers reporting in 2012 and 90 in 2011. The numbers will vary as carriers write more or less than the established threshold. Additionally, the numbers will change as carriers enter and exit the market. In general, 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	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2012	322	251	573	56.2%	43.8%
Sep 2013	328	160	488	67.2%	32.8%
% Change	1.9%	-36.3%	-14.8%		

Source: SCDOI Data Call

Slightly more new policies were written with wind coverage in 2013 than in 2012 while the number of new policies written without wind decreased significantly from 2012 to 2013. This caused the percent of new policies written with wind to increase considerably.

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

Month	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2012	3,320	2,037	5,357	62.0%	38.0%
Sep 2013	3,124	1,962	5,086	61.4%	38.6%
% Change	-5.9%	-3.7%	-5.1%		

Source: SCDOI Data Call

Total in-force commercial policies written with and without wind coverage both saw decreases from 2012 to 2013. The percent of total in-force policies written with wind fell slightly over that same time period.

IV. Department of Insurance Outreach

The SCDOI has a responsibility to assist consumers with their insurance concerns. It provides consumers with information and assistance via its website, written publications, phone, and e-mail regarding all lines of insurance coverage that are dictated by statute. The SCDOI continues to update its website to provide information via a more intuitive navigation process. Additionally, the updated site will provide an interactive functionality component that will allow consumers more specific insurance information. The SCDOI's Market Assistance Program helps consumers that are having difficulty finding insurance coverage. Through the assistance of the SCDOI's coastal consumer liaison and SC Safe Home staff, the SCDOI assists consumers in learning more about mitigation measures and credits, catastrophe savings accounts, and the SC Safe Home mitigation grant program. As a part of its overall communication plan for 2013, the SCDOI created a public service announcement complemented by a state-wide advertising campaign utilizing grant programs through the SC Broadcasters Association and the Outdoor Advertisers Association urging consumers to review their insurance policies and be aware of their coverages.

On May 9, 2013, the SCDOI held a public hearing on coastal property insurance at The Citadel in Charleston, South Carolina. The hearing began with an educational program. Speakers included an actuary discussing coastal property rates, a representative of the catastrophe modeling panel describing the process of model review which was taking place, a retired representative of the National Weather Service, and a SCWHUA staff member. Following the presentations, members of the public were invited to address questions to the speakers or to the Director. In addition to SCDOI staff, a number of exhibitors were available to answer questions before and after the hearing.

On June 8, 2013, the South Carolina Department of Insurance co-hosted a hurricane expo with Home Depot and Channel 2 (WCBD-TV) at the Home Depot on Magwood Drive in Charleston. With nearly 30 exhibitors, consumers could learn about hurricane preparedness, insurance, the SC Safe Home Program, and a variety of related topics. An ongoing program of speakers provided additional information. Approximately 400 consumers and their families enjoyed a day of education and fun activities, with some winning giveaways such as generators and other hurricane supplies provided by the exhibitors.

On October 30, 2013, the Senate Banking and Insurance Subcommittee on Coastal Insurance held a public hearing at the Horry Georgetown Technical College's Conway campus. A second hearing was held at the University of South Carolina's Beaufort campus on November 13, 2013. At both hearings, presentations were made to provide coastal consumers with a better understanding of the issues at hand. Representatives of the SCDOI and the insurance industry were available to answer questions by the senators and the public.

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

The SCWHUA is an active member of the IBHS. Its Executive Director serves on the Board of Directors of this organization, which represents all property plans nationwide. In addition, the SCWHUA holds a permanent seat on the Research Advisory Council which oversees the research work that takes place at the facility.

Along with the Governor and several state legislators, the Director participated in a meeting hosted by IBHS and the BuildStrong Coalition at the IBHS Richburg facility on November 12, 2013. The Director and other experts spoke on the importance of minimizing risk by identifying vulnerable areas in one's home and providing homeowners with the tools to make their homes more resistant to wildfires. The event also included a demonstration of home ignition vulnerabilities and a tour of the facility. On November 22, 2013, the Director was a member of a panel at the Federal Alliance for Safe Homes' (FLASH) Annual Conference in Lake Buena Vista, Florida. The panel discussed the role of building codes in strengthening communities' resiliency with regard to catastrophic events.

