



Insurance in South Carolina

Current Challenges and Constructive Ways Forward

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**Dave Snyder,
Vice President**



Outline

- South Carolina and State-Based Insurance Regulatory System
- Challenges—Macro-economic, Extreme Weather, Government Risk
- Factors Affecting Homeowners—Extreme Weather, Inflation
- Factors Affecting Auto Insurance—Crashes, Inflation
- Legal System Issues—South Carolina's Costs
- It's Not Profitability—High Combined Ratios
- What Not to Do—Rate Suppression
- Real Solutions—Cooperation to Reduce Costs
- Conclusion—Improved Affordability and Availability Through Real Solutions



State-Based Insurance Regulation— Comprehensive and Transparent

- Financial Solvency Regulation
- Market Conduct Regulation (Underwriting, Claims, Anti-Fraud)
- Rate Regulation
- Enforcement /Complaint Handling
- Public Information



NAIC State-Based Regulatory System

- All state regulators coordinate their regulatory efforts through the National Association of Insurance Commissioners (NAIC) to consistently and effectively regulate the insurance industry.
- While primary regulatory authority rests with an insurer's domestic regulator, the state-based regulatory system allows for the coordination and sharing of financial and market conduct information amongst state insurance regulators.



Financial Regulation

- Insurers, on a legal entity basis, are required to file extensive audited financial annual statements. Information includes every asset held and 10-year loss information (Schedule P) by line of business for property and casualty insurers. This allows regulators to understand the insured losses and expenses by line of business.
- In addition, Insurers are required to file quarterly financial statements that highlight the changes to the financial statements during the year. Regulators have the authority to obtain any other financial information necessary to protect policyholders in their state.
- Insurers are subject to investment limitations that limit the amount of risky assets they can hold.
- Insurers must file and the DOI reviews material intercompany agreements (service, investment management, etc.) to determine if they are in accordance with statute.
- Insurers are required to file with the DOI all dividends paid to the parent and the DOI can limit or disapprove dividends if the insurers surplus is considered not reasonable compared to its surplus.
- The DOI must perform a financial examination at a minimum every five years and is authorized to conduct them more frequently for each insurer. The DOI also reviews all submitted financial statements.



Market Conduct Regulation

- Insurers, on a legal entity basis, are required to file a Market Conduct Annual Statement (MCAS) with the NAIC. The MCAS system is used to collect claims, lawsuit, and underwriting data on major lines of business (such as Auto and Homeowners) and allows state regulators to analyze the data to identify trends and potential areas of concern within their respective jurisdictions.
- The DOI may conduct a market conduct examination whenever the Director considers it appropriate based on the market analysis or practices of the or the insurer.



Rate Regulation

- For all lines of insurance, rates may not be excessive, inadequate, or unfairly discriminatory.
- Insurers must be able to provide the DOI with actuarial justification for all rates regardless of whether the rates are subject to prior approval.



Challenges



What is Causing Increased HO Losses



MACROECONOMIC PRESSURES

- Increasing exposure values and replacement costs
(e.g., continued construction in high-hazard areas and inflation that is driving up repair and rebuild costs)



CLIMATE

- The natural variability that comes from selecting any 5-year sample of natural catastrophe experience
- The effects of climate change on different atmospheric perils



GOVERNMENT RISK

- The impacts of man-made loss drivers
(e.g., state coverage mandates, rate suppression, legal system abuse)



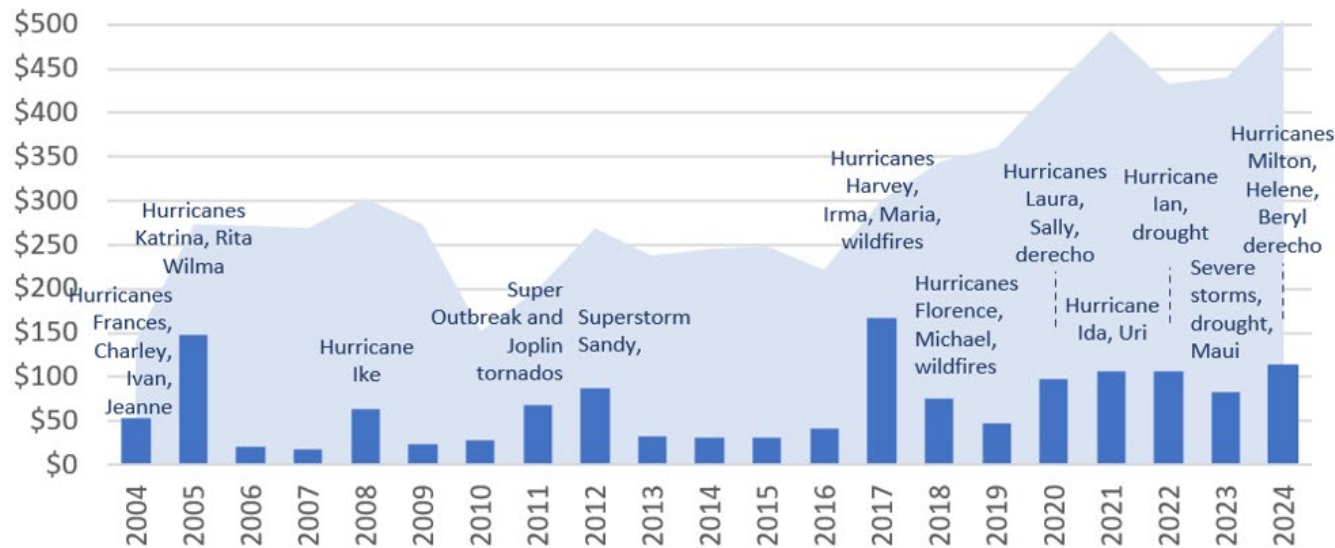
Factors Affecting Homeowners Insurance



U.S. Natural Catastrophe Losses - 2024

Costliest 5-year period ever for U.S. insurers (\$505.9 billion since 2020, in 2024 dollars)

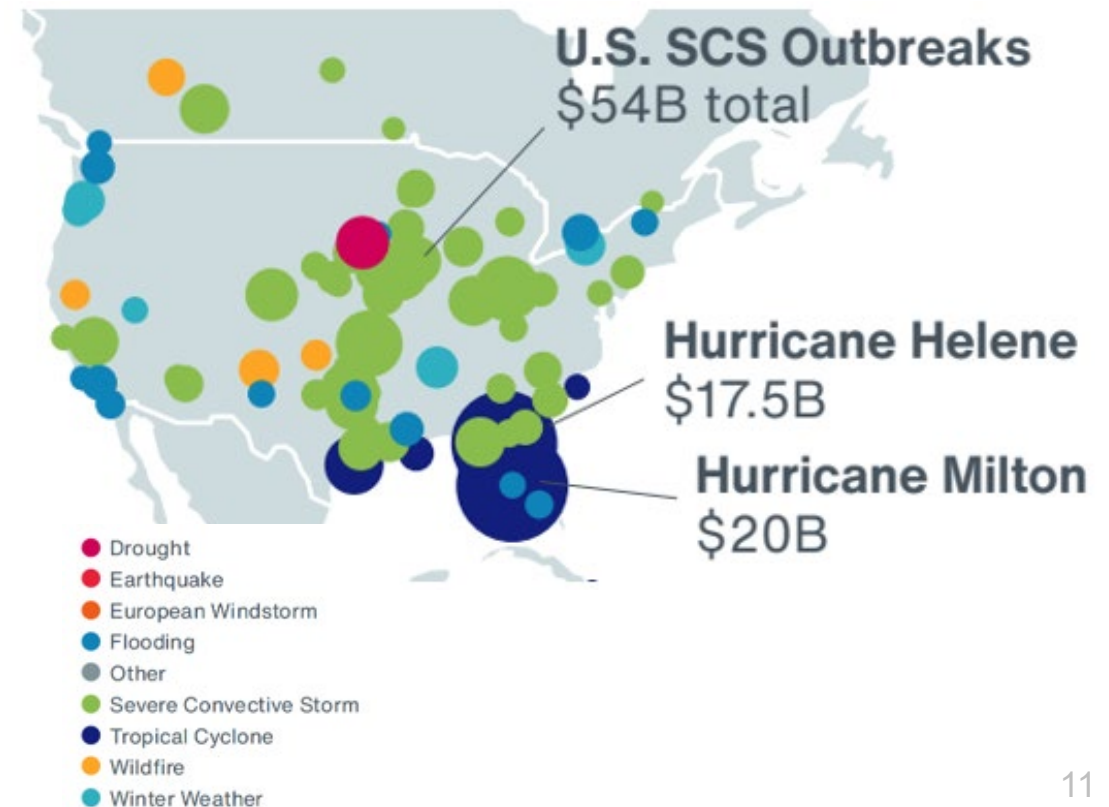
U.S. Insured Natural Catastrophe Losses 2004-2024
(USD Billions, in 2024 prices)



Data Source: APCIA, via Aon Climate & Catastrophe Insight
Includes 50 U.S. States & Territories (Puerto Rico, U.S. Virgin Islands and other U.S. territories)

