

Written Testimony of Courtney Cowart

Chief Executive Officer

South Carolina Farm Bureau® Mutual Insurance Company

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Good morning. I am Courtney Cowart, Chief Executive Officer of South Carolina Farm Bureau Mutual Insurance Company. I've been in my current role since 2022 and previously served as the company's chief financial officer. I have been a Certified Public Accountant for more than 20 years.

Thank you for the invitation to appear before the committee and for your work to provide a stable insurance market for our policyholders, your constituents, and all South Carolina citizens. I appreciate the time you've invested in understanding what's driving the cost of insurance in our state, specifically for homeowners and automobile insurance.

I'd like to thank everyone on this panel. They offer a great deal of expertise, and I appreciate the opportunity to add what I can. All of us here share many of the same challenges, and we compete daily for the same customers, but there are a few things that make South Carolina Farm Bureau Mutual a little unique when it comes to our company structure and mission.

- We are a mutual insurance company that has been domiciled in South Carolina for the last 70 years. South Carolina is our home and the only place where we offer property insurance products. Our company was first formed by a small group of South Carolina farmers who wanted to help their neighbors in rural communities who could not get insurance for their homes. Today, we have grown to become a leading property and casualty insurer in South Carolina, servicing about 90,000 members. We have more than 200 local exclusive agents marketing a complete line of insurance products in each county. Our company charter requires that we maintain an office in every county, while our corporate office is located just a few miles from here in Cayce. There, we have 182 employees who manage the insurance operation, including 79 claims adjusters, many of whom live and work in communities across the state.
- We are owned and operated solely for the benefit of our policyholders and we are governed by South Carolina farmers through the South Carolina Farm Bureau Federation. That means our President and Board of Directors are all farmers, elected by farmers as voting delegates of South Carolina Farm Bureau. With a company culture deeply rooted in agriculture, values like fairness and helping one another guide our decisions every day, and it's why I believe our claims service is routinely ranked by our customers as superior or best in class.

- We are a single-state property company. Our charter allows us to write property insurance only in South Carolina, which creates a concentration of risk in a state vulnerable to a lengthy list of catastrophic weather. We're unable to spread our risk and that's tricky for an insurance company. It's not just hurricanes we have to worry about. A bad thunderstorm with severe wind and hail can quickly cause tens of millions of dollars in losses with little to no warning. We manage our exposure carefully and purchase additional cover for catastrophic events through the reinsurance market to make sure we can withstand large scale, back-to-back catastrophic scenarios. AM Best sets those requirements. If we cannot meet them, our company would cease to exist.

Our automobile insurance product is provided through our association with Southern Farm Bureau Casualty Insurance Company, domiciled in Mississippi, where I am a Senior Vice President and State Manager.

We are here today because auto and home insurance rates have increased dramatically over the last several years. Much of what we are dealing with was triggered by trillions of new dollars printed and inserted into the economy after the COVID pandemic. The ensuing inflation amplified issues that have always existed in our cost of doing business, but it also created new issues. For example, in our 70-year history we have offered replacement cost coverage for homeowners' roofs, no matter the roof age. In our current environment if we continue that practice, we cannot survive, a message I personally shared recently in a letter to our policyholders. Those are the decisions that keep me up at night. I take every decision that impacts our members personally, but no business can survive by spending more than it takes in.

Implementing legislative changes that will drive down the cost of doing business in this state will have the biggest impact on insurance pricing. Florida is a great example of how legislative reforms work. Our ideas around what can be done to help reduce insurance costs are similar to the work that has already been done in other states. We fear out-of-state firms appear to be shifting their attention to South Carolina. Also, some attorneys have admitted to us they must fill new lawsuit quotas required by their firm. Contractors and body shops are now attempting to pursue assignment of benefit claims, and the roofing industry appears to have quadrupled their presence in the state. Unfortunately, all of this means we are seeing a sharp increase in litigation, and we don't expect that to slow down in this current environment.

Simply put, the cost to handle and settle insurance claims continues to rise and that cost is paid by all policyholders.

South Carolina has some unique laws around automobile insurance we would like to call your attention to. If changed, we believe this would have the greatest impact on reducing insurance pricing. We also have a few suggestions that we believe would have a positive impact on the property insurance market.