The SCDOI works with other state regulators throughout the country to share information and best practices. As a part of this effort, the SCDOI participates in 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.

Recently, the group has been discussing the possibility of creating a common template that will be used nationwide to collect claims data following a catastrophic event.

South Carolina's approach, especially regarding the SC Safe Home Program, has been rather successful and is seen as a model by other states. This has been evidenced by the numerous stakeholders that have reached out to the SCDOI to learn from its efforts. The SC Safe Home staff has met with representatives from Alabama, the California Earthquake Authority, FEMA, Maryland, Mississippi, and Texas. It has also resulted in the SCDOI being asked to present at several conferences, including the NAIC's Summer National Meeting and the Southeastern Regulators Association 2013 Conference. These presentations have centered on the Omnibus Act's consumer-focused initiatives aimed at incentivizing consumers to mitigate and prepare in advance of a natural disaster. SCDOI staff have also been asked to participate in the National Tornado Summit in February 2014. The stated purpose of this conference is to improve disaster mitigation, preparedness, response, and recovery throughout the United States. The Director will be part of a session on market stability in areas with high exposure to natural catastrophes. The SCDOI's Deputy Director of Market and Consumer Services will be presenting on the course the state has taken with regard to promoting mitigation and how that can be translated to other catastrophe-prone states.

A. SC Safe Home Program

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 3,200 grants totaling more than $12,660,200. Based on program data, the average year built of the homes that are retrofitted is 1983, and the average value of homes receiving the grant award is $91,786. The program awarded 813 grants worth $3,816,997 in 2013 compared to 562 grants for $2,754,535 in 2012; this constituted an increase of almost 45% year over year. In 2013, roughly 34% of award recipients qualified as low-income applicants based upon the U.S. HUD Median Income Guidelines.

Table 4.1: 2013 SC Safe Home Grants Awarded by County

County	Grants	Awards
Beaufort	17	$80,635
Berkeley	82	$366,246
Charleston	72	$318,531
Colleton	3	$15,000
Dorchester	37	$171,170
Florence	0	$0
Georgetown	124	$597,508
Horry	391	$1,842,836
Jasper	2	$8,468
Marion	32	$152,011
Williamsburg	53	$264,592
Total	813	$3,816,997

Source: SC Safe Home

The program continues to make an important economic impact to coastal communities by creating jobs in the construction and home improvement industries. SC Safe Home requires contractors and wind inspectors working with the program to be trained and tested by the Federal Alliance for Safe Homes (FLASH) through the *Blueprint for Safety Training Program*. Presently, the total number of approved contractors and inspectors working with the program is 121, with many of these individuals approved to work in multiple counties. The SC Safe Home website (http://www.scsafehome.com/) contains links to full lists of certified contractors and wind inspectors.

Table 4.2: SC Safe Home Approved Contractors and Inspectors

Location	Contractors	Inspectors
Greater Myrtle Beach Area	45	26
Greater Charleston/Berkeley Area	44	31
Greater Beaufort/Jasper Area	4	12
Other Areas	3	1

Source: SC Safe Home

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, 76% of the SC Safe Home grantees have selected to retrofit their roof with grant funds. Additionally, homeowners that have selected to replace their windows with impact resistance systems and hurricane shutters through SC Safe Home have reported a 29% savings in their energy costs. Structures retrofitted through SC Safe Home are more attractive risks to insurance companies. Homeowners are reporting premium reduction savings of up to 24% from their insurance carriers. According to the Federal Emergency Management Agency (FEMA), society saves $4.00 in potential losses and reconstruction costs for every $1.00 spent on mitigation. Based on this statement, it is estimated that SC Safe Home has reduced the potential loss and future reconstruction costs from a hurricane or severe wind event by more than $50.6 million.

The SC Safe Home Program has a coastal consumer liaison located in the Charleston office of the SCDOI. This enhances the SCDOI's ability to work with coastal residents and contractors participating in the grant program. The coastal consumer liaison also assists consumers with their questions concerning mitigation credits and discounts, catastrophe savings accounts, and the SC Safe Home grant program.

B. Coastal Property Writers

The SCDOI's efforts to recruit new insurers to the state while simultaneously working with existing markets to provide coastal insurance have contributed to the decrease in the SCWHUA's total policies and insured values. Since the passage of the Omnibus Act, the SCDOI has licensed 19 new companies to write coastal property insurance coverage. They include:

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

- United Property & Casualty Insurance Company
- American Capital Assurance Corporation
- Preserver Insurance Company
- Lighthouse Property Insurance Company
- Centauri Specialty Insurance Company
- Interboro Insurance Company
- USPlate Glass Insurance Company

An example of the impact these newly licensed insurers can have on the admitted marketplace is that of Lighthouse Property Insurance Company. In December 2011, it was licensed to transact business in South Carolina. Its initial focus was to compete with the SCWHUA by offering a competing wind and hail only policy. By using a controlled growth strategy, the insurer plans to write $5,000,000 in premiums in the coastal counties of South Carolina. In 2013, Lighthouse wrote $1,299,589 in written premium on 653 policies with a total insured value of $262 million. Lighthouse is still actively writing new policies in its wind program and is also in the process of implementing full coverage homeowners and dwelling fire programs in South Carolina.

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.[19] The amount of the credit taken by companies was $50,576 in 2012 and $56,309 in 2011. The effects of the entry of new admitted market carriers, coupled 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.

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.

[19] S.C. Code Ann. § 38-7-200 (2002).

C. 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. 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 contacts agents and companies on behalf of consumers or connects them directly to insurance professionals who can further help them obtain coverage at competitive costs.

As of December 31, 2013, the Market Assistance Program has helped 132 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. It is imperative that consumers have knowledge of and access to the best possible insurance coverage available at the best possible price.

Furthermore, the SCDOI has developed a page on its new enhanced website that is specifically designated for market assistance. Located on this page is an online form that allows consumers to contact all 50 agents and companies participating in the Program instantly. Consumers fill out a short questionnaire and, upon receipt of the information provided on this form, participating agents and companies in turn contact the consumers and provide quotes for coverage. This service is free and allows consumers to make their information available to agents and companies for 45 days.

Additionally, the SCDOI sent a representative to Myrtle Beach in March 2013 to assist those individuals who were impacted by the devastating fire in the Carolina Forest residential complex and to facilitate recovery in the community. In like manner, the SCDOI sent a representative to Georgetown in October 2013 in the wake of the Front Street Fire in an effort to help those individuals and business owners affected by the fire in their recovery. Since August 2013, SCDOI has sent its coastal consumer liaison to various locations in Jasper County to meet coastal property insurance consumers closer to where they live and in a more convenient location for them. The SCDOI continues to work with local contacts to incorporate other areas along the coast 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 an effort to further expand its presence throughout the state, the SCDOI partnered with the South Carolina Department of Motor Vehicles (SCDMV) in 2013 for a series of outreach events hosted at various SCDMV field offices. The pilot program took place every first and third Friday from September 20, 2013 to December 6, 2013 and targeted some of the most frequented SCDMV field offices in locations outside the Midlands. A member of the SCDOI's Office of Consumer Services was available at each occurrence to answer insurance questions from consumers. To further serve policyholders, the Office of Consumer Services has extended call-in hours of 8:00 a.m. to 6:00 p.m. Monday to Thursday while maintaining regular hours of 8:30 a.m. to 5:00 p.m. on Friday.

The Department has also been focused on professional development and training of its staff, which included an initiative to have a number of its staff obtain the Certified Insurance Services Representative designation. The employees earning this designation will be able to use their training to assist consumers in the aftermath of a catastrophic event.

D. Catastrophe Savings Account

One of the many consumer-based initiatives included in the Omnibus Act is the creation of catastrophe savings accounts (CSAs).[20] 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. Catastrophe savings accounts can be established at any state or federally-chartered bank, but must be labeled as a "Catastrophe Savings Account." The money can only be held in an interest bearing account (e.g., regular savings or money market account) and comingling of funds is strictly prohibited. The funds placed in a catastrophe savings account and the annual interest earnings on that account are not subject to state income taxation if left in the account or used for Qualified Catastrophe Expenses. However, the amounts cannot be used to reduce federal income tax liability. Withdrawals for ineligible expenses are taxable as ordinary income and are also subject to a 2.5% additional tax, with limited exceptions.

[20] S.C. Code Ann. § 12-6-1620 (2007).

E. State Income Tax Credits for Fortification Measures

As a market-based approach to reform, a primary focus of the Omnibus Act is consumer-based initiatives aimed at proactively preparing for the possibility of a hurricane or catastrophic event occurring. Several of these are in the form of tax incentives for fortifying one's legal residence. A state income tax credit is available for fortification measures and applies to the costs to retrofit one's legal residence to make it more resistant to losses due to flood, a hurricane, or an unnamed catastrophic windstorm event.[21] 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.[22] 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.

Table 4.3: Tax Credits for Fortification Measures

Calendar Year	Number of Credits	Total Amount of Credits
2008	84	$149,570
2009	155	$168,364
2010	217	$230,753
2011	214	$232,419

Source: SC Department of Revenue

[21] S.C. Code Ann. § 12-6-3660 (2007).
[22] S.C. Code Ann. § 12-6-3665 (2007).

V. Catastrophe Model Panel

The Director may cause an evaluation to be made of any natural catastrophe model used in property insurance rate filings in South Carolina.[23] 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 Catastrophe Model Panel which was engaged consisted of an actuary (Mr. Martin Simons), a meteorologist (Dr. Jenni Evans), and a structural engineer (Dr. Masoud Zadeh). Each panel member has considerable experience reviewing natural hazard catastrophe models and is a member of the Professional Team selected to advise Florida's Commission on Hurricane Loss Projection Methodology. The 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).

The SCDOI received the panel's preliminary report in July 2013 and scheduled a public hearing for October 9, 2013. The final report was received in early October 2013. In addition to holding a public hearing, the SCDOI made as much of the two reports as possible available to the public on its website (preliminary report: http://doi.sc.gov/ArchiveCenter/ViewFile/Item/264; final report: http://www.doi.sc.gov/DocumentCenter/View/7184); some portions were redacted due to their proprietary nature. EQECAT originally redacted a large amount of information from the section of the report regarding their models. This resulted in the Director's decision to disallow the use of their models in South Carolina until EQECAT allowed for more transparency. EQECAT later revised their redaction request, and the ban on their models was lifted.

The public hearing consisted of presentations by the Director, SCDOI staff, an independent actuary, and Martin Simons on behalf of the panel as well as comments from the public and other interested parties. While responding to a consumer question, Mr. Simons made the following statement which summarizes the findings in the panel's report:

Basically, our report determined that the models do a very good job, with [several] exceptions. And when these exceptions are taken care of, we can have great confidence in the models. But, basically, the models do a very good job of determining the expected annual loss from hurricanes.

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[23] S.C. Code Ann. § 38-75-1140 (2007).

The SCDOI hired a court reporter to document the hearing and posted the transcript as well as other relevant materials on its website. All of the above-referenced materials are available on the Coastal Insurance webpage, http://www.doi.sc.gov/592/Coastal-Insurance.

On December 12, 2013, the Director issued Order 2013-05 to summarize the findings found in the catastrophe model panel's report. It also ordered the following:

- The SCDOI shall develop a procedure for examining and evaluating hurricane catastrophe models used in property insurance rate filings.
- The four modelers referenced in the order will meet with SCDOI staff within 45 days of the order on specific issues identified in the panel's report.
- Within 90 days of the order, the SCDOI will issue a bulletin implementing the recommendations set forth in the order.
- Any company or entity using hurricane catastrophe models to develop rates must include sufficient and appropriate information as required by the SCDOI in its rate filing.

As required by the order, SCDOI staff has met with representatives of each modeling company individually, with meetings taking place in SCDOI offices between December 6, 2013 and January 8, 2014. Additionally, the SCDOI is on track to issue a bulletin regarding hurricane catastrophe model use in ratemaking by the order's deadline of March 12, 2014.

VI. Biggert-Waters Act

The National Flood Insurance Program (NFIP) is a federal program managed by the Federal Emergency Management Administration (FEMA). Congress 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 Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) was signed into law on July 6, 2012. BW-12 reauthorized the NFIP through September 30, 2017 and included a number of changes designed to make the program more financially and structurally sound. The purpose of the legislation is to change the way the NFIP operates and to raise rates to reflect true flood risk as well as make the program more financially stable. BW-12 also involves changes regarding how Flood Insurance Rate Map (FIRM) updates impact policyholders.

One of the main goals of BW-12 is to move flood insurance rates toward risk-based pricing. This is an issue today because of the way this federal program was established. According to the Government Accountability Office's (GAO) 2013 High Risk Report on the NFIP:

> The potential losses generated by NFIP have created substantial financial exposure for the federal government and U.S. taxpayers. While Congress and FEMA intended that the National Flood Insurance Program be funded with premiums collected from policyholders and not with tax dollars, the program was, by design, not actuarially sound. As of November 2012, FEMA owes the Treasury approximately $20 billion—up from $17.8 billion pre-Superstorm Sandy—and had not repaid any principal on the loan since 2010…Weaknesses in the management and operations of NFIP also create a risk that funds allocated to NFIP and premiums paid by policyholders are not being used efficiently or effectively.[24]

[24] *High Risk Series: An Update*, United States Government Accountability Office, February 2013.

1. Mississippi Insurance Department v. Department of Homeland Security; United States Federal Emergency Management Agency

The Mississippi Insurance Department filed a lawsuit seeking an injunction to stay the rate increases to the NFIP contained in BW-12 until affordability studies required in the Act are completed. South Carolina, Florida, Alabama, Massachusetts, and the Mississippi Wind Pool filed Amicus briefs supporting the Mississippi Insurance Department's lawsuit. The federal government filed a motion to dismiss the case for lack of standing. The Court heard the federal government's Motion to Dismiss on January 6, 2014, and took it under advisement. The judge was complimentary of the Amici briefs and expressed that they helped him greatly in understanding the issues. The judge did not grant the Motion to Dismiss, stating that he preferred to hear the entire matter and then make a ruling. A January 27, 2014 hearing on the Injunction, et al included exhibits, affidavits, and live testimony of five witnesses called by the Mississippi Insurance Department; FEMA did not call any live witnesses. The Mississippi Insurance Department and FEMA were given until February 10, 2014 to submit any additional briefs and update the court on any Congressional activity that could affect the outcome of the case.

2. NFIP Policies in South Carolina

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 80% of total policies in-force. As shown in Table 1.1, Florida has 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 206,682 policies which insure nearly $51 billion of property. The NFIP has a total insured value of just under $1.3 trillion and roughly $3.8 billion in annual written premium.

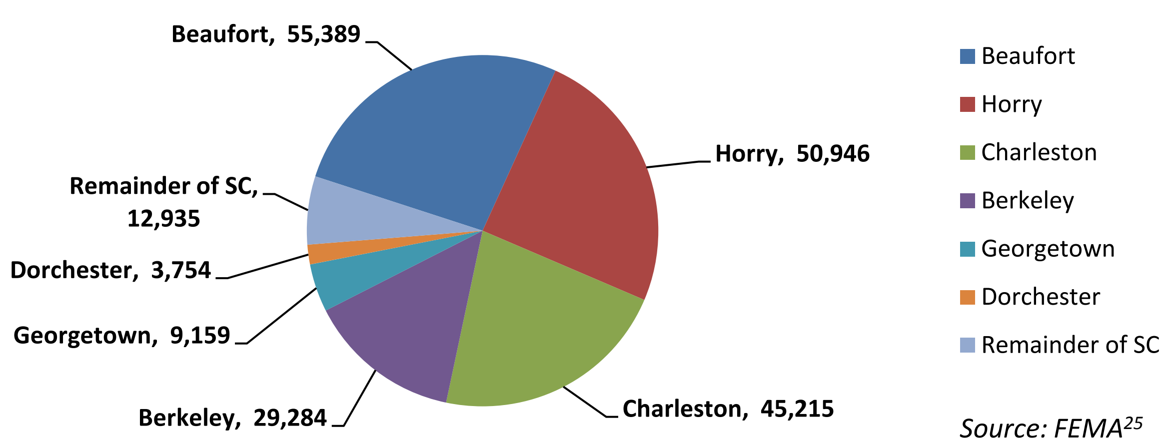
Table 6.1: NFIP Policy Data by State as of 10/31/13

State	Policies	% of Total Policies	Total Insured Value (in Millions)	% of Total TIV	Written Premium	% of Total Written Premium
FL	2,051,549	37.0%	$478,998	37.2%	$1,065,660,742	28.2%
TX	629,912	11.4%	$160,577	12.5%	$380,227,666	10.1%
LA	483,270	8.7%	$113,750	8.8%	$363,744,962	9.6%
CA	251,408	4.5%	$66,316	5.1%	$214,656,513	5.7%
NJ	246,581	4.4%	$57,487	4.5%	$242,254,337	6.4%
SC	**206,682**	**3.7%**	**$50,884**	**3.9%**	**$135,323,212**	**3.6%**
NY	196,679	3.5%	$49,354	3.8%	$200,968,979	5.3%
NC	139,192	2.5%	$32,869	2.6%	$108,093,781	2.9%
VA	115,497	2.1%	$28,283	2.2%	$83,572,272	2.2%
GA	96,875	1.7%	$23,778	1.8%	$71,839,990	1.9%
NFIP Total	5,544,629	100%	$1,288,482	100%	$3,781,341,162	100%

Source: FEMA[25]

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 94% of South Carolina's NFIP policies and total insured value; these same counties account for 93% of the annual written premium.

Chart 6.1: South Carolina NFIP Policy Data by County as of 10/31/2013



Source: FEMA[25]

[25] The data were accessed on FEMA's website (http://bsa.nfipstat.fema.gov/reports/1011.htm#SCT) on 1/14/14 and could be subject to future updates by FEMA.

VII. Conclusions

In summary, the South Carolina coastal property insurance market appears to be stable. The SCWHUA's overall trend of decreasing premiums, policies, and exposure continued in 2013. The companies in the admitted market reporting in the SCDOI's data call also experienced a reduction in total policies written. The overall decrease is almost certainly due in part to an increased appetite for coastal property risk in the Excess and Surplus Lines marketplace. Another contributing element could be the particular companies reporting in the SCDOI's data call. It is conceivable that some of the carriers not meeting the $1 million reporting requirement threshold are writing more policies in the wind pool area. Unfortunately, there is no mechanism currently in place to determine whether or not this is the case. It should also be mentioned that the current state of the economy may be contributing to the declining size of the residual and admitted property insurance markets.

The overall stability of the market can be influenced by multiple factors. The renewed expansion of the Wind Pool territory, set to expire on March 29, 2015 unless extended by an order of the Director, has increased the availability of 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. 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.

VIII. 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 adopt the Competitive Insurance Act (Senate Bill 569; House Bill 3903) which would:
    - Enhance competition in the marketplace by expanding on the reforms included in the Omnibus Coastal Property Insurance Reform Act of 2007;
    - Increase dedicated funding for the SC Safe Home Program;
    - Improve financial incentives for carriers to write essential property insurance along the coast; and
    - Require carriers to advise policyholders of the availability of Catastrophe Savings Accounts.

- The State should continue to encourage mitigation and better land use planning so as not to increase the state's exposure to hurricane and flood losses. South Carolina has a substantial amount of property exposed to significant hurricane risk. Mitigation, coupled with better land use planning, could help reduce the loss of South Carolina property and lives.

- The State should continue to strengthen statewide building codes and mandate training for building code inspectors and for contractors working in the construction and home improvement industry. South Carolina has adopted the International Code series and is currently following the guidance set forth in the 2012 version of the International Residential Building Code (IRC). The IRC establishes the minimum building standard. 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.

IX. Appendix

1. Order 2013-01 (Wind Pool Expansion Renewal Order)

http://doi.sc.gov/DocumentCenter/View/3047

2. Order 2013-05 (The Use of Insurance Catastrophe Models in Property Insurance Ratemaking in SC)

http://doi.sc.gov/DocumentCenter/View/7324

The above referenced materials as well as previously referenced items can be found on the SCDOI website: http://doi.sc.gov/.