■ Annual Losses ■ Rolling 5-Year Total

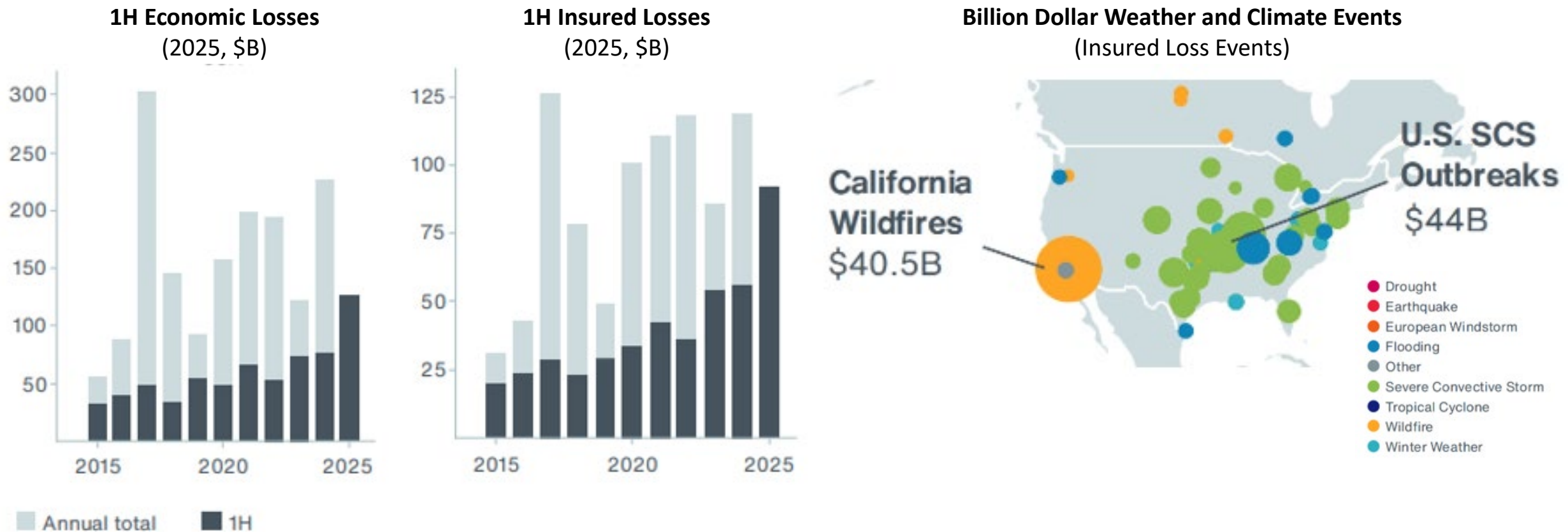
Billion Dollar Weather and Climate Events
(2024 Insured Loss Events)





U.S. Natural Catastrophe Losses - 2025 H1

Second costliest first half on record, surpassing 2011 H1 insured losses

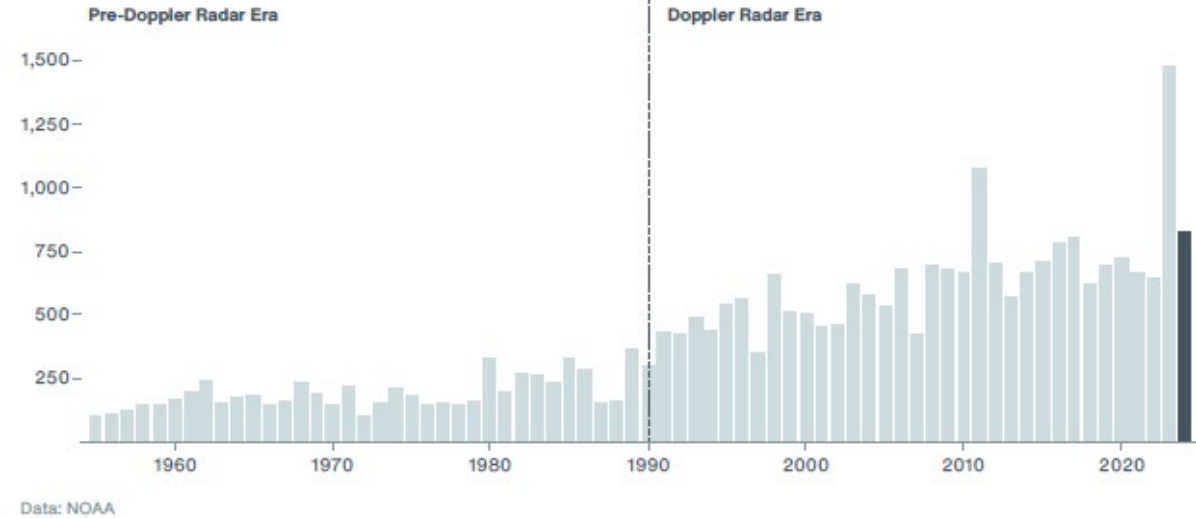




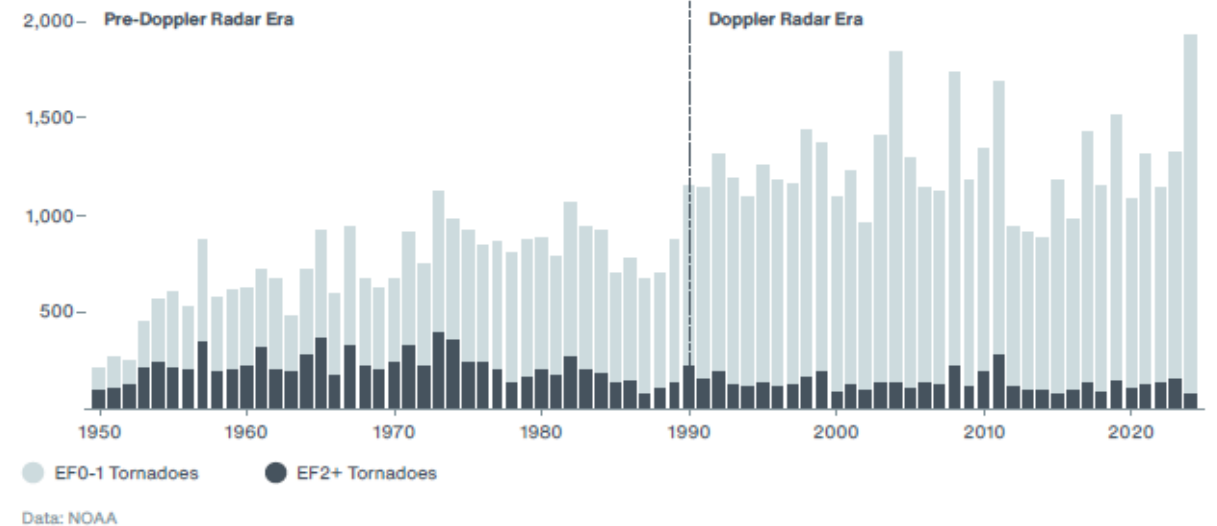
Increasing Severe Storm Losses



U.S. 2+ Inches Hail Reports Since 1955



U.S. EF0+ Tornado Reports Since 1950



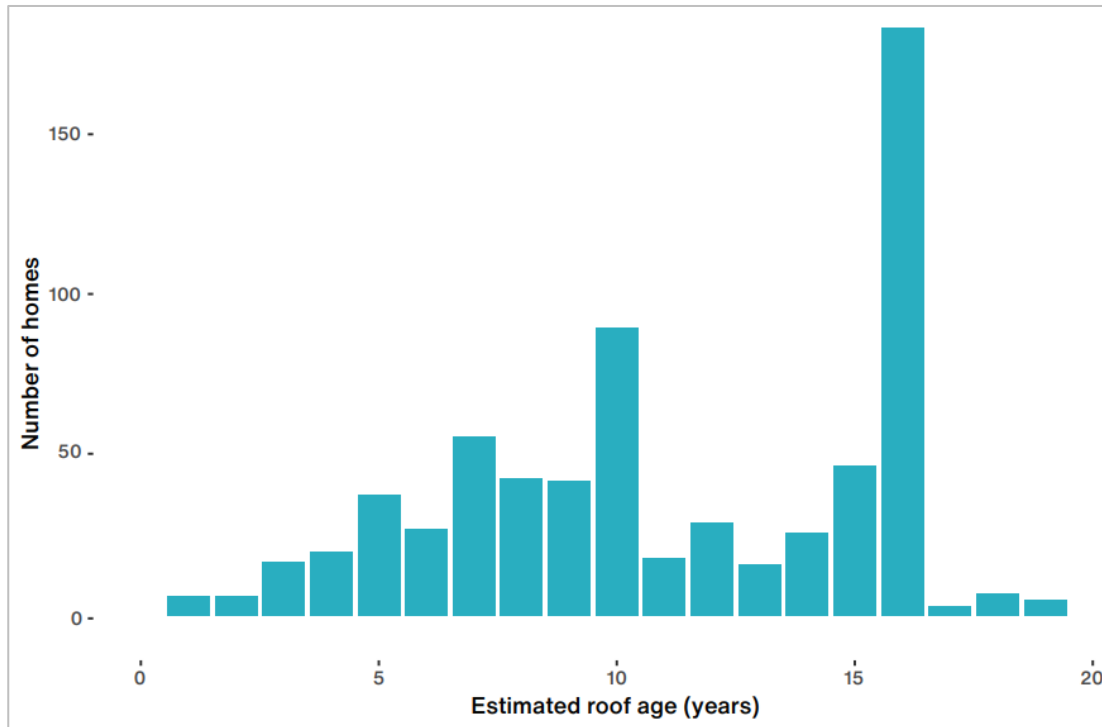


Increasing Severe Storm Losses

Poor Performance from Asphalt Shingle Roofs

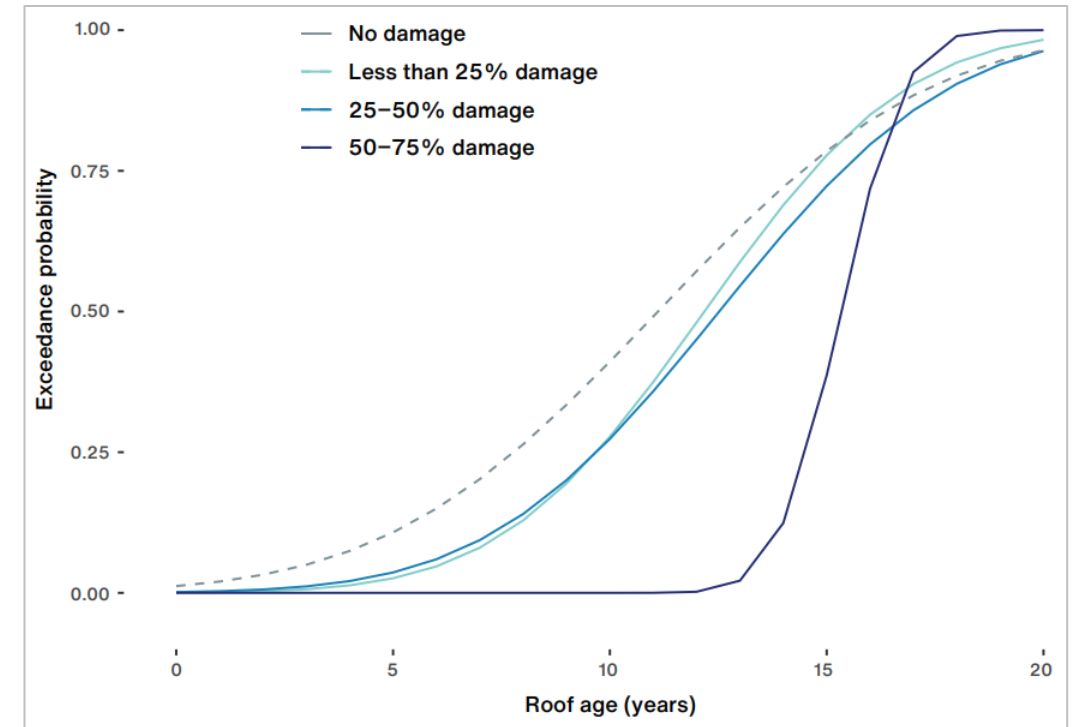
ROOF AGE

Estimated asphalt shingle roof age for single family homes (credit: IBHS)



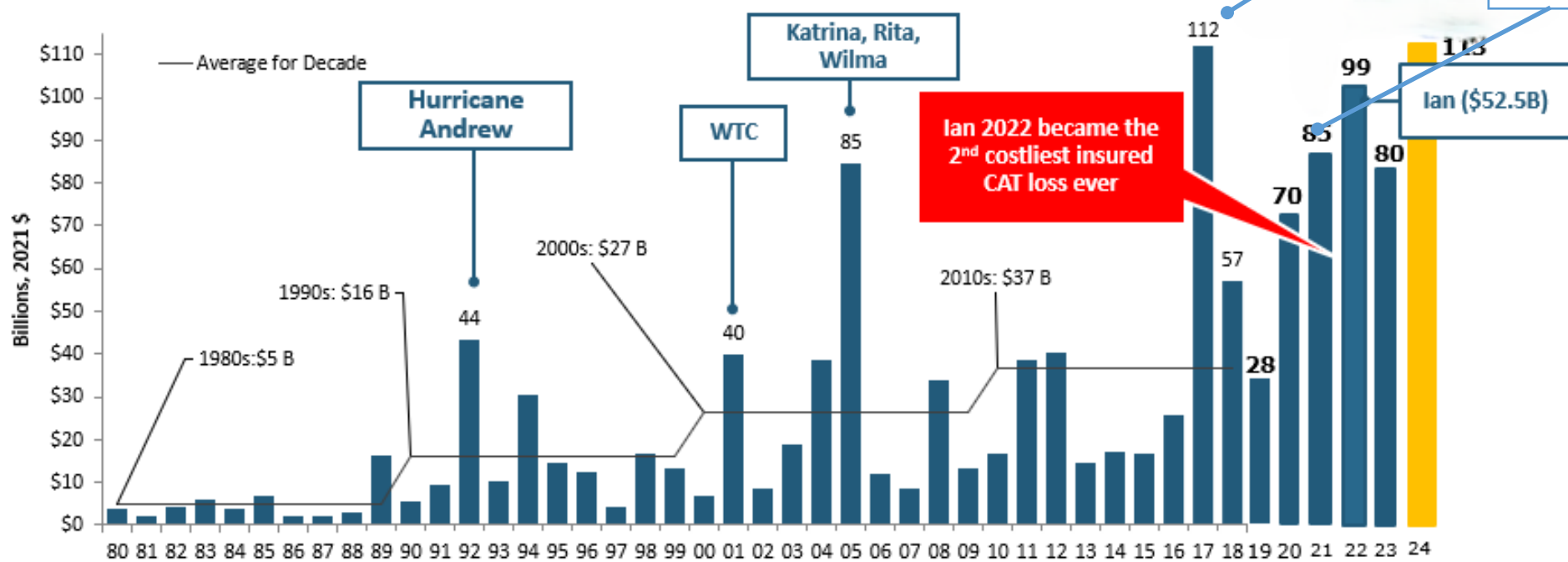
ROOF DAMAGE PROBABILITIES

2020 Midwest Derecho: Cedar Rapids, IA, Asphalt shingle exceedance probabilities by roof age for proportion of roof damaged (credit: IBHS)





U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2024



Average Insured Loss per Year*
1980-2021: \$23.8 Billion
2012-2021: \$44.1 Billion

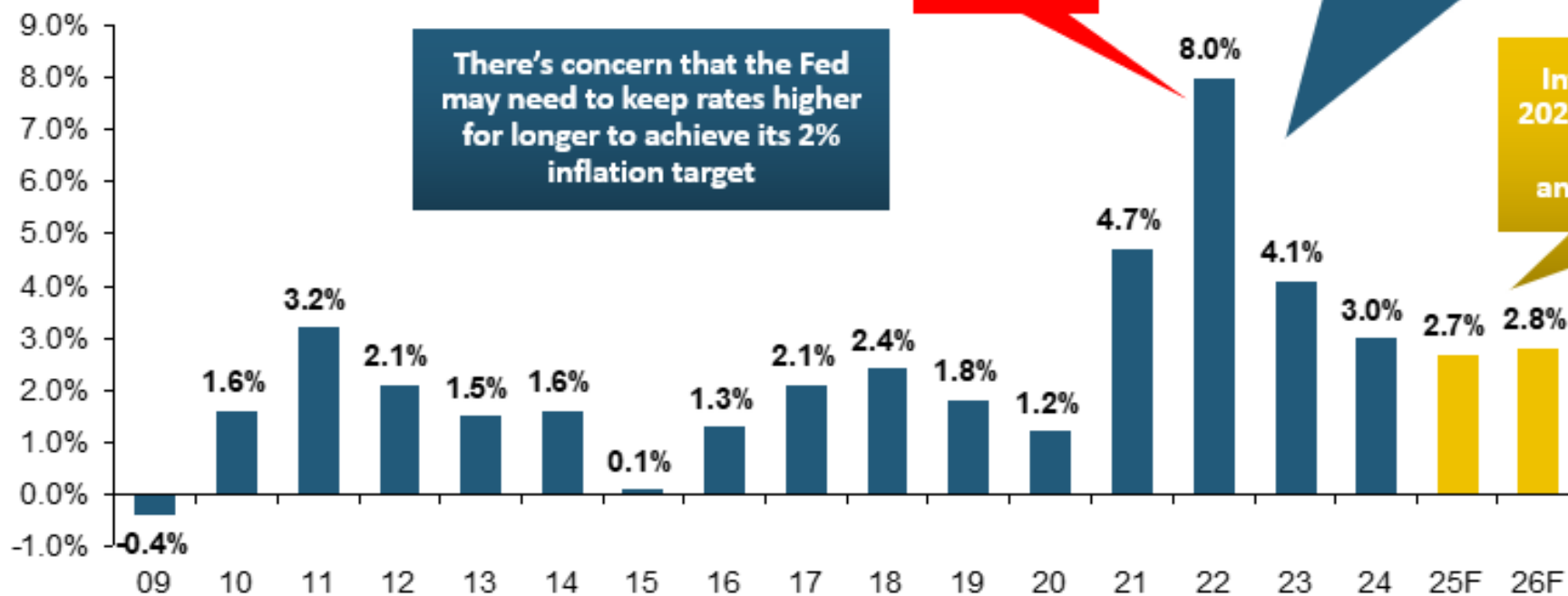
The 2020s are off to an ominous start with \$89.4B in average annual insured losses (2020-24)

*Stated in 2021 dollars except 2022-2024 (in current dollars).
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-22 figures from Munich Re; 2023 and 2024 figures from Aon. Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.



U.S. Inflation Rate: 2009-2026F*

Percentage Change (%)



*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

40-Year High
Highest
inflation rate
since 1982

There's concern that the Fed
may need to keep rates higher
for longer to achieve its 2%
inflation target

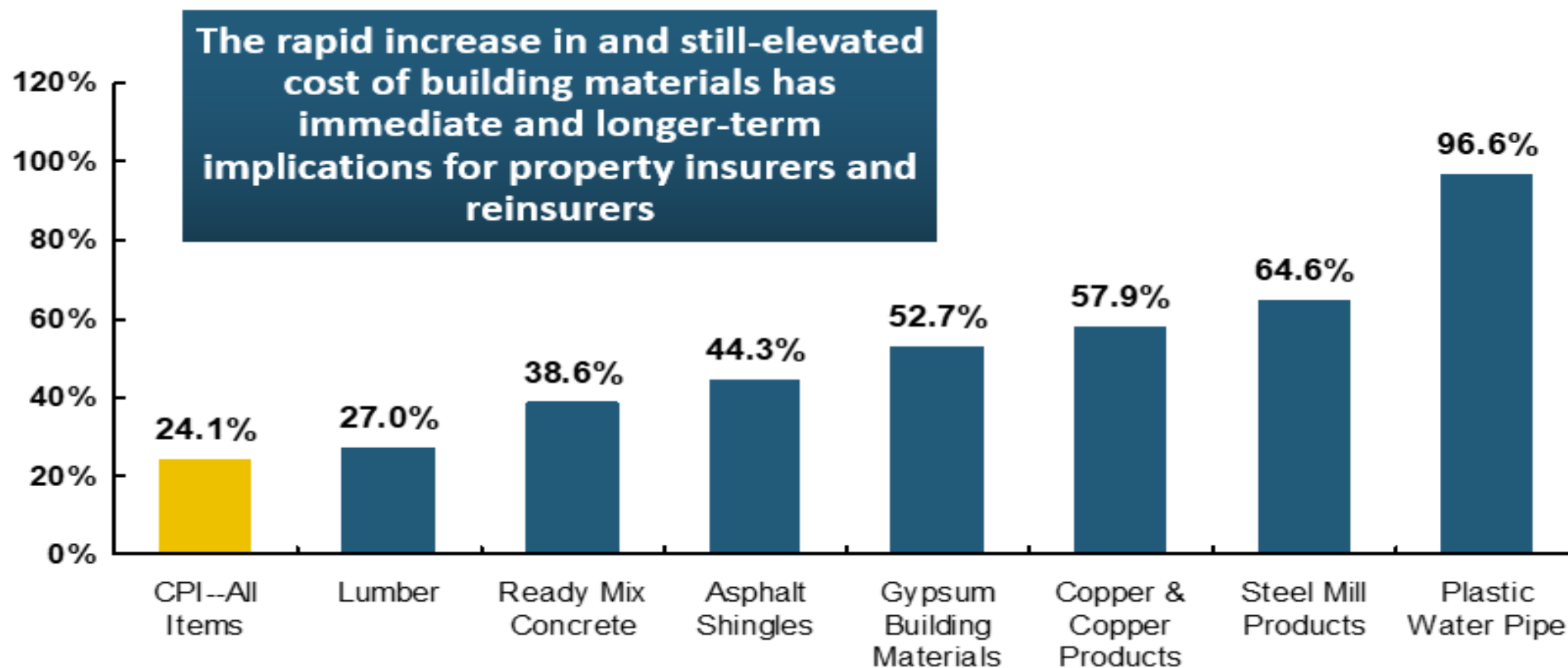
Inflation accelerated sharply in 2021
before peaking at 9.1% in June 2022.
Inflation was nearly halved in 2023 and
fell further in 2024, but will remain
above the Fed's 2% target in 2025-26

Inflation projections for
2025-26 remain stubbornly
high, due largely to
anticipated tariff impacts

**Insurer Concerns
About Inflation**
Rate Inadequacy
Reserve Inadequacy
Insurance-to-Value



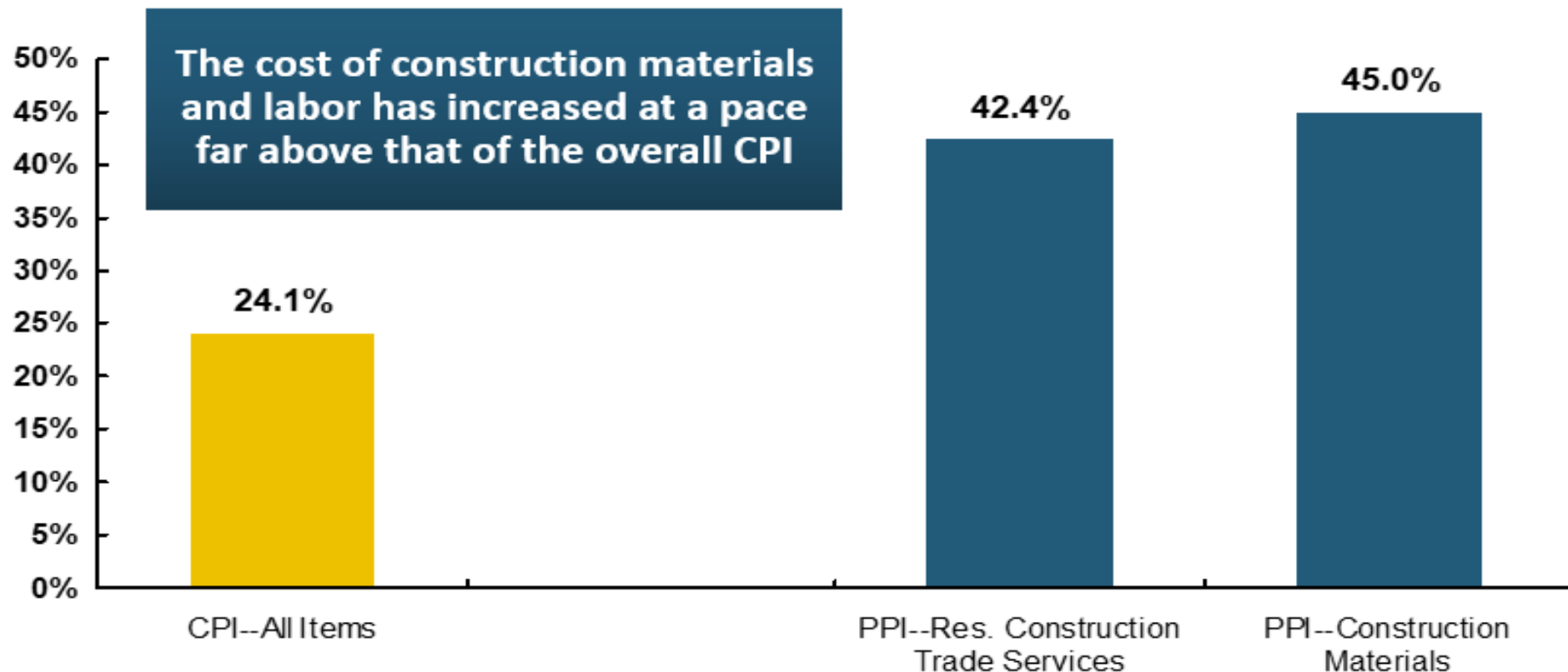
Change in Cost Indicators for Selected Construction Inputs, Jan. 2020 – June 2025



Source: U.S. Bureau of Labor Statistics.



Cost Indicators for Residential Const., Price Index Changes, Jan. 2020 – June 2025

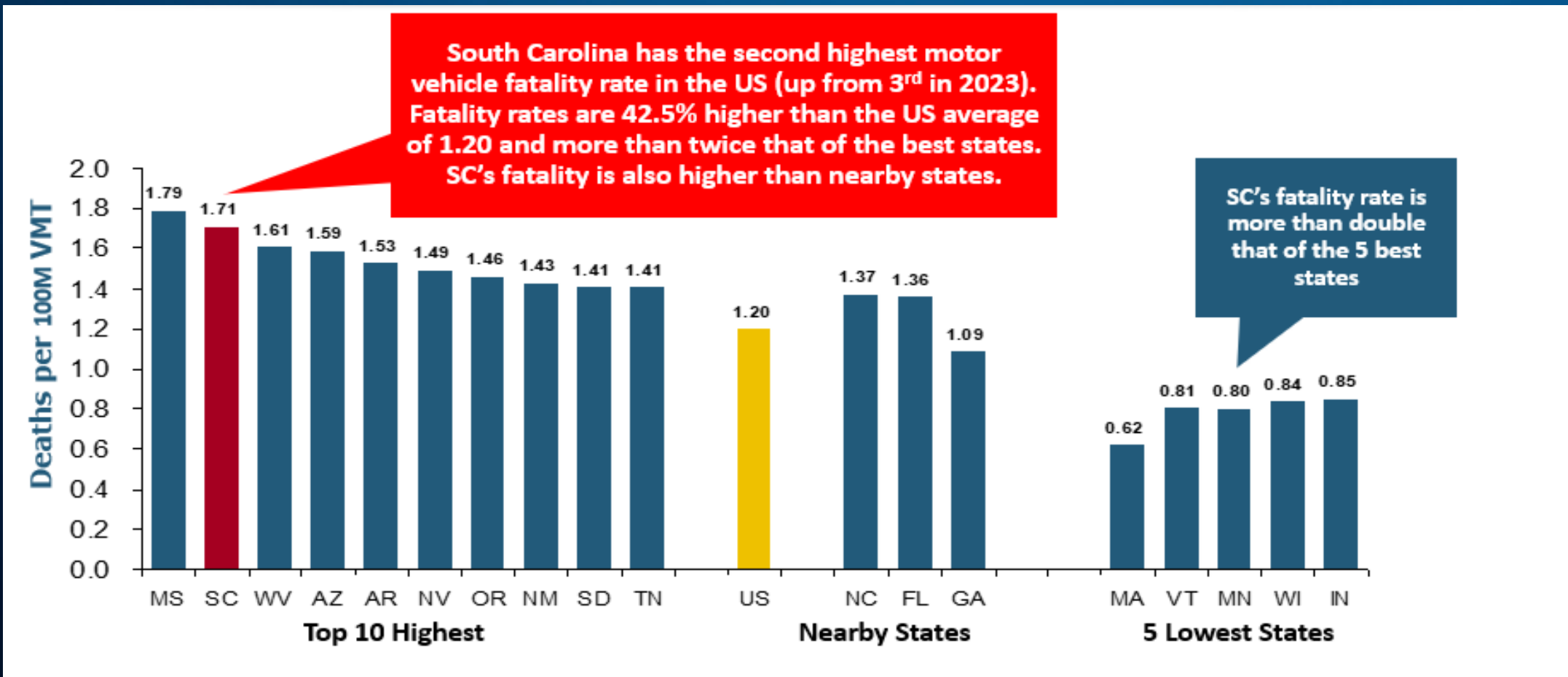




Factors Affecting Auto Insurance



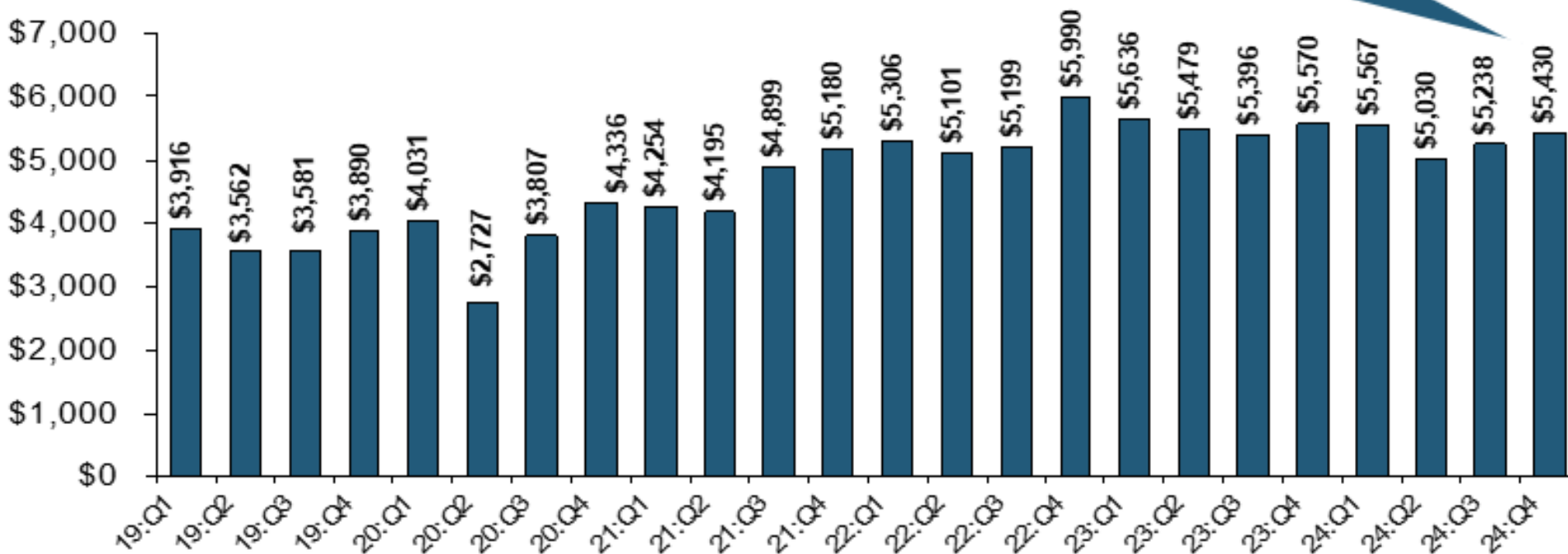
Motor Vehicle Crash Deaths per 100 Million Vehicle Miles Traveled, 2024





SC Collision Claim Severity: Rising to New Highs

Average Loss, 2019:Q1 through 2024:Q4

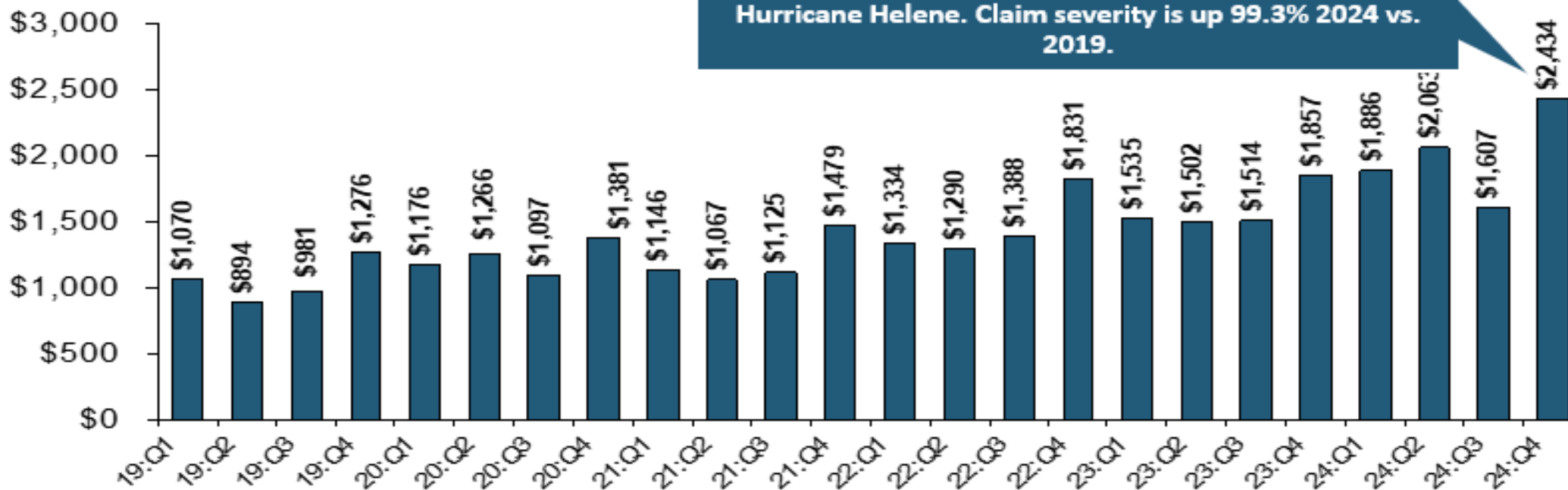


Severities Are Up Sharply—Inflation Is a Major Factor



SC Comprehensive Claim Severity: Rising to New Highs

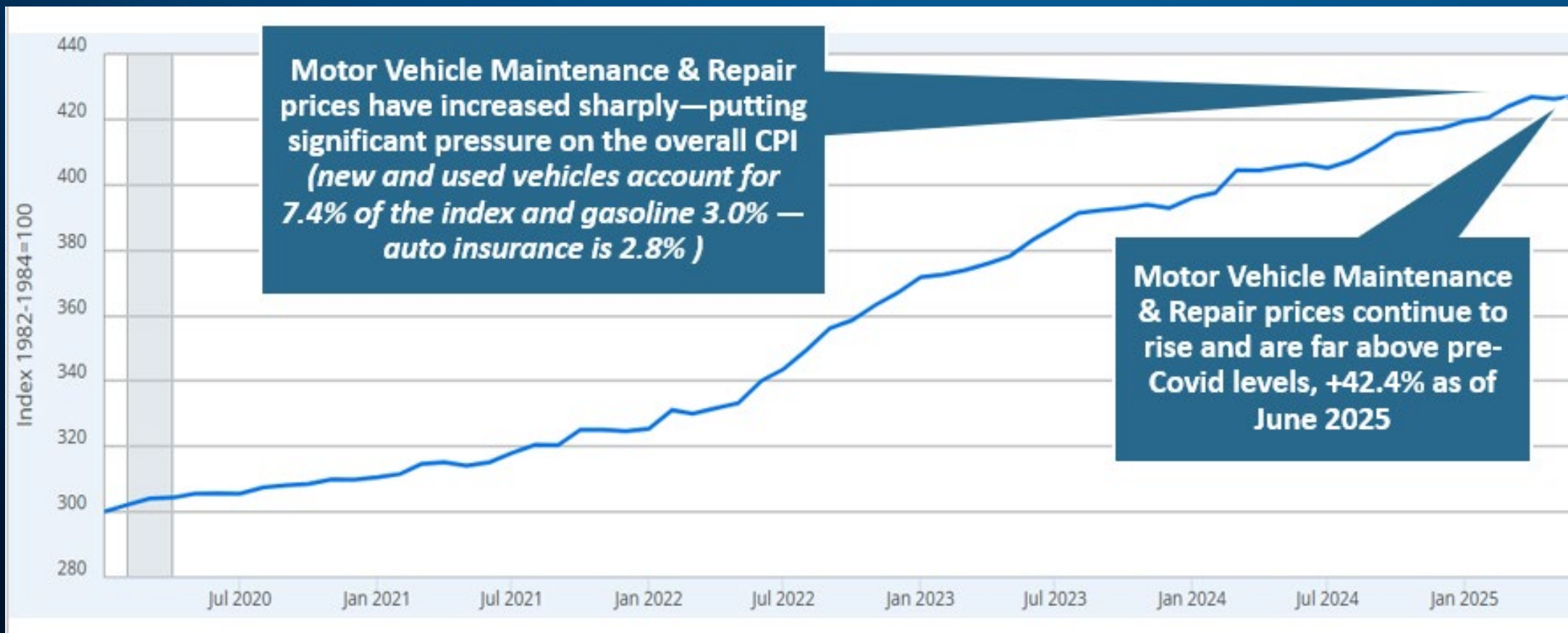
Average Loss, 2019:Q1 through 2024:Q4



Severities Are Up Sharply—Weather and Inflation Are Major Factors

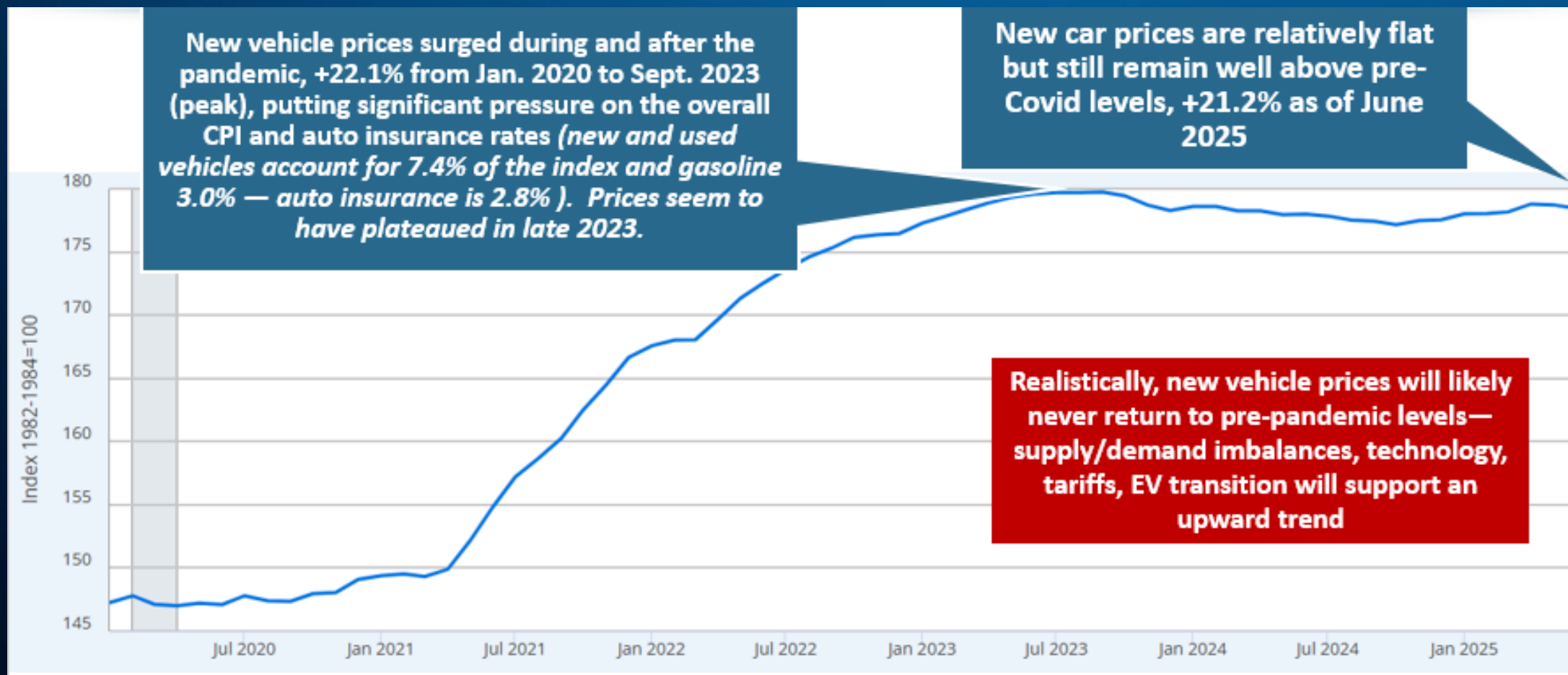


Price Index Changes for Motor Vehicle Maintenance & Repair, Jan. 2020 – June 2025





Price Index for New Vehicles, Jan. 2020 – June 2025





Legal System Issues

Top 10 States: Tort Costs as Percent of State GDP (2022)

State	Total Tort Costs (\$ millions)	State GDP (\$ millions)	Tort Costs as % of State GDP
	[1]	[2]	[3]
DE	\$3,122	\$90,208	3.46%
FL	\$48,179	\$1,439,065	3.35%
LA	\$7,748	\$291,952	2.65%
NY	\$53,437	\$2,048,403	2.61%
GA	\$19,932	\$767,378	2.60%
MT	\$1,729	\$67,072	2.58%
SC	\$7,554	\$297,546	2.54%
NJ	\$18,996	\$754,948	2.52%
NV	\$5,356	\$222,939	2.40%
RI	\$1,714	\$72,771	2.36%
Top 10 States	\$167,766	\$6,052,282	2.77%

Tort costs totaled \$7.554 billion in SC in 2022, equating to a “tort tax” amounting to 2.54% of GDP—the 7th highest in the US—and well above the 2.07% for the US overall

SC’s “tort tax” equated to \$3,734 per household in 2022

Sources and Notes:

[2]: Bureau of Economic Analysis, Gross Domestic Product by state: All industry total. Last updated: May 23, 2024.

[3] = [1] / [2].



The Florida OIR recently announced auto insurance rate decreases

TALLAHASSEE, Fla.—Insurance Commissioner Mike Yaworsky today is announcing a decline in auto insurance rates for Florida. For 2025, Florida's top five auto writer insurance groups are indicating an average -6.5% rate change, down from an average +4.3% in 2024 and a staggering average of +31.7% in 2023. The top five auto writer insurance groups amount to 78% of Florida's auto market. In addition, to optimistic auto rate changes, Florida is reporting a remarkable reduction in the personal auto liability loss ratio, down to a 53.3% on average in 2024—the lowest in the nation. These improvements are largely due to historic legislative reforms championed by Governor Ron DeSantis.

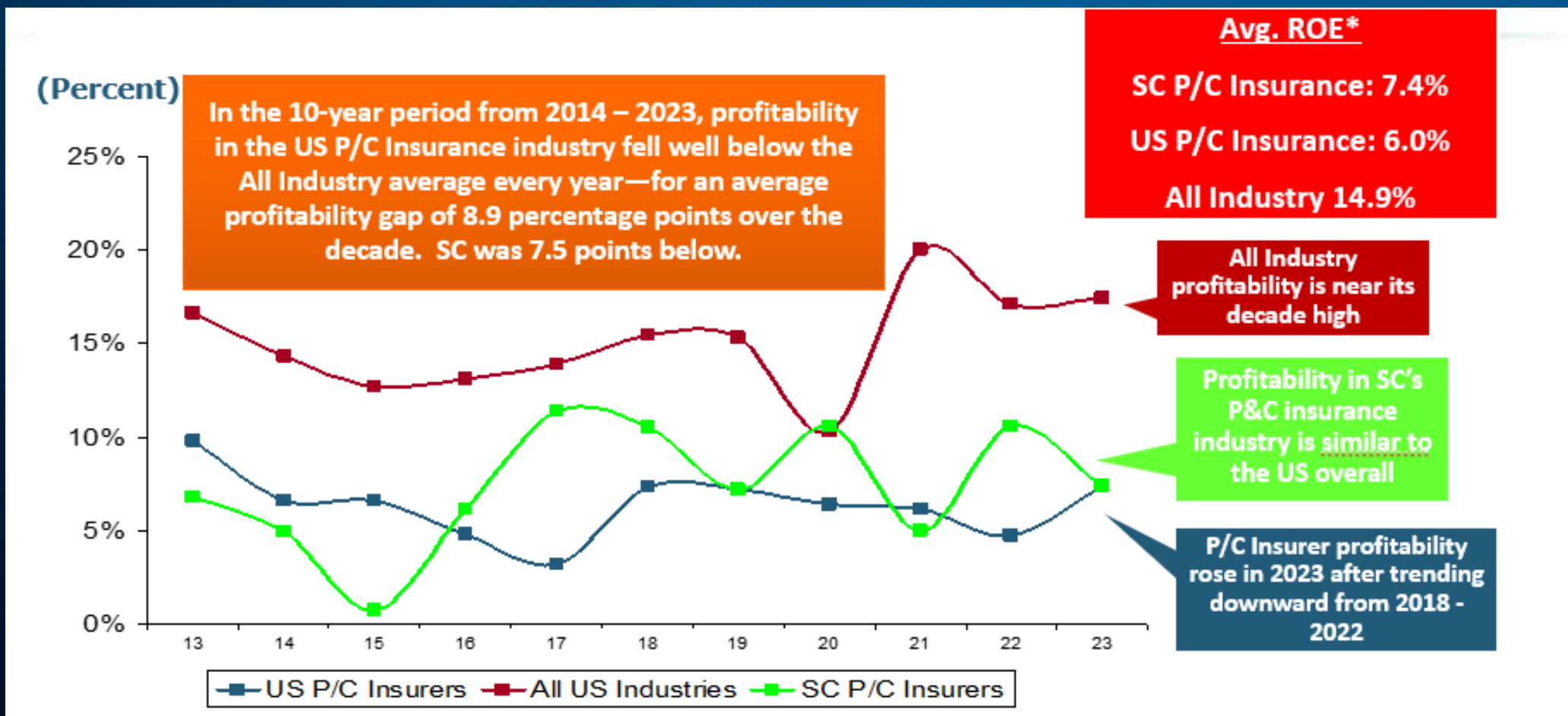
"The continued reduction in auto insurance rates is yet another sign that Florida's reforms are working," said Governor Ron DeSantis. "We will protect our reforms from those who seek to undo them and continue to fight for Floridians."



It's Not Profits



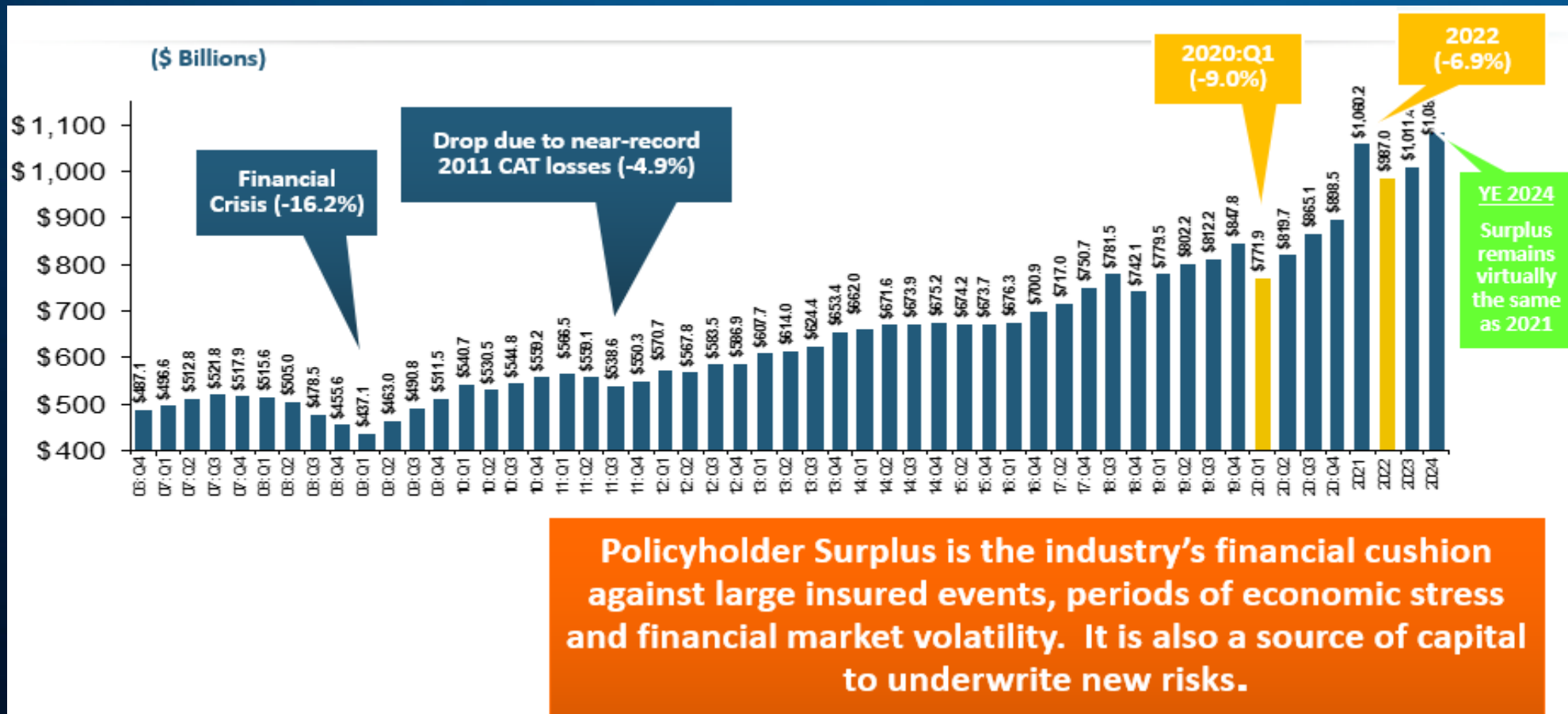
ROE: US and SC P/C Insurance vs. Fortune All Industry, 2014–2023*



*Latest available from NAIC Profitability by Line, by State reports available at: <https://content.naic.org/sites/default/files/publication-pbl-pb-profitability-line-state.pdf>.
Sources: NAIC; USC RUM Center.

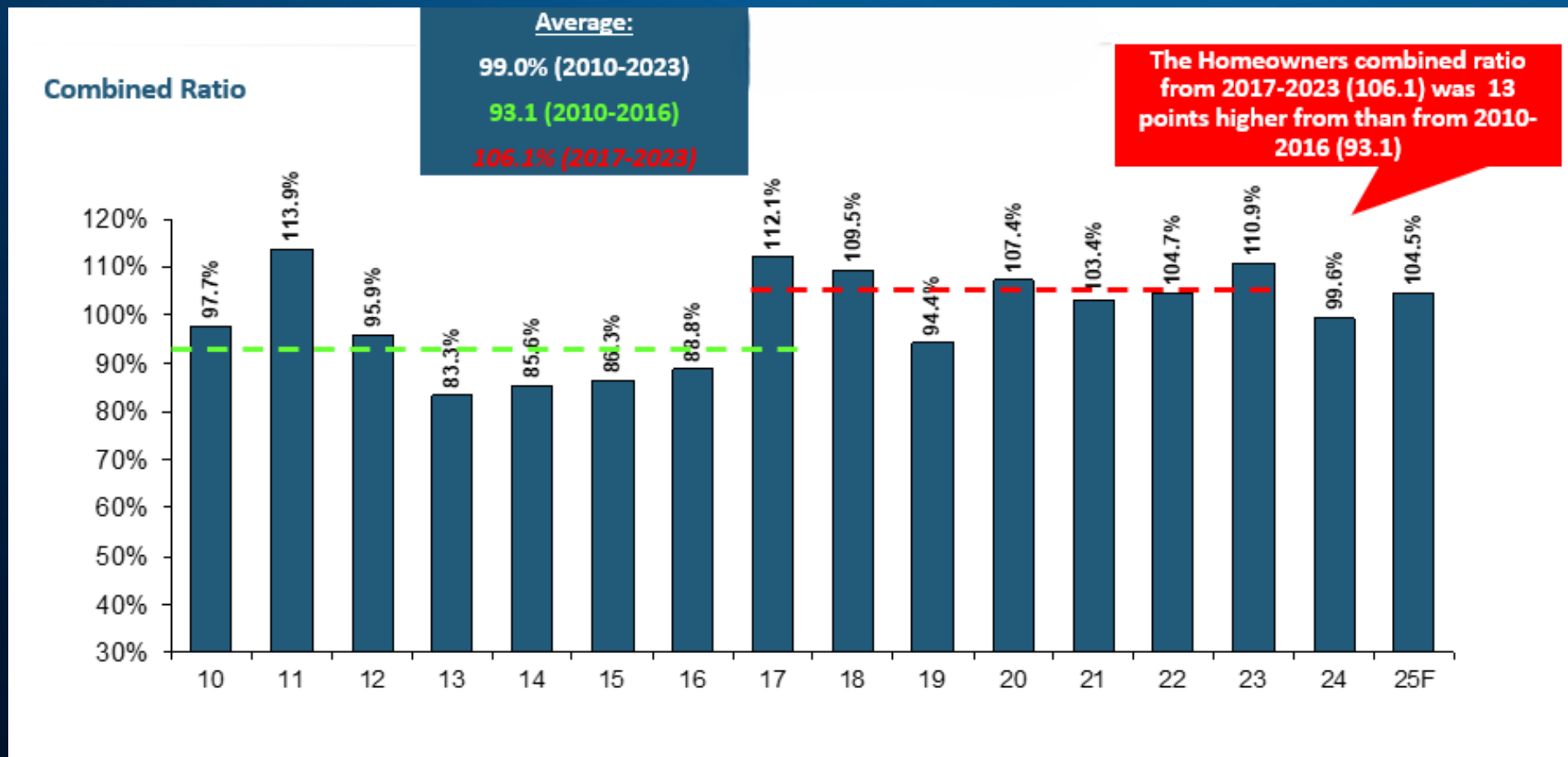


Policyholder Surplus (Capacity), 2006:Q4 – 2024





Homeowners Insurance Combined Ratios: US, 2010 – 2025F





What Not To Do



Insurance Availability Pressures

Property insurance demand and costs are increasing; capital is decreasing

DEMAND = INCREASING

- Higher Rebuilding Values
- Demographic growth/shifts
- Inflation
- Worsening weather
- Legal System Abuse



SUPPLY = DECREASING

- Rate suppression/delays
(1 to 2-year lag time for rate filings, approvals, and rolling into new policies)
- Premiums falling behind losses
- Less surplus
- Lack of profitability + volatility = Deters new investment capital



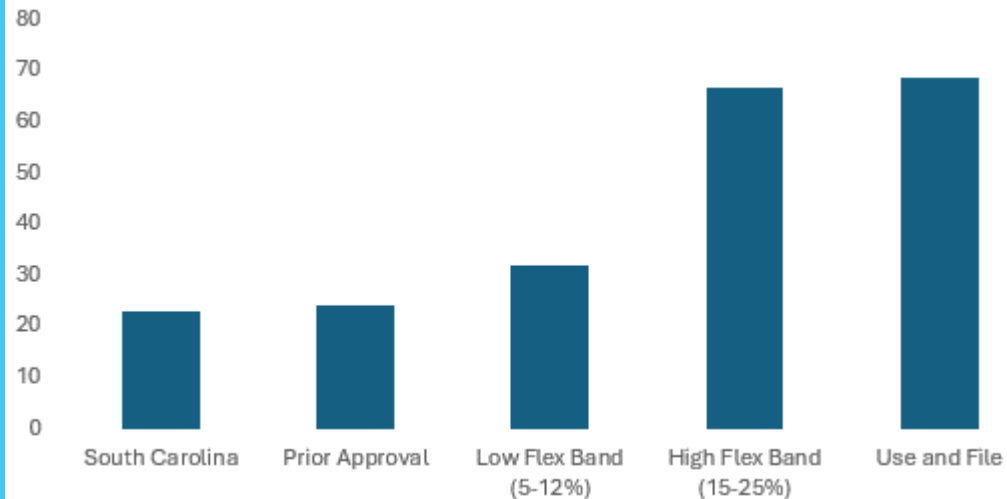


Real Solutions

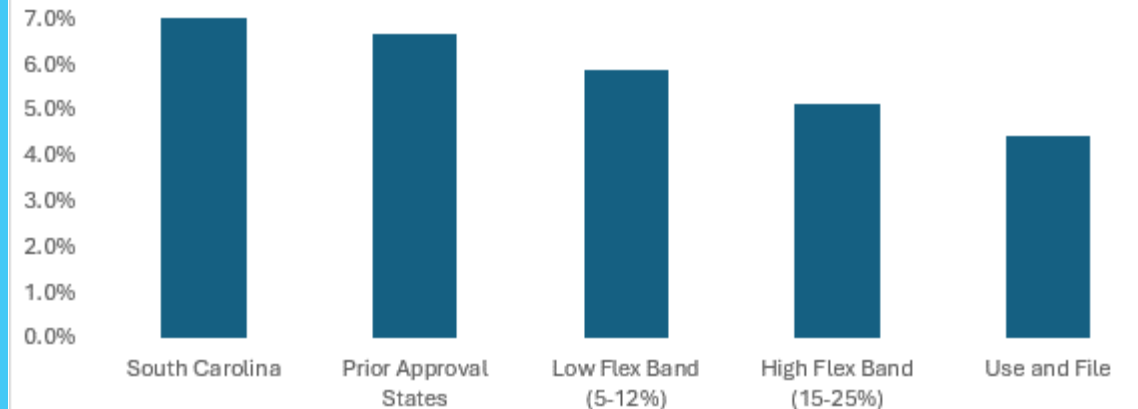


A new analysis of auto insurance rates shows that states with a larger flex rating percentage of 15 percent or more benefits consumers through significantly more rate decreases and lower average rate increases because insurers can be more nimble in adjusting rate.

Average Number of Rate Decreases by Approval Type



2020-2024 Average Rate Change per Revision by Approval Type



About the Analysis: The data used to develop these charts is based on 22 states with various rate regulation laws including Prior Approval (AL, AR, DC, DE, GA, LA, MA, MS, NC, NJ, WA, WV), Flex Approval (AK, CT, KS, KY, ND, NY, RI, SC, TN), and Illinois. The data was collected from RateFilings.com and represents all rate changes with New Business Effective Date between 1/1/2020 and 1/1/2025 for the top 20 Insurance Groups within each state representing >80% of each individual state's market share. Measures reported are calculated at the company level. There are more than 20 companies per state which generally act independently during rate revisions. Filed revisions with no rate change or rate change of 0% are not included in the analysis. Rate changes are calculated based on Direct Written Premium weighted changes.



Addressing Cost Drivers

- **Homeowners Insurance**
 - Evidence is clear that more stringent building standards reduce costs (60 – 65% for hurricane losses according to cited Swiss Re report; Similar benefits based on AL Hurricane Sally Fortified standards report)
 - Zoning that better recognizes wind, flood, storm surge threats
 - Improved (mandatory?) disclosure of hazards upon property transactions
 - Maintain stable, fair regulatory environment to encourage additional insurers to enter the market (and encourage existing insurers to grow)
 - Address legal system abuse.
- **Auto Insurance**
 - Enforcement: SC roads are among the deadliest in the nation
 - Infrastructure Investment: Identify and remedy most problematic traffic locations
 - Education: Drivers have many options to manage auto insurance premium costs (e.g., shop and compare, raise deductibles, consider insurance costs at time of purchase, increase awareness of leading causes of accidents)
 - Address legal system abuse (phantom damages, time limited demands, punitive damages).



Survivability = Insurability

Mitigation Impact Potential



Benefit-To-Cost Ratios

	Overall	Riverine Flood	Hurricane Surge	Wind	EQ	Wildland-Urban Interface Fire
Retrofit vital infrastructure	4:1	8:1	N/A	7:1	3:1	N/A
Retrofit existing buildings	4:1	6:1	N/A	6:1	13:1	2:1
New builds meet codes	11:1	6:1	N/A	10:1	12:1	N/A
New builds exceed codes	4:1	5:1	7:1	5:1	4:1	4:1

Source: APCIA via National Institute of Building Sciences and Swiss Re; vital infrastructure includes utilities, roads, other.



Fortified Home Program: Reduces both Claim Frequency and Severity

Measure / Designation	(1) Average Effects	(2) Average without Trees	(3) Nearest Neighbor without Trees
<u>Frequency Reduction</u>			
Roof	56%	69%	73%
Gold	70%	63%	76%
<u>Severity Reduction</u>			
Roof	20%	20%	15%
Gold	40%	37%	24%
<u>Loss Ratio Reduction</u>			
Roof	55%	69%	72%
Gold	62%	51%	67%
<i>Notes:</i> The percentages shown in the three columns (Average Effects, Average Without Trees, and Nearest Neighbor without Trees) indicate the average reductions in three measures (Frequency, Severity, and Loss Ratio) compared to conventional construction. Nearest neighbor analysis compares the average measure for houses in each Fortified category to the average of the nearest conventional houses within 0.25 miles of the Fortified houses.			

Building to the IBHS Fortified standard produced major reductions in both claim frequency and severity

Note: Data are based on a May 2025 Alabama DOI and Insurance Institute for Business and Home Safety (IBHS) study evaluating the performance homes built to IBHS's Fortified standard compared homes that were not that were damaged by Hurricane Sally in 2020.



Financial ‘Return on Investment’ from Resilience

- **Property Owners** – Increased property resale values, improved insurability, avoided loss costs, such as insurance deductibles or other loss related expenses that may occur following a disaster and reduced risk of mortgage delinquencies.
- **Financial Services Industry** – Increased property resale values, reduced risk of mortgage delinquencies and financial loss from pre-pays.
- **Governments** – Reduced state/federal disaster aid and impacts from potential loss of tax base or negative bond ratings (state/municipal)

Alabama FORTIFIED re-sale value study [link](#)

2024 research from the Alabama Center for Insurance Information and Research at the University of Alabama indicated FORTIFIED designated homes **sell for 7% higher** on average and qualify for **insurance discounts ranging between 20-60% on wind coverage**, depending on the level of upgrades.

Mortgage delinquency study [link](#)

June 2024 study from IBHS and CoreLogic indicated adopting and enforcing modern codes benefits all by **reducing the risk of mortgage delinquencies** for banks, investors, insurers and homeowners, as people are allowed to stay in their homes and avoids much of the damage, disruption and long-term displacement.

Louisiana FORTIFIED net benefit study [link](#)

2025 Louisiana Legislative Auditor report concluded the **“net benefit” of \$17.9k** over the life of a roof exceeds the “cost” of \$17.0k to retrofit to an IBHS FORTIFIED roof; potentially higher benefit for homes at higher risk of hurricanes.

Alabama Hurricane Sally report [link](#)

2025 report from the Alabama Center for Insurance Information and Research at the University of Alabama indicated FORTIFIED designated homes had **66-71% lower losses** and performed **over 50% better** than houses built to similar code but not designated.

Florida ‘Babcock Ranch’ [link](#)

Touted as the first fully sustainable and “hurricane-proof” community, sustained **no damage** from Hurricanes Ian in 2022 and Milton in 2024, due to key design features such as structural hardening, flood control and resilient infrastructure.

Lahaina ‘miracle house’ [link](#)

Aka the ‘red roof home’, **survived** the 2023 Lahaina fire unscathed, due to mitigation efforts that reduced the ignition risk of the home.

North Carolina FORTIFIED loss study [link](#)

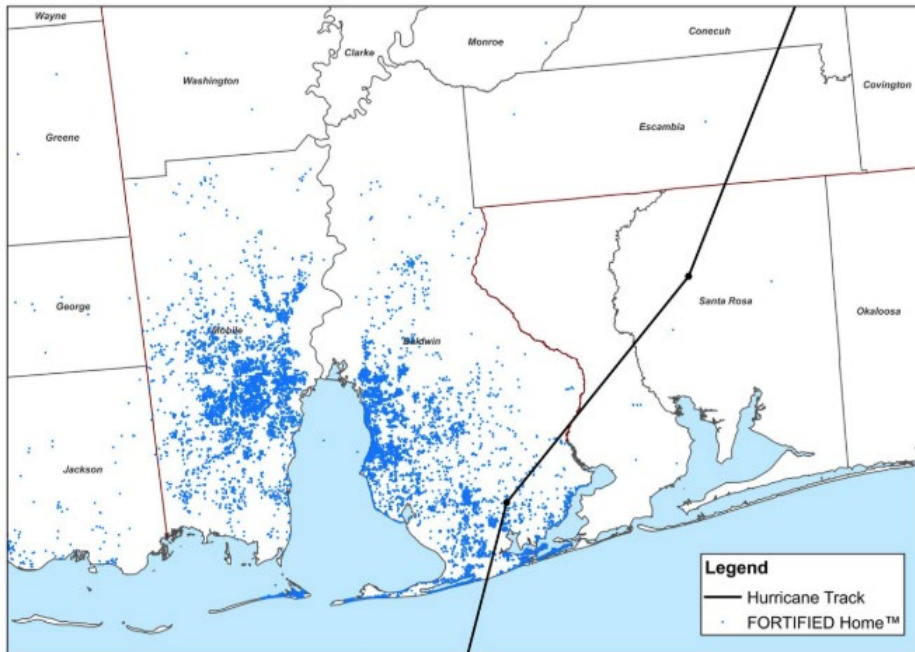
Institute for Advanced Analytics at North Carolina State University analyzed insurance claims from several hurricanes – including Dorian, Florence, Matthew and Isaias – and in 2024 reported that **claims fell by 34.5%** and the **loss per storm declined by 22.7%** for homes with IBHS FORTIFIED roofs and contributed to lower insurance costs.





Alabama Study on IBHS FORTIFIED Performance in Hurricane Sally

Hurricane Sally and IBHS FORTIFIED HomeTM



2020 map of the 16,000 IBHS certified Fortified roofs in coastal Alabama, along with the path of Hurricane Sally. (IBHS)

Credit: <https://www.al.com/news/mobile/2020/09/alabamas-nation-leading-16000-fortified-roofs-held-up-well-to-hurricane-sally.html>

- As of 2025, Alabama leads the nation with 53,000+ FORTIFIED designations
- Hurricane Sally (2020) was the first test of FORTIFIED houses
 - FORTIFIED homes had **66-71% lower losses** (lower claim frequency/severity)
 - FORTIFIED Roof-designated houses **performed over 50% better** than houses built to similar code but not designated, highlighting the value of the third-party enforcement mechanism

(IBHS and AL CRIR study link)



Concluding Takeaways

Affordability

Key is risk mitigation, loss prevention and flexibility to tailor coverages to consumer needs and ability to pay

Availability

Key is allowing risk-based rates

Real Solutions

Key is society-wide/government-wide multi-sector focus on resilience and sustainability