1. Allow insurers to exclude punitive damages in their auto policies.

South Carolina defines damages to include actual and punitive damages for automobile insurance. In other lines of insurance, like homeowners and umbrella policies, valid exclusions of punitive damages already exist. For automobile insurance, “recklessness” is included in the standard for punitive damages. This means virtually all automobile accidents could qualify for punitive damages. Our state also allows “property damage” limits of a policy to be accessible for bodily injury claims when punitive elements exist. I am not aware of any other state that allows this. Punitive damages are meant to punish tortfeasors for egregious conduct and deter similar behavior in the future. Unfortunately, in most cases, the punitive allocation of damages is paid by insurance carriers, not the actual wrongdoer.

With uninsured motorist and underinsured motorist claims, damages are paid by the innocent party’s own carrier. How is this fair?

2. Eliminate phantom damages so plaintiffs are compensated for their actual losses instead of basing recoveries on billed medical costs that do not represent what was actually paid.

The current rules allow for double-dipping by the plaintiff using billed medical costs that were never paid and for which they will never be liable. Insurers are responsible for the payment of the billed amount before any insurance write-offs or discounts are applied to the medical bill. This allows a windfall for the plaintiff at the expense of other policyholders who end up paying for increased claims costs through increased premiums.

3. Restrict time-limited-demand letters by providing clear guidelines to address vague or unreasonable short timed-demands, the withholding of critical documentation, and consider the conduct of all parties, as opposed to only the insurer.

While time-limited demands are not necessarily inappropriate, the conditions set forth in the demands often are. Some plaintiff attorneys send time-limited demands on nearly every claim and engage in tactics aimed at manufacturing bad faith actions against insurers. They can include unreasonable times to respond and unreasonable conditions such as hand-delivery of funds on specific days or requiring cash or certified check payments. Failure to adhere exactly to the settlement conditions could be considered as an invalid acceptance, exposing insurance carriers to potentially limitless liability in excess of their policy limits.

4. Consider more stringent penalties to deter roofing fraud.

Property insurance has seen the most volatility during this inflationary period. At the forefront is roofing, where prices have increased dramatically over the past four or five years, accompanied by hyper-aggressive marketing and sales tactics. It has forced the insurance industry to make coverage changes or refuse to even accept a risk at all based on the roof age. Why has this happened? If it were simply due to inflation, the industry could price it just as it has done for automobile parts and repairs. The explanation for the massive increase in roof claims is likely the same explanation for just about everything: Follow the money.

The roofing business has been very lucrative. There are new contractors, public adjusting firms, and out-of-state property focused law firms entering the market like we have never seen before in our state. Additionally, we have seen a sharp increase in suspected roof-related fraud. Unfortunately, our members are the ones most affected by these actions.

5. Build better and stronger.

There is no question that more resilient properties experience less damage during severe weather events. The difficulty is convincing homeowners to pay for something that does not provide an immediate benefit to offset the cost of the mitigation investment. It's a long-term play. That doesn't mean it should not be considered; understand it will

take time to make an impact but will absolutely lead to smaller rate increases in the future.

The last suggestion I have is let's continue this discussion. We are happy to meet with you individually to provide more detailed information specific to our insurance operation and to answer questions that are likely to come up as you continue your work. We're just a few miles away and my team is available to assist you and your staff.

I'll wrap up with this: Insurance is complex, confusing and no one enjoys paying for it. If things simply cost what they cost, we would all be paying far less. The insurance industry is often characterized as evil and greedy. That's not been my experience. We're not perfect, but I suspect you don't always hear from those happy with how a claim was handled, the payment they received or if someone sees their insurance bill go down.

We are one of the most regulated industries in existence, and that is not the case for many of the biggest cost drivers that impact the rates we charge. We provide a service that without which, the economy would cease to function. People could not get home loans or car loans. Homes would not be rebuilt after a fire or hurricane. Businesses would not be able to take risks that make life better for everyone.

I appreciate the opportunity to be here today. As I mentioned at the start, we are proud to call South Carolina home. My promise to you is that we will do all that we can to improve our products and pricing without compromising the exceptional claims service we offer so we'll be a stronger company for the next generation of Farm Bureau members.