STATUS OF THE SOUTH CAROLINA COASTAL PROPERTY INSURANCE MARKET

STATUS REPORT FOR 2014

SUBMITTED BY:

South Carolina Department of Insurance

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I. Executive Summary

A. Overview of 2014 Hurricane Season

In 2014, for coastal consumers, wind insurance and hurricanes were not the primary concerns. The impact of the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) was a larger issue. Originally, BW-12 was supposed to gradually phase in actuarially sound rates for approximately 20% of property owners. The reality was that many purchasers of existing homes saw skyrocketing flood insurance premiums. Higher rates combined with new flood maps resulted in calls for changes to the National Flood Insurance Program (NFIP).

An example of the consumer outrage could be seen at the Town Hall Meeting hosted by Edisto Beach, South Carolina on January 13, 2014. The Town Council organized a three part educational session on flood insurance, the South Carolina Wind and Hail Underwriting Association (SCWHUA or Association), and SC Safe Home with each topic being given a twenty minute slot. Due to a plethora of consumer issues and concerns regarding the changes to the National Flood Insurance Program, the flood insurance discussion had to be stopped after an hour and half by the Chairman of the Town Council.

Concern over the rate impact of BW-12 was not limited to South Carolinians but was an issue throughout the country. A reprieve was made available to flood insurance purchasers via the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA). In part, HFIAA amended BW-12 to limit many of the earlier reforms. While this addresses the immediate concerns of coastal consumers, the General Accounting Office reports that these steps will have a negative impact on the solvency of the NFIP. There are also political concerns as to the reauthorization of the NFIP in 2017.[1]

While overshadowed by flood insurance issues, the Southeast's exposure to hurricane risk remains. Although Hurricane Season 2014 has been referred to as a quiet year, the season produced six Atlantic hurricanes. Two of these had winds in excess of 110 mph with Gonzalo having winds over 145 mph.[2]

Hurricane Arthur was of some interest to South Carolina residents. Despite the limited impact of the storm on our state as it went by, it became one of five tropical storms or hurricanes to make landfall

[1] "GAO Issues Dire Report on National Flood Insurance Program," propertycasualty360.com, May 13, 2014.
[2] "Hurricane Season Is Over, Forecasters Say," postandcourier.com, November 7, 2014.

in North Carolina in the ten years since Hurricane Gaston.[3] While Arthur caused minimal losses for the SCWHUA, the similar organization in North Carolina was not so fortunate. In a September Staff Report to the Board of Directors of the North Carolina Insurance Underwriting Association (NCIUA), the following information was provided regarding Arthur and its impact:

- Earliest hurricane to hit North Carolina since 1851
- Only July 4th hurricane to hit North Carolina
- First Category 2 hurricane to make landfall in the United States since 2008
- The NCIUA received 1,711 claims producing incurred losses totaling $8.5 million[3]

Even Florida continued to experience a lack of hurricanes. It has been nine years since a hurricane last hit Florida which is almost double the previous record. This makes 2014 the second relatively quiet hurricane season in a row.[4]

It is possible that the period of above average hurricane activity may be coming to an end. Even so, consumers need to understand that insurance companies look at long time periods for hurricane activity. For example, a 20 year lull in hurricane activity could still include some years with high numbers of storms. Gerry Bell, Lead Hurricane Forecaster at the U. S. Climate Prediction Center in College Park, Maryland, has cautioned against thinking that there has been a major shift in the Atlantic. He states that it will take years of cooler Atlantic waters to see if the cycle is ending.[5]

It is important that coastal consumers understand that even a quiet hurricane season can produce deadly storms. South Carolina residents were reminded of this in an op-ed piece distributed to various media outlets by Director of Insurance Ray Farmer and the Insurance Institute for Business and Home Safety President Julie Rochman. Titled "It's Not a Matter of If South Carolina Will Get Hit by a Hurricane, But When," the article presented information as a part of National Preparedness Month.[6]

While 2014 was a quiet hurricane season for South Carolina, it marked the 25th anniversary of Hurricane Hugo and the 60th anniversary of Hurricane Hazel. In a press release, the SCWHUA marked the anniversary of Hugo making landfall on September 21, 1989. The storm was the first natural disaster with more than $1 billion in insured property losses; in 1989 dollars, the losses exceeded $4 billion in South

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[3] *Report of the NCIUA Executive Director to the Board*, NCIUA September 2014.
[4] "Another Hurricane Season, Minus the Hurricanes," HearldTribune.com, November 25, 2014.
[5] "Snowy End To Hurricane Season That Many Never Noticed," Bloomberg.com, November 25, 2014.
[6] "It's Not a Matter of If South Carolina Will Get Hit by Hurricane, But When," Islandpacket.com, September 29, 2014.

Carolina alone. Hugo came ashore north of Charleston, South Carolina as a Category 4 storm with winds near 140 mph and a storm surge of roughly 20 feet. Hugo remained strong as it moved inland, generating hurricane-force wind gusts as far as Charlotte, North Carolina. Thirteen people died in South Carolina as a result of the storm.[7] Hugo damaged 21.4 billion board feet of timber and destroyed saw timber equivalent to the amount needed to build 660,000 homes. Hundreds of houses were destroyed, including 100 on Isle of Palms that were deemed unsafe after the storm.[8]

While reflecting on Hurricane Hugo, the SCWHUA recalled the efforts of South Carolina citizens to recover from the storm. It acknowledged the partnership between regulators, public officials, and insurers to provide prompt service to property owners. Insurance agents were called upon to work tirelessly to assist clients, and insurance adjusters labored under adverse conditions to examine claims. Because Hugo was such a horrific experience, it set the stage for stronger building codes and better preparation for natural disasters.[9]

The Myrtle Beach Sun News marked October 15, 2014, the 60th Anniversary of Hurricane Hazel, with extensive historical coverage. Hazel still ranks as the 25th deadliest storm to hit the United States and the 16th most intense storm.[10] Hazel hit the South Carolina – North Carolina border at a time when there was limited development and population along the Grand Strand. Only two houses were left standing on the north end of Pawleys Island, and a new inlet was cut into the south end of the island. This inlet would later be filled only to have Hurricane Hugo re-create the inlet. Of the 275 houses on Garden City Beach, only three were livable. At Surfside Beach, only three or four of the seventy homes were livable. Almost every structure in Myrtle Beach east of Ocean Boulevard was destroyed or damaged. Of 200 homes at Crescent Beach, only two homes were left standing, and they also sustained damage. With the successful development of the South Carolina Coast, the exposure has increased exponentially.

The lessons of these storms need to be understood by coastal residents, but this can be a challenge as new residents flock to the coast. In the relatively quiet years since Hurricane Wilma hit Florida in 2005, more than 1 million people have moved to Florida, and development has boomed.[11] Comparatively, South Carolina added more than 60,000 residents in the short time period from July 2013

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[7] “25 Years: Hurricane Hugo Remembered,” www.nws.noaa.gov, September 15, 2014.
[8] “Hugo Changes: What’s Different 25 Years after the Storm,” ww.thestate.com, September 20, 2014.
[9] "Hurricane Hugo – 25th Anniversary,” SCWHUA, September 2, 2014.
[10] "60 Years Later, Hurricane Hazel Didn't Destroy Myrtle Beach Area's Resolve," Sun News, October 14, 2014.
[11] "Why Florida's Record Setting Hurricane Drought Portends Danger," washingtonpost.com, October 7, 2014.

to July 2014. The Palmetto State now has over 4.8 million residents and is one of the 10 fastest growing states in the country.[12]

B. Background

The Competitive Insurance Act of 2014[13] contained various provisions, including a stipulation that requires the Director of Insurance (Director) to submit an annual report to the President *Pro Tempore* of the Senate, the Speaker of the House of Representatives, the Chairman of the Senate Banking and Insurance Committee, and the Chairman of the House Labor, Commerce and Industry Committee on the status of the coastal property insurance market. These provisions state, in pertinent part:

> The director must submit a report to the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Chairman of the Senate Banking and Insurance Committee, and the Chairman of the House Labor, Commerce and Industry Committee by January thirty-first of each year regarding the status of the coastal property insurance market.[14]

This report is submitted in accordance with the requirements of S.C. Code of Laws Section 38-3-110(5) and examines the status of the South Carolina coastal property insurance market through 2014.

C. Status of the South Carolina Coastal Property Insurance Market

In preparing this report, the South Carolina Department of Insurance (SCDOI) relied upon information obtained from the South Carolina Wind and Hail Underwriting Association (SCWHUA or Association), an insurer data call, 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 2013 and 2014 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 regarding coastal property insurance coverage, particularly those relating to availability issues, have dropped significantly since the 2007 SCWHUA territorial expansion.

[12] "Carolinas See Population Growth Spurt," wltx.com, December 23, 2014.
[13] 2014 S.C. Act No. 191.
[14] S.C. Code Ann. § 38-3-110 (2014).

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 the SCDOI's recent work on hurricane catastrophe models and the current status of the National Flood Insurance Program 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.[15] 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.[16] 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.[17]

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.[18] All admitted property insurance companies licensed by the SCDOI are members of and are required to participate in the SCWHUA.[19]

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.[20] Insurance companies writing policies in the defined SCWHUA territory may either offer wind coverage or exclude wind coverage. If an insurer elects to exclude wind coverage, then that coverage may be written by the SCWHUA. As a result, the consumer will have a wind insurance policy with the SCWHUA and a separate

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[15] S.C. Code Ann. § 38-75-330(A) (2002).
[16] S.C. Code Ann. § 38-75-400(B) (2002).
[17] *Id.*
[18] S.C. Code Ann. § 38-75-320 (2002).
[19] S.C. Code Ann. § 38-75-330(B) (2002).
[20] S.C. Code Ann. § 38-75-1230 (2004).

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.[21]

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

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

companies. The Association operates on a fiscal year basis (November 1 to October 31) so that member companies can properly record their liabilities at year end for their financial statements.

While an assessment has not been made for 2013, the current deficit for that Association Year is $4,156,573. It is anticipated that Association Year 2014, after yearend adjustments occur, will result in a small operating profit. 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

Association Year (11/1 to 10/31)	Assessments (Refunds)
2007	($8,134,390)
2008	($4,211,333)
2009	$4,882,917
2010	$2,887,962
2011	$4,211,333
2012	$6,422,460
2013[22]	$4,156,573

Source: SCWHUA

Buying coverage at a higher year event level means the residual market is more likely to have enough reinsurance coverage to cover policyholders' claims without the need for a significant assessment if storm damages occur. Georgia is the only state whose residual market mechanism purchases reinsurance coverage beyond the level obtained by the SCWHUA. Several of the states shown in Chart 2.1 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

[22] No assessment has been finalized Association Year 2013 as of yet, so the estimated amount is shown.

would be subject to much larger assessments following a major catastrophic event. This ultimately benefits consumers by establishing a more stable coastal insurance market.

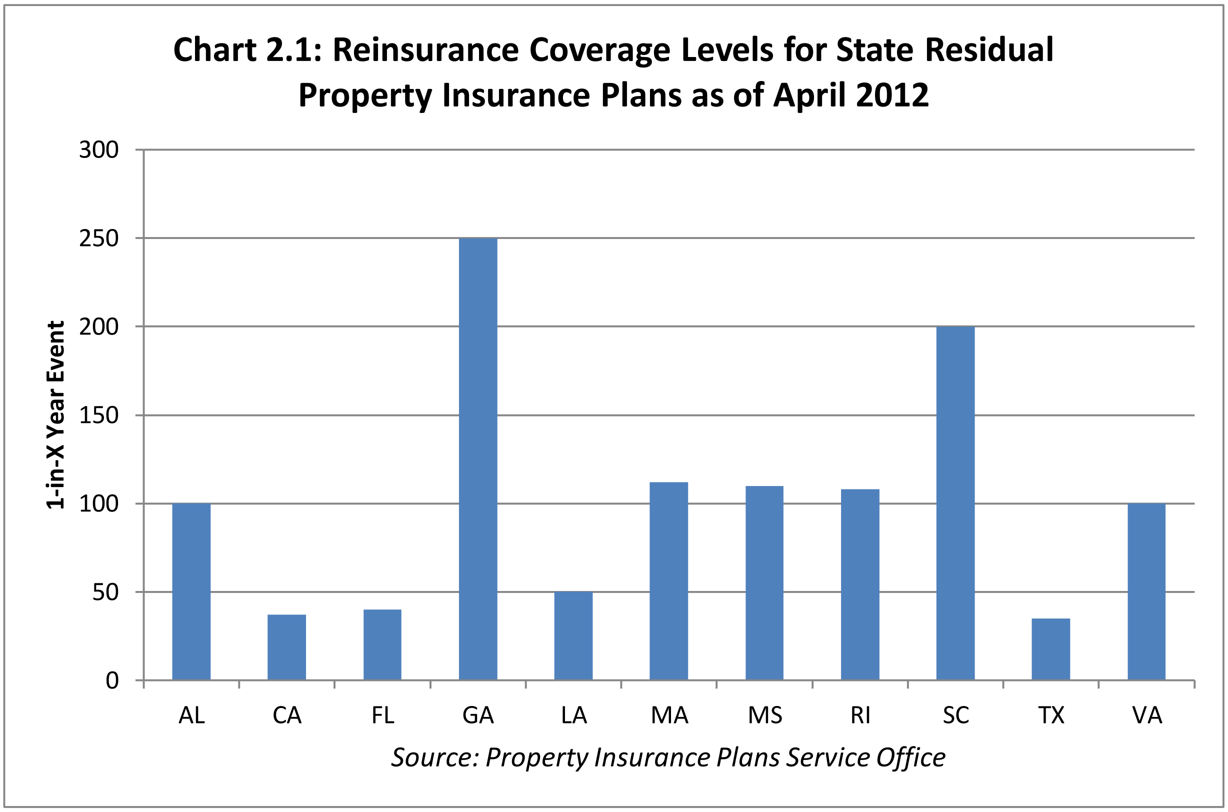
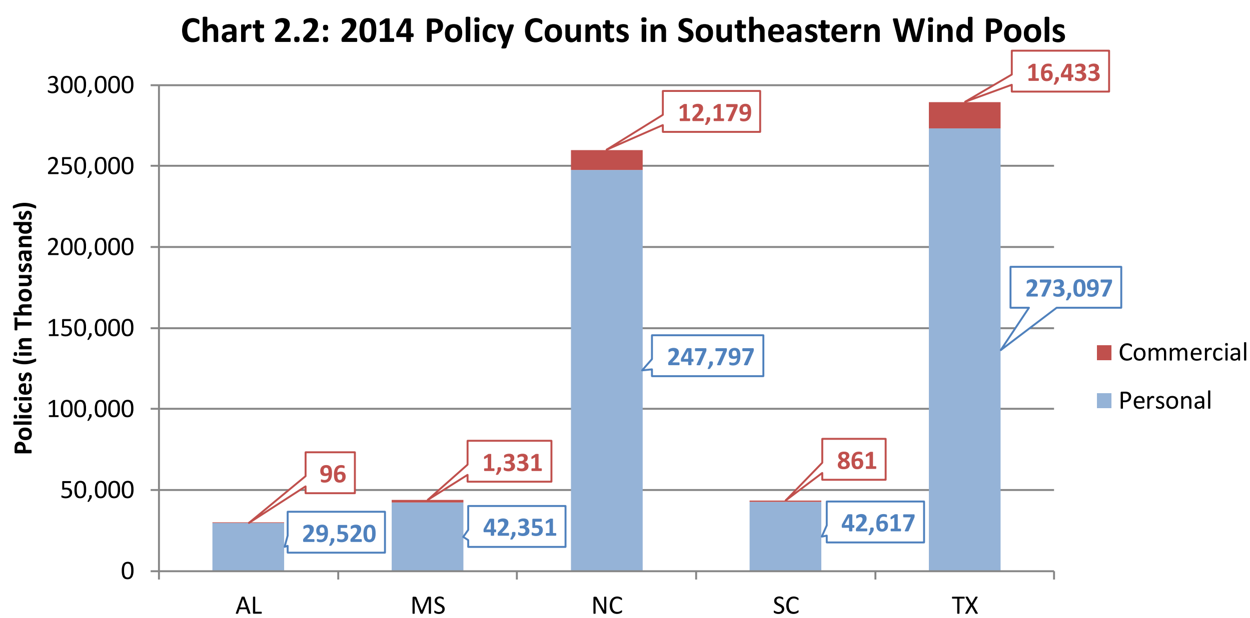


Chart 2.1 compares the reinsurance coverage levels (in terms of event likelihood levels as discussed above) among various residual markets providing wind coverage throughout the United States.[23] Other states' residual property insurance plans have taken different approaches. North Carolina relies on 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.

[23] This is the most recent data available. The Property Insurance Plans Service Office has not updated this information since April 2012.

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.



Source: Property Insurance Plans Service Office

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 and, as such, is not included in this comparison. Unlike traditional markets of last resort, CPIC is actually the top homeowners writer in the state, having written 1.5 million personal and 46,948 commercial policies in 2012, representing 19.5% of the Florida property insurance market for the year.

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."[24] 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.

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

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

Prior to the issuance of the latest renewal via Order 2015-01, the SCDOI conducted a review as required by SC Code Section 38-75-460. As part of its review process, the SCDOI asked the SCWHUA to provide input. The following points were noted:

- The SCWHUA has not received any consumer inquiries requesting that there be further territorial expansion. The two expansion orders in 2007 addressed those consumers who were experiencing difficulties.
- The SCWHUA staff has reviewed the territory as it exists today. It was unable to identify any areas within the territory which could be deleted
- The SCWHUA portfolio is currently decreasing after reaching a high point in August 2011. The SCWHUA staff believes that this indicates that the corresponding coastal market is also relatively stable. Part of the reason for this condition was the action taken by the SCDOI through the expansion of the SCWHUA territory in 2007 (and subsequent renewals).
- The SCWHUA staff believes that insurance companies do not prefer to operate under conditions of uncertainty. The current status of the territory is well known to the member insurance companies; any change to the territory could have a negative impact on the progress that has been made in regards to the coastal marketplace.
- The SCWHUA territory acts as a safety net for the protection of consumers that are unable to find other alternative options for wind and hail coverage in the private market.

The Director issued Order 2015-01 on January 30, 2015 to renew Order 2013-01 and keep the territory expansion in effect until March 29, 2017 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 31, 2014, 765 policyholders were using eFinance, the electronic financing option. Another 453 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 customers.

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 2014, SCWHUA staff reviewed the plans for a 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 2014.

While there was limited hurricane claims activity in 2014, the State of South Carolina experienced widespread hail damage on May 23, 2014. Over 300 hail claims were reported to the Association from Horry and Georgetown Counties. While consumers experiencing losses is not desirable, the hailstorm offered the Association the opportunity to implement its catastrophe protocols. This assists the claims staff in preparing for the possibility of a major storm in the future.

4. Security Issues

Following several well publicized data breaches in the state, Director of Insurance Ray Farmer called on all residual markets to review their security measures and report back to the SCDOI. The SCWHUA prepared an initial audit and submitted it to Director Farmer. The report was used as a model for other residual markets to follow as a part of their audit process. It is important to note that this is not a project but rather an ongoing process to secure the policy level data. Highlights of the on-going security audit include:

- An upgraded camera system for monitoring the office
- Keypad access to outside doors with a camera monitoring persons requesting admission
- An additional camera system to be installed in the storm office
- Additional training for staff on security and the protection of non-public information
- Reports to the Board at the Spring 2014 Meeting and the Fall 2014 Board Meeting regarding progress on security issues
- Implementation of a virtual machine computer network to provide improved security and back-up services
- Currently upgrading password security for employees
- A review of laptops for any non-public data
- Upgraded privacy wording in reinsurance contracts
- Moving from Windows XP to Windows 8.1

5. Other Projects

SC Wind has completed a number of projects in order to provide better service to Coastal consumers and insurance producers. They include:

- Claims Wallet Cards – Annually, the Association has distributed wallet cards with information on how to report a claim. The toll-free claims number is on the card. In order to make the cards more current, new wallet cards are distributed with each new and rewrite policy. In addition, insurance producers can print these cards on demand in their offices for consumers who need another card.
- Automated Binders – The Association issues insurance binders for property transfers with a mortgage closing. This has always been a manual process that requires action by an underwriter. During 2014, this process was automated, allowing insurance producers to obtain a binder twenty-four hours a day, every day of the year. In addition, the new binders have a more professional look.
- Succession Planning – One of the 2013 goals was to develop a Supervisor Level of management for the Association. The purpose of this project was to have staff available to substitute for or

replace a key manager in the event of injury, death, retirement, or resignation. The positions are now filled – two by in-house candidates and two by recruited persons. An ongoing training project is underway.

- Implementation of New Imaging System – For over 15 years, the Association has utilized a third party imaging system. During 2014, an imaging system developed in-house was implemented. The major advantage to this system is the integration of the imaging system with the transaction system.
- Updated Manual – The Association's Rates, Rules, and Forms Manual was updated and posted to the website. Major changes to the manual were based on suggestions by Insurance Producers.
- Competitive Insurance Act Form – Legislation during 2014 required all carriers to prepare an insurance form to offer more information and transparency about insurance coverages. Following SCDOI guidelines, a form was developed, filed, approved, and implemented.

6. SCWHUA Book of Business

As noted in previous reports, there are positive trends occurring in terms of the coastal property insurance marketplace in South Carolina. Anecdotal reports from insurance producers indicate that they have markets and/or alternatives for clients seeking coastal property insurance. Consumer complaints to the SCWHUA and the SCDOI have declined. New insurers have been entering the state to provide coverage to coastal consumers.

The most significant example of improvement is an analysis of the SCWHUA's combined personal and commercial policy data. Association Staff consider August 31, 2011 to be the highpoint of the book of business in terms of written premium, policy count, and exposure. When compared to the book of business as of December 31, 2014, it is possible to see that the residual market's loss of business, a positive trend for consumers, is continuing. It should be noted that the total insured limits, or Association exposure, has decreased by almost $4 billion. This decrease is four times the total exposure that the Association had when Hurricane Hugo made landfall in 1989.

Table 2.2: Book of Business Changes from 2011 to 2014

	August 31, 2011	**December 31, 2014**	**Change**
Policy Count	47,366	37,782	-20.2%
Premium	$97,007,667	$83,518,831	-13.9%
Total Insured Limits	$17,310,330,477	$13,316,535,766	-23.1%

Source: SCWHUA

The decrease in business covers all areas of the Association's operation. While the largest decrease is occurring in Zone 1, the territory closest to the Atlantic Ocean, consumers are also leaving in significant numbers in Zone 2. Consumers are finding better alternatives in terms of coverage, price, and features.

Table 2.3: In-Force Policy Changes from 8/31/11 to 12/31/14

Zone	County	Policy Count	Policy Count % Change	In-Force Premiums	Insured Limits
1	Beaufort	-2,549	-26%	-$6,173,550	-$1,546,972,652
1	Charleston	-1,487	-29%	-$3,720,632	-$895,521,980
1	Colleton	-180	-16%	-$181,339	-$77,811,043
1	Georgetown	-462	-17%	-$614,138	-$195,946,516
1	Horry	-3,721	-21%	-$1,966,874	-$991,993,311
	Total Zone 1	-8,399	-23%	-$12,656,533	-$3,708,245,502
2	Beaufort	-241	-19%	-$418,264	-$87,922,478
2	Charleston	-464	-10%	-$280,764	-$105,091,447
2	Colleton	-2	-100%	-$6,848	-$1,320,800
2	Georgetown	71	8%	$99,138	$25,412,397
2	Horry	-549	-15%	-$225,565	-$116,626,881
	Total Zone 2	-1,185	-11%	-$832,303	-$285,549,209
	Grand Total	-9,584	-20%	-$13,488,836	-$3,993,794,711

Source: SCWHUA

With one exception (Zone 2, Georgetown County), the decreases demonstrated in Table 2.3 have been observed steadily since the 2011 peak. It is important to note that the areas covered by Zone 1 in Beaufort, Charleston, and Colleton Counties consist of barrier islands. The reduction in business for these highly exposed risks is important. Equally important are the decreases in Zone 1, Horry and Georgetown Counties. While these properties are located on the mainland, historic hurricane tracks put them at greater risk to loss.

As seen in Table 2.4, Beaufort County continues to have the highest exposure with $4.15 billion of in-force liability; Horry County has the second highest with $4.10 billion. Despite these large values, the downward trends during the past three years (discussed earlier in this section) are encouraging.

Table 2.4: In-Force Policies as of 12/13/14 by Wind Pool Zone and by County

Zone	County	Policy Count	% of Total Policies	In-Force Premiums	% of Total Premium	Insured Limits
1	Beaufort	7,212	19%	$18,953,710	23%	$3,778,516,639
1	Charleston	3,705	10%	$13,783,029	17%	$2,009,351,708
1	Colleton	956	3%	$2,425,518	3%	$353,873,736
1	Georgetown	2,241	6%	$6,163,930	7%	$968,145,953
1	Horry	14,182	38%	$27,272,272	33%	$3,402,570,771
	Total Zone 1	28,296	75%	$68,598,459	82%	$10,512,458,807
2	Beaufort	1,014	3%	$1,524,956	2%	$372,509,303
2	Charleston	4,402	12%	$7,882,736	9%	$1,440,093,953
2	Colleton	0	0%	$0	0%	$0
2	Georgetown	972	3%	$1,449,378	2%	$291,041,405
2	Horry	3,098	8%	$4,063,302	5%	$700,432,298
	Total Zone 2	9,486	25%	$14,920,372	18%	$2,804,076,959
	Grand Total	37,782	100%	$83,518,831	100%	$13,316,535,766

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.[25] 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 2014. 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.[26] This report compiles data submissions from the first three quarters of 2014.

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.[27] Therefore, in order to minimize any distortion, we believe it is most appropriate to focus on the changes between 2013 and 2014 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 85 carriers reporting in 2014 compared to 83 carriers reporting in 2013 and 78 in 2012. These numbers vary as carriers reach the established premium threshold and as carriers enter or

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[25] The data call does not include Excess and Surplus lines policy information.

[26] 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.

[27] 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 2013	7,601	4,062	11,663	65.2%	34.8%
Sep 2014	7,159	3,745	10,904	65.7%	34.3%
% Change	-5.8%	-7.8%	-6.5%		

Source: SCDOI Data Call

The total number of new policies issued by admitted carriers in the Wind Pool area decreased by 5.8% in 2014. This is the second year in which there has been a downward trend since 2009 with 2012 being the other. The percent of new policies written with wind increased from 65.2% in 2013 to 65.7% in 2014.

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

Month	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2013	73,981	44,155	118,136	62.6%	37.4%
Sep 2014	72,211	42,591	114,802	62.9%	37.1%
% Change	-2.4%	-3.5%	-2.8%		

Source: SCDOI Data Call

The total number of policies in-force for admitted carriers in the Wind Pool area decreased by 2.8% in 2014. This continues the downward trend begun in 2012. The percent of policies written with wind coverage rose from 62.6% in 2013 to 62.9% in 2014.

B. Commercial Lines – Admitted Market

There were 86 carriers reporting data for 2014 compared to 92 carriers reporting in 2013 and 83 in 2012. 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 2013	263	184	447	58.8%	41.2%
Sep 2014	281	264	545	51.6%	48.4%
% Change	6.8%	43.5%	21.9%		

Source: SCDOI Data Call

Slightly more new policies were written with wind coverage in 2014 than in 2013 while the number of new policies written without wind saw a significant uptick from 2013 to 2014. This caused the percent of new policies written with wind to decrease considerably. That said, it is important to remember that the number of new policies being discussed is relatively small, so this change is not necessarily a cause for concern.

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

Month	With Wind	Without Wind	Total	% With Wind	% Without Wind
Sep 2013	3,199	1,977	5,176	61.8%	38.2%
Sep 2014	3,108	2,035	5,143	60.4%	39.6%
% Change	-2.8%	3.0%	-0.6%		

Source: SCDOI Data Call

Total in-force commercial policies written with wind coverage decreased as those written without wind coverage increased. The percent of total in-force policies written with wind fell slightly from 2013 to 2014.

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 provides an interactive functionality component that allows 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. The SCDOI's Office of Consumer Services continues to provide extended office hours for consumers to call or email their insurance related questions and concerns. The office hours are 8:00 a.m. to 6:00 p.m. from Monday to Thursday and 8:00 a.m. to 5:00 p.m. on Friday.

On May 29, 2014, the SCDOI held a public hearing on coastal property insurance at The Citadel in Charleston, South Carolina. The hearing began with an educational program. Representatives from the Charleston Office of the National Weather Service, Clemson University's School of Engineering, and the Federal Alliance for Safe Homes spoke on South Carolina's mitigation efforts. Spokespersons for the National Flood Insurance Program and the South Carolina Department of Natural Resources discussed the changes to the Biggert-Waters Flood Reform Act. The Executive Director of the SCWHUA was present to provide information on the status of the Association. 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 May 31, 2014, the SCDOI co-hosted its second annual 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.

The SCDOI participated in the 2014 Storm Fest event that took place in Myrtle Beach, SC on April 12, 2014. The event was hosted by the Horry County Emergency Management Division, the City of Myrtle Beach, the National Weather Service, and Ticketreturn.com Field. With more than 350 attendees, this family friendly event provided important preparedness and safety information to the residents of the greater Myrtle Beach area. The SCDOI also took part in the Town of Mount Pleasant Weather Awareness event in late spring of 2014 and the WSPA-TV Storm Awareness Programs held in Greenville and Spartanburg.

The Department's Coastal Consumer Liaison has continued an effort the Department began in 2013 to provide assistance to consumers on a regular basis. The towns of Ridgeland and Hardeeville have each provided office space, and the Consumer Liaison has maintained hours twice a month in each location. The Consumer Liaison provides information about the SCDOI's services as well as consumer assistance regarding insurance related matters.

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 techniques and measures 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 SCDOI hosted insurance regulators from states and jurisdictions across the country at the IBHS research facility in June 2014. After a tour of the facility, the IBHS staff presented on their research efforts (past, present, and ongoing) along with their mitigation efforts through the FORTIFIED program.

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.

With regard to mitigation, South Carolina's work with the SC Safe Home Program has been 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 national and regional conferences; 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. In 2014, SCDOI staff participated in the National Tornado Summit, which aims to improve disaster mitigation, preparedness, response, and recovery throughout the United States. The Director was a 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 presented on the course the state has taken with regard to promoting mitigation and how that can be translated to other catastrophe-prone states. SCDOI staff also participated in the NAIC's Center for Insurance Policy and Research two-day symposium entitled "Implications for Increasing Catastrophe Volatility on Insurers and Consumers" in October 2014.

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 3,900 grants totaling more than $17.7 million. Based on program data, the average year built of the homes that are retrofitted is 1989, and the average value of homes receiving the grant award is $111,391; by comparison, the median home value in South Carolina is $133,500. The program awarded 797 grants worth $3,753,042 in 2014 compared to 813 grants for $3,816,997 in 2013. In 2014, roughly 37% of award recipients qualified as low-income applicants based upon the U.S. HUD Median Income Guidelines.

Table 4.1: 2014 SC Safe Home Grants Awarded by County

County	Grants	Awards
Beaufort	20	$97,150
Berkeley	85	$386,830
Charleston	81	$372,962
Colleton	2	$10,000
Dorchester	47	$221,259
Florence	0	$0
Georgetown	121	$587,509
Horry	419	$1,969,784
Jasper	0	$0
Marion	3	$15,000
Williamsburg	19	$92,548
2014 Total	797	$3,753,042

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 170, with many of these individuals approved to work in multiple counties. The SC Safe Home website (http://www.scsafehome.com/) contains links to complete lists of certified contractors and wind inspectors.

Table 4.2: SC Safe Home Approved Contractors and Inspectors

Location	Contractors	Inspectors
Greater Myrtle Beach Area	44	28
Greater Charleston/Berkeley Area	46	32
Greater Beaufort/Jasper Area	3	13
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. For 2014, 767 roof retrofit projects were completed and 30 window/opening projects were completed. Additionally, homeowners that have selected to replace their windows with impact resistance systems and hurricane shutters through SC Safe Home have reported savings of up to 29% on their energy costs. Structures retrofitted through SC Safe Home are more attractive risks to insurance companies. Homeowners are reporting premium reduction savings of up to 24% from their insurance carriers. According to a report by the Multihazard Mitigation Council on behalf of the Federal Emergency Management Agency (FEMA), society saves $4.00 in potential losses and reconstruction costs for every $1.00 spent on mitigation.[28] Based on this statement, it is estimated that grants awarded by SC Safe Home have reduced the potential loss and future reconstruction costs from a hurricane or severe wind event by more than $70.8 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 at least 28 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
- Ocean Harbor Casualty Insurance Company
- Safe Harbor Insurance Company
- Ariel Reinsurance Company, Ltd.
- Universal Property and Casualty Insurance Company
- American Federation Insurance Company

[28] *Natural Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities*, Multihazard Mitigation Council, 2005.

- 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
- Access Home Insurance Company
- Gulfstream Property and Casualty Insurance Company
- Homeowners of America Insurance Company
- Pacific Select Property Insurance Company
- Coastal Select Insurance Company
- Pilgrim Insurance Company (licensed to write flood insurance)
- White Pine Insurance Company (licensed to write flood insurance)

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 2014, Lighthouse wrote $1,350,147 in written premium on 633 policies with a total insured value of $267 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.[29] The amount of the credit taken by companies was $63,734 in 2013 and $50,576 in 2012.[30] The effects of the entry of new admitted market carriers, together with

[29] S.C. Code Ann. § 38-7-200 (2002).
[30] 2014 data will not be available until mid-2015.

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.

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. Due to its increasing success, the Market Assistance Program has been expanded statewide at the request of the Director. 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, 2014, the Market Assistance Program has helped 270 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.

Furthermore, the SCDOI has developed a page on its new enhanced website that is specifically designated to market assistance. Located on this page is an online form that allows consumers to submit their information to the SCDOI’s coastal consumer liaison who then contacts the 50 agents and companies participating in the program. This service is free and allows consumers to make their information available to agents and companies for 45 days. The SCDOI developed its online Price Comparison Tool to aid consumers in comparing price estimates of companies writing auto and homeowners insurance in the state. Consumers answer a basic few questions about themselves, where they live, the desired level of coverage, and their car or home to receive price estimates.

Biweekly, the 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 throughout the state in this outreach schedule so that a representative may spend more time on the ground and be accessible to as many consumers as possible in as many locations as possible.

The Department has also been focused on professional development and training of its staff, which included an initiative to have a number of staff members obtain the Certified Insurance Services Representative designation. The 17 employees that have earned this designation to date will be able to use their training to assist consumers in the aftermath of a catastrophic event. The importance of training like this was demonstrated in February 2014 when the state was hit by the second of two ice and snow storms that left Aiken County particularly devastated. In response, the SCDOI partnered with major property and casualty carriers and the City of Aiken to host a two-day claims fair to assist those who were impacted and to facilitate recovery in the community.

The SCDOI may permit non-resident adjusters to work in South Carolina on a temporary basis in the event of an unusual circumstance or catastrophe.[31] In essence, this allows insurers to bring in additional adjusters in the aftermath of a catastrophic event to expedite the claims process. Two such events occurred in the first half of 2014, prompting the SCDOI to issue an emergency declaration allowing insurers to use non-resident adjusters on a temporary basis in each instance. On July 1, 2014, the SCDOI deployed an electronic system for insurers to register temporary adjusters when these situations arise in the future.[32] The new system will make the registration process simpler and more efficient for the SCDOI and insurers alike.

The Competitive Insurance Act (S.C. Act No. 191, R. 215, S. 569) was enacted in 2014 and implemented by the SCDOI via Bulletin 2014-08. SCDOI staff participated in the legislative public hearings regarding this act and provided information upon request. In large part, the Competitive Insurance Act expands on the reforms included in the Omnibus Coastal Property Insurance Reform Act of 2007. For example, it requires carriers to advise policyholders of the availability of Catastrophe Savings Accounts

[31] S.C. Code Ann. Reg. 69-1 (2001).
[32] Bulletin 2014-13, September 25, 2014.

and to provide insureds with new, standardized notices that provide an overview of key pieces of their property insurance coverage, such as the deductible(s) and the availability of flood insurance coverage. The Act also codifies the SCDOI's commitment to and responsibility relating to consumer outreach and education. Finally, the Competitive Insurance Act stipulates that the SCDOI study the feasibility of South Carolina creating its own hurricane model; a detailed discussion of this study can be found in Section V of this report.

D. Catastrophe Savings Account

One of the many consumer-based initiatives included in the Omnibus Act is the creation of catastrophe savings accounts (CSAs).[33] CSAs allow South Carolinians to prepare for the financial impact of a catastrophic storm using state income tax-free dollars. These accounts may be used to cover insurance deductibles or other uninsured portions of a loss from hurricane, rising flood waters, or other catastrophic windstorm events. CSAs can be established at any state or federally-chartered bank, but must be labeled as a "Catastrophe Savings Account." The money can only be held in an interest bearing account (e.g., regular savings or money market account) and comingling of funds is strictly prohibited. The funds placed in a catastrophe savings account and the annual interest earnings on that account are not subject to state income taxation if left in the account or used for Qualified Catastrophe Expenses. However, the amounts cannot be used to reduce federal income tax liability. Withdrawals for ineligible expenses are taxable as ordinary income and are also subject to a 2.5% additional tax, with limited exceptions.

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.[34] 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

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[33] S.C. Code Ann. § 12-6-1620 (2007).
[34] S.C. Code Ann. § 12-6-3660 (2007).

supplies and is in addition to the fortification measures tax credit.[35] 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
2012	130	$149,686
2013	163	$179,833
Inception to Date Totals	**963**	**$1,110,625**

Source: SC Department of Revenue

[35] S.C. Code Ann. § 12-6-3665 (2007).

V. Catastrophe Modeling

A. 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.[36] In 2012, the SCDOI solicited a Request for Proposals for a review and study of the computer simulation models that are designed to produce hurricane insurance loss costs for insuring properties in South Carolina. The 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; 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.

[36] 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 have met with representatives of each modeling company individually, with meetings taking place in SCDOI offices between December 6, 2013 and January 8, 2014. On March 12, 2014, the SCDOI issued Bulletin 2014-03 to communicate specific current and new requirements for the use of hurricane catastrophe models in property insurance ratemaking.

B. State Hurricane Model Feasibility Report

The Competitive Insurance Act of 2014 required that the SCDOI provide a report on the feasibility of creating a state hurricane model to certain committees of the General Assembly by January 1, 2015. The act states, in pertinent part:

> The Department shall conduct a study to assess the feasibility of creating a hurricane model by the State with emphasis on the associated costs and certain logistical requirements, among other things, and to require the Department shall provide a summary of its findings to certain committees of the General Assembly before January 1, 2015.[37]

[37] 2014 S.C. Act No. 191.

To fulfill this requirement, the SCDOI employed an actuary (Mr. Mark Brannon) and two finance professors from the University of South Carolina's Moore School of Business (Dr. Colin Jones and Dr. Greg Niehaus). The following excerpt summarizes the findings of their report:

> The SC DOI has indicated that it is open to any tool that would further enhance its rate review processes. However, the costs of such the development of a SC public hurricane model appear to outweigh the potential benefits…As such, the recommendation of this report is that South Carolina not pursue the development of a state specific public hurricane model at this time.[38]

The report goes on to list several alternatives to a public model that could provide similar benefits. These options include utilizing one the models not currently applied in ratemaking in South Carolina or contracting with Florida International University to build a South Carolina model component for use with the Florida Public Hurricane Model.

[38] *Report on the Feasibility of Developing a South Carolina Hurricane Model*, Mark Brannon, Colin Jones, and Greg Niehaus, December 31, 2014.

VI. Flood Insurance

A. The National Flood Insurance Program

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

The potential losses generated by NFIP have created substantial financial exposure for the federal government and U.S. taxpayers. While Congress and FEMA intended that the NFIP be funded with premiums collected from policyholders and not with tax dollars, the program was, by design, not actuarially sound. As of December 31, 2013, FEMA owed the Treasury approximately $24 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.[39]

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 more than 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 190,208 policies which insure over $51 billion of property. The NFIP has a total insured value of just under $1.3 trillion and roughly $3.7 billion in annual written premium.

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

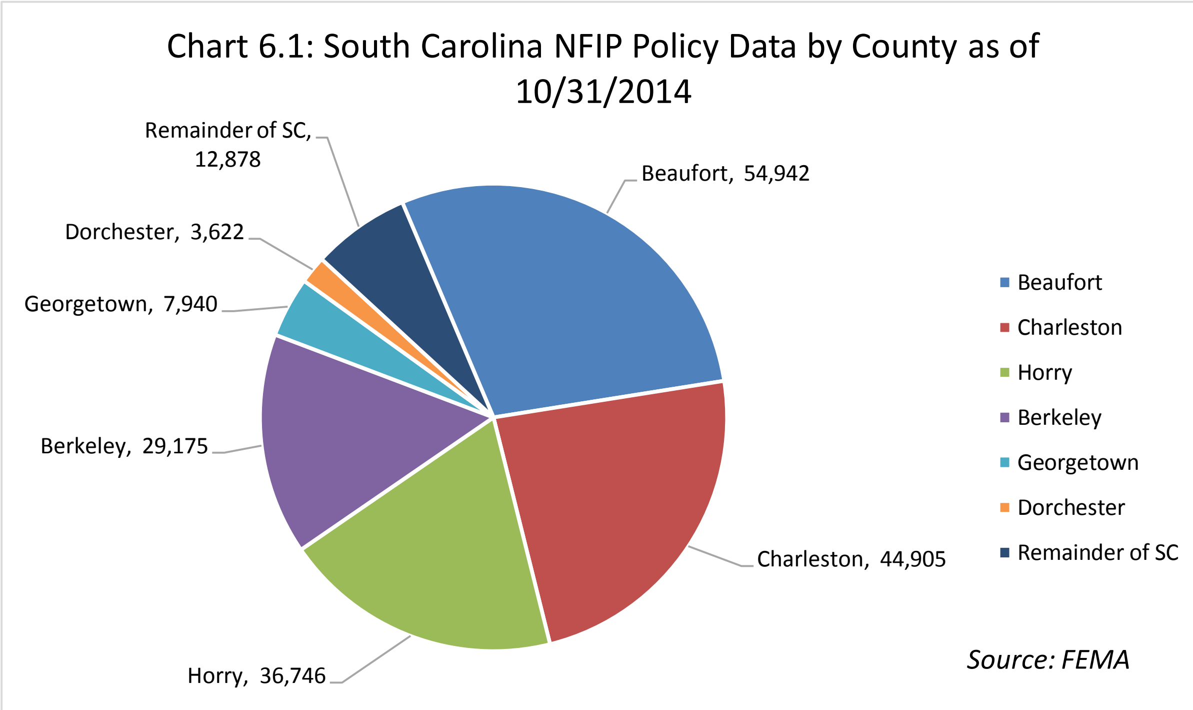
Table 6.1: NFIP Policy Data by State as of 10/31/14

State	Policies	% of Total Policies	Total Insured Value (in Millions)	% of Total TIV	Written Premium (in Millions)	% of Total Written Premium
FL	1,970,099	37.2%	$472,385	37.1%	$1,041	27.8%
TX	600,862	11.4%	$156,938	12.3%	$376	10.0%
LA	471,549	8.9%	$113,376	8.9%	$366	9.8%
CA	236,033	4.5%	$63,810	5.0%	$208	5.6%
NJ	237,000	4.5%	$57,452	4.5%	$239	6.4%
SC	**190,208**	**3.6%**	**$51,241**	**4.0%**	**$138**	**3.7%**
NY	188,225	3.6%	$50,345	4.0%	$208	5.5%
NC	135,455	2.6%	$32,595	2.6%	$109	2.9%
VA	111,937	2.1%	$27,965	2.2%	$84	2.2%
GA	92,662	1.8%	$23,286	1.8%	$70	1.9%
NFIP Total	5,290,558	100%	$1,274,312,142,900	100%	$3,743,738,974	100%

Source: FEMA

As expected, the bulk of NFIP policies in South Carolina are located in coastal counties. Beaufort, Charleston, Horry, Berkeley, Georgetown, and Dorchester counties account for roughly 93% of South Carolina's NFIP policies and annual written premium; these same counties account for 94% of the total insured value. Since 1978, South Carolina policyholders have paid $138 million in NFIP premiums and received $440 million in claims.[40] This means that South Carolina policyholders have been net recipients over the life of the program.

[40] *Report on Establishing a Residual Market Mechanism for Flood Insurance*, Greg Neihaus, December 31, 2014.



B. Biggert-Waters Act

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 was to move flood insurance rates toward risk-based pricing. This is an issue today because of the way this federal program was established and operated.

C. Homeowner Flood Insurance Affordability Act

The Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) was signed into law on March 21, 2014 in order to mitigate the rate impact of BW-12 on NFIP policyholders. HFIAA repeals or modifies certain provisions of BW-12 and alters some components of NFIP not addressed by BW-12. As a result of HFIAA's passage, certain policies will receive lower rate increases than prescribed by BW-12 while some future rate increases will be avoided altogether. HFIAA also implements annual surcharges of $25 for primary residence policies and $250 for other policies until no more policies receive subsidized rates. FEMA is required by this new law to conduct an affordability study of NFIP policies and has requested two reports from the National Academy of Sciences to fulfill this obligation.

D. Residual Flood Market Mechanism Report

The Chair of the Insurance Subcommittee of the South Carolina Senate asked the SCDOI to provide a report on the feasibility of establishing a residual market mechanism for flood insurance in the State. The SCDOI employed Dr. Greg Niehaus—a professor of Finance and Insurance at the University of South Carolina's Darla Moore School of Business—to conduct research on the matter and furnish a report detailing his findings.

The report concludes that it may be too early to create a residual market mechanism for flood insurance in South Carolina.[41] This assessment is largely due to uncertainty about how the following matters will impact the flood insurance market:

- NFIP rates are planned to increase until they reach adequate levels.
- The private market is beginning to compete with the NFIP for policies.
- Two national flood insurance affordability reports will be released in 2015.
- Support for incentivizing flood risk mitigation through public policy continues to increase.

[41] *Report on Establishing a Residual Market Mechanism for Flood Insurance*, Greg Niehaus, December 31, 2014.

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 2014. 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.

The overall stability of the market can be influenced by multiple factors. The renewed expansion of the Wind Pool territory, which extends the effective period until March 29, 2017 unless otherwise vacated or superseded, 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 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 South Carolina Building Codes Council intends to adopt the 2015 version but had not done so at the time of this report's issuance. 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.
- The State should consider offering a sales tax holiday prior to hurricane season for hurricane supplies such as flashlights, generators, storm shutters, emergency radios, batteries, and similar supplies. This will focus the public's attention on the need to be ready for a possible natural disaster.

IX. Appendix

1. Bulletin 2014-03 (The Use of Hurricane Catastrophe Models in Property Insurance Ratemaking)
   http://www.doi.sc.gov/DocumentCenter/View/7478
2. Bulletin 2014-08 (Competitive Insurance Act)
   http://www.doi.sc.gov/DocumentCenter/View/7667
3. Bulletin 2014-13 (Electronic Appointment Procedures for Temporary Adjusters, September 25, 2014)
   http://www.doi.sc.gov/DocumentCenter/View/7797
4. *Evaluation of Hurricane Catastrophe Models Used in South Carolina*, Martin Simons, Jenni Evans, and Masoud Zadeh, June 27, 2013.
   http://www.doi.sc.gov/DocumentCenter/View/7184
5. *Report on Establishing a Residual Market Mechanism for Flood Insurance*, Greg Niehaus, December 31, 2014.
   http://doi.sc.gov/DocumentCenter/View/7963
6. *Report on the Feasibility of Developing a South Carolina Hurricane Model*, Mark Brannon, Colin Jones, and Greg Niehaus, December 31, 2014.
   http://www.doi.sc.gov/DocumentCenter/View/7964
7. Order 2013-05 (The Use of Insurance Catastrophe Models in Property Insurance Ratemaking in SC)
   http://doi.sc.gov/DocumentCenter/View/7324
8. Order 2015-01 (Wind Pool Expansion Renewal Order)
   http://www.doi.sc.gov/DocumentCenter/View/8107

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