STATUS OF THE SOUTH CAROLINA COASTAL PROPERTY INSURANCE MARKET

STATUS REPORT FOR 2015

SUBMITTED BY:

South Carolina Department of Insurance

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January 29, 2016

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I. Executive Summary

A. Overview of 2015 Hurricane Season

Activity during the 2015 hurricane season included several historic events. It began when Tropical Storm Ana made landfall along the Grand Strand near Myrtle Beach, South Carolina on May 10, 2015. Tropical Storm Ana was an unusually early storm which developed quickly but, fortunately, had limited impact. This storm is important to note as it developed before the official start of the hurricane season on June 1st; in fact, it is the second earliest landfalling tropical cyclone on record for the United States.[1] Ana was also one of only two storms to make landfall in the United States[2] and was the only tropical storm whose path crossed the state of South Carolina. Ana brought about six inches of rain to North Myrtle Beach and Kinston, NC, but the highest wind gusts were limited to 50 to 60 miles per hour. The storm's damage was primarily in the form of beach erosion and limited flooding.

Shortly thereafter, Tropical Storm Bill formed in the Gulf Coast, but quickly fizzled into a tropical depression that headed north into Texas and Oklahoma before turning east. South Carolina was on alert when Tropical Storm Claudette formed off the North Carolina coast; this storm later moved out to sea with no impact on the South Carolina coast.[2] On August 24, 2015, Tropical Storm Erika formed in the Atlantic Ocean. Although Erika never reached hurricane status, it produced significant flooding in the Dominican Republic and Haiti. The storm weakened as it crossed over eastern Cuba before dissipating on August 29, 2015.

For the United States, the prevailing event of the 2015 hurricane season was Hurricane Joaquin, which formed in the Caribbean on September 27, 2015. Joaquin intensified to a Category 4 hurricane on October 1, 2015 while ravishing the Bahamas over a two-day period, resulting in reports of total blackouts and the destruction of 85% of the homes in one settlement on of the hardest hit islands in the central Bahamas. It was later reported that this hurricane contributed to the sinking of a cargo ship that resulted in the deaths of its 33 crew members.[3]

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[1] "Tropical Storm Ana: May 7-10, 2015," National Weather Service, www.weather.gov/ilm/TropicalStormAna2015.
[2] "Milder Hurricane Season Comes to an End, South Carolina Still Recovering from Flood," myrtlebeachonline.com, November 30, 2015.
[3] "2015 Hurricane Season in Review: 11 Things We Will Remember," weather.com, November 30, 2015.

Although Hurricane Joaquin never made landfall in the United States, its location off the South Carolina coastline indirectly contributed to a weather system that produced a three-day pocket of heavy rain that dumped up to two feet of precipitation on the state. The result was the overflow of rivers, the breaching of dams, and the washing away of roads and bridges. On October 5, 2015, the South Carolina Department of Transportation (SCDOT) reported that there were 541 road closures. The SCDOT further reported that 221 bridge sites were impacted by the floods, 18 of which will require full replacement.[1]

The flooding resulting from the heavy rains associated with Hurricane Joaquin was described as biblical. Many meteorological sources referred to it as a one in a thousand year rain event. This means that an event of this magnitude would only be expected to occur once every thousand years; in other words, there is a 0.1% chance of this happening in any given year in a particular location. USA Today pointed to the fact that the October severe weather was at least the sixth so-called one in a thousand year rain event in the U.S. since 2010. The trend for greater rain and flooding events of late may be linked to factors ranging from a strong El Niño to climate change.[4]

The Insurance Information Institute cited information from the National Hurricane Center stating that between 1966 and 2009, the typical year featured eleven named storms and six hurricanes (winds of 74 miles per hour or higher). On average, two of the six hurricanes became Category 3 or higher storms.[5] The Insurance Information Institute summarized the 2015 season's activity as follows:

- Eleven tropical storms
- Four hurricanes – Danny, Fred, Joaquin, and Kate
- Two of the four hurricanes became major ones at their respective peaks – Danny (Category 3) and Joaquin (Category 4)
- No hurricanes striking the U.S. landed at full force

The El Niño Effect led many meteorologists to predict below normal activity during the 2015 hurricane season. While coastal consumers took relief in the report that El Niño would produce a lower than average hurricane season, it is important to note that the impact of El Niño is not fail proof. In a presentation to the Reinsurance Committee of the South Carolina Wind and Hail Underwriting Association, Aon Benfield Analytics presented a graphic indicating that, since the year 1990, during El Niño years, there have been five major hurricanes. Four of the five have had an impact on the state of South Carolina. Several recent studies suggest that the North Atlantic could see more intense storms in the

[4] "SC Flood Is Sixth One Thousand Year Rain Since 2010," usatoday.com, October 5, 2015.
[5] "Hurricane Stats Tallied as Atlantic Season Ends," carriermanagement.com, November 30, 2015.

future since warmer weather contains more energy. As a result of increased sea level rise along the Atlantic coast combined with more frequent and violent storms, it is predicted that the U.S. will see stronger storms impacting the coastline in future years.[6]

Although the 2016 hurricane season is still officially months away, Hurricane Alex became the first January hurricane to occur in the Atlantic Ocean since 1955 and is the strongest January hurricane on record with estimated wind speeds up to 85 mph. Alex weakened to a tropical storm prior to making landfall in the central Azores.[7] Researchers at Colorado State University have indicated that some form of tropical activity will likely make landfall in the U.S. in 2016. In fact, they suggest there is a 97% chance of a named storm hitting the U.S. in 2016. As to why there has been a ten year period since Wilma without a major storm, Colorado State University scientists suggest it is simply luck.[8]

B. Background

The General Assembly began requiring the South Carolina Department of Insurance to submit annual reports relating to the status of the South Carolina Wind and Hail Underwriting Association via the Omnibus Coastal Property Insurance Act of 2007 (Omnibus Act).[9] The statute requiring this annual report was subsequently expanded to include an overview of the coastal property insurance market via the Competitive Insurance Act of 2014.[10] As amended, the duties of the Director of Insurance (Director) state, in pertinent part:

> The director must submit a report to the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Chairman of the Senate Banking and Insurance Committee, and the Chairman of the House Labor, Commerce and Industry Committee by January thirty-first of each year regarding the status of the coastal property insurance market.[11]

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 2015.

[6] "Storms Are Getting Stronger," earthobservatory.nasa.gov, March 5, 2013.
[7] "Rare January Hurricane Alex Made Landfall in the Azores as a Tropical Storm," weather.com, January 16, 2016.
[8] "2016 Hurricane Season, 97% Chance of Named Storm Hitting US," palmbeachpost.com, December 12, 2015.
[9] 2007 S.C. Act No. 78.
[10] 2014 S.C. Act No. 191.
[11] S.C. Code Ann. § 38-3-110 (2014).

C. Status of the South Carolina Coastal Property Insurance Market

In preparing this report, the South Carolina Department of Insurance (SCDOI) relied upon information obtained from the South Carolina Wind and Hail Underwriting Association (SCWHUA or Association), an insurer data call, consumer complaints, and consumer assistance provided through the SCDOI's Market Assistance Program. Each of these three sources would suggest that the coastal property insurance market is stable and, for many risks, can be competitive. 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 2014 and 2015 via the insurer data call show that policy counts decreased over that time period for personal lines and increased for commercial lines, the numbers year over year are fairly consistent. Anecdotal information from the SCDOI's Office of Consumer Services indicates that consumer complaints regarding coastal property insurance coverage, particularly those relating to availability issues, have dropped significantly since the 2007 SCWHUA territorial expansion. Finally, information relating to consumer experiences through the SCDOI's Market Assistance Program demonstrates that many coastal property insurance consumers are able to realize meaningful savings if they shop their coverage.

Due in large part to past and on-going efforts of the South Carolina General Assembly and the SCDOI, including the expansion of the SCWHUA territory and industry outreach, the coastal property insurance market appears to be stable. There is enhanced availability of coverage in the traditional market, somewhat evidenced by the fact that the number of policies written by the SCWHUA has decreased significantly. 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.[12] Residual market mechanisms are created by states to assure the availability of essential property insurance coverage. These markets of last resort are necessary when the voluntary market is unwilling or unable to write all of the insurance needed by consumers. Residual markets are intended to supplement the private market, not to compete with or displace it. Rates in the residual market are generally higher than in the voluntary market, both because of the higher costs typically associated with risks in residual markets and to avoid competition with the voluntary market. In fact, South Carolina law specifies that the SCWHUA is not intended to offer rates that are competitive with the admitted market.[13] 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.[14]

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.[15] All admitted property insurance companies licensed by the SCDOI are members of and are required to participate in the SCWHUA.[16]

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.[17] 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

[12] S.C. Code Ann. § 38-75-330(A) (2014).
[13] S.C. Code Ann. § 38-75-400(B) (2014).
[14] *Id.*
[15] S.C. Code Ann. § 38-75-320 (2014).
[16] S.C. Code Ann. § 38-75-330(B) (2014).
[17] S.C. Code Ann. § 38-75-1230 (2014).

insurance policy with a voluntary insurer for all other property perils. If a wind or hail event occurs, the SCWHUA will pay the losses covered under its policies. If those losses exceed the SCWHUA's available funds and purchased reinsurance coverage, then all admitted property insurance companies will be assessed for the difference based upon their market share in the state.[18]

The SCWHUA purchases reinsurance to limit the need to assess member companies. By minimizing insurer assessments, the SCWHUA protects consumers and the overall health of the coastal property insurance marketplace. Insurer assessments, if levied, are often passed on to the consumer in the rates charged for insurance coverage in the voluntary market. They also discourage insurers from writing coverage by increasing uncertainty, so minimizing the assessments promotes a healthy market.

The SCWHUA attempts to purchase reinsurance to at least the 1-in-200 year event number. Over an extended period of time, for example, 10,000 years, the SCWHUA should expect to see a 1-in-200 year storm once every 200 years. This is a long-term, statistical number; it means that there is approximately a 0.5% chance of having such a storm during a given year. Although this is the likelihood of such a storm occurring, it is possible that a 1-in-200 year event will happen every year over the course of several years or multiple times during a single year. On the other hand, hundreds of years could go by between two such events occurring.

The statistical measure comes from the catastrophe models used by the insurance industry which will be discussed at greater length in a later section of this report. The resulting event number, or return period number, is not an exact dollar amount. The amount can vary within one or two standard deviations. For example, if a 1-in-100 year event number is determined to be $1 billion, then the standard deviation could easily be $200 million.

Purchasing reinsurance to the 1-in-200 year event number and beyond is expensive and can impact assessment amounts if not bought. In 2007 and 2008, the SCWHUA issued refunds due to a hard reinsurance market. This resulted from the SCWHUA opting not to purchase as much coverage due to high reinsurance rates. This left the SCWHUA with a surplus which was used to offset assessments in the form of refunds. A combined assessment and refund was carried out in order to minimize the impact on

[18] S.C. Code Ann. § 38-75-370 (2014).

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.

As of October 31, 2015, Association Year 2014 has resulted in an operating profit of $7.5 million resulting from lower reinsurance costs and reduced unearned premium reserve resulting from a decrease in written premium. Table 2.1 summarizes the annual insurer assessments or refunds by association year since 2007.

Table 2.1: SCWHUA Assessments

Association Year (11/1 to 10/31)	Assessments (Refunds)
2007	($8,134,390)
2008	($4,211,333)
2009	$4,882,917
2010	$2,887,962
2011	$4,211,333
2012	$6,422,460
2013	$4,227,955
2014	($7,518,046)

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. The SCDOI and SCWHUA member insurers believe it is important that the Association maintains a high level of reinsurance coverage. Relatively small assessments each year are worth the reduced uncertainty that this level of reinsurance provides. Without this level of reinsurance, member insurers would be subject to much larger assessments following a major catastrophic event. This ultimately benefits consumers by establishing a more stable coastal insurance market.

The SCWHUA bought reinsurance to the 1-in-250 year return period number. This is an aggressive effort to prepare for a potentially devastating hurricane. The program also includes a pre-paid reinstatement to keep it in place should a second event occur. There are also provisions to pre-purchase a modified coverage at a lower price during the two years following a major event. The program is with reinsurers rated A or better with A.M. Best Company. Some lines of coverage are backed by letters of credit or trust agreements funded by cash.

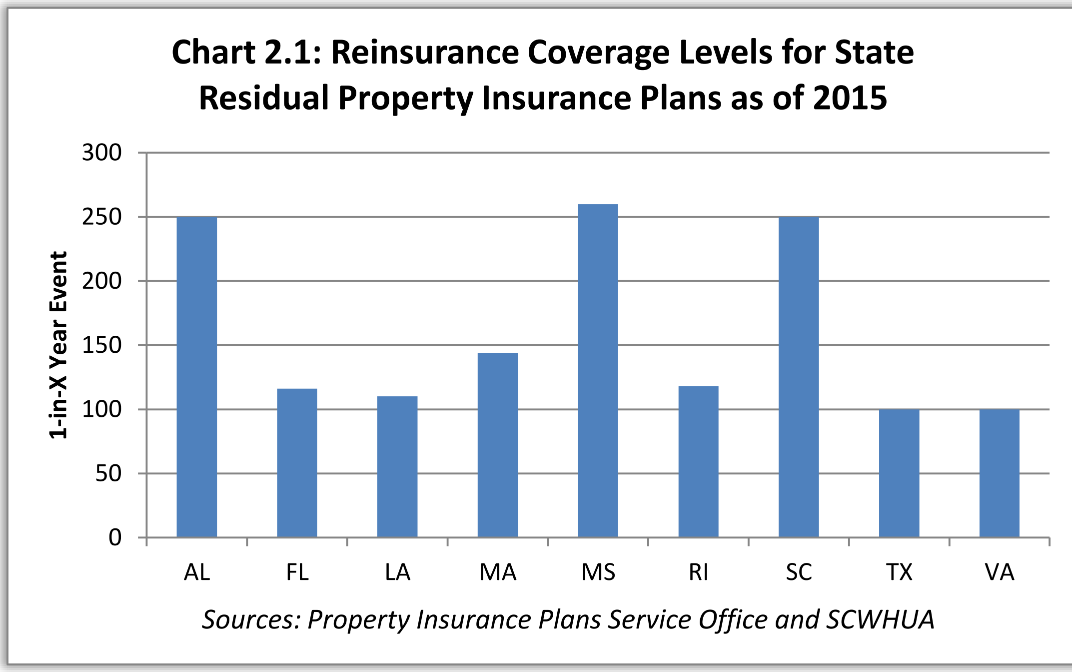

Chart 2.1 compares the reinsurance coverage levels (in terms of event likelihood levels as discussed above) among various residual markets providing wind coverage throughout the United States. Other states' residual property insurance plans have taken different approaches. North Carolina relies on consumer assessments when there is a major event. With the exceptions of workers' compensation and medical malpractice, every policyholder in the state will be assessed regardless of line of business. Florida has a very complex system which includes issuing catastrophe bonds in addition to purchasing reinsurance. The cost of these bonds will then be passed on to all insurance consumers in the state via policyholder assessments for all lines of business other than workers' compensation and medical malpractice. Mississippi has linked its association to state government, allowing it to retain cash and assess all consumers in the state. This approach poses potential financial liabilities to the state of Mississippi.

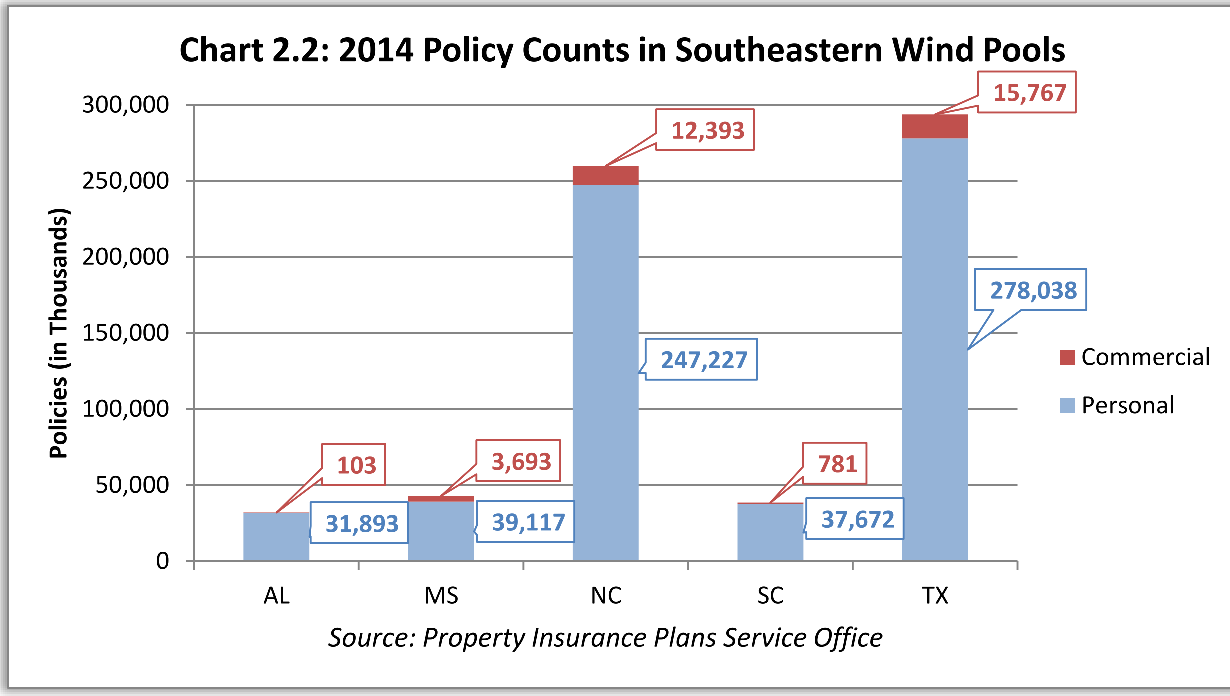

Chart 2.2 illustrates the standing of the SCWHUA in terms of policy counts relative to other wind pools in the Southeastern United States. South Carolina is significantly below several other states in the region. Although this can partially be explained by population differences among this group of states, it is still a positive sign as the SCWHUA seeks to be a true market of last resort. Florida's market of last resort, Citizens Property Insurance Corporation (CPIC), is an outlier and, as such, is not included in this comparison. Unlike traditional markets of last resort, CPIC has long been the top homeowners writer in the state; although its policy count has declined to less than 500,000, CPIC still represented 9.1% of the Florida homeowners insurance market in 2014.

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 and Operational Considerations

A review of the SCWHUA was conducted by the SCDOI after the 2004 and 2005 hurricane seasons. Following these back-to-back destructive seasons, carriers writing coastal business saw that their hurricane exposure was greater than previously realized. This, coupled with predictions of continued above-average hurricane activity, resulted in the lack of affordable or, in some cases, available coastal property insurance coverage. Beginning in 2007 and continuing forward, there have been significant ongoing changes to the operation of the SCWHUA. Some of the changes resulted from the South Carolina General Assembly's enactment of the Omnibus Act. Other changes were the result of the coordinated efforts of the SCDOI and the SCWHUA to improve the availability of coverage and the efficiency of SCWHUA operations.

a. Expansion of the SCWHUA Territory

The most significant change to the SCWHUA took place in 2007 with the expansion of the territory in which the Association can write essential property insurance, which is defined as "insurance against direct loss to property as defined in the wind and hail insurance policy and forms approved by the Director or his designee; and after January 1, 1995, at the request of the insured, coverage for (a) actual loss of business income; (b) additional living expense; or (c) fair rental value of loss."[19] The territory was temporarily expanded by orders of the Director, as detailed below, and was permanently expanded via the Omnibus Act to include areas where consumers were reporting difficulty obtaining coverage. SC Code Section 38-75-460 gives the Director authority to issue an order temporarily expanding the territory for a period up to two years as well as the authority to issue subsequent orders renewing such expansions.

The first expansion was ordered via SCDOI Order 2007-01, which was later incorporated into state law via the Omnibus Act. A subsequent expansion was ordered via SCDOI Order 2007-03. The territory

[19] S.C. Code Ann. § 38-75-310(1) (2014).

remains as defined in Order 2007-03 after having been ratified by the General Assembly via the Omnibus Act and renewed by order of the Director of Insurance via SCDOI Orders 2009-01, 2011-01, 2013-01, 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. It is anticipated that the SCDOI will review the territory expansion during late 2016 to determine if current conditions warrant leaving the territory in its current format and renewing the expansion order. The SCWHUA will participate in those discussions.

b. Deductibles

The SCWHUA utilizes a lower deductible for personal lines consumers when the weather event resulting in a covered loss is not a named storm. This policy change took place at the request of the SCDOI. When a large hailstorm hit Georgetown County in November 2012, policyholders benefited from lower non-named storm deductibles as opposed to the large tropical storm/hurricane deductibles.

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, 2015, 677 policyholders were using eFinance, the electronic financing option. Another 382 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 2015, 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. Despite the October storms and subsequent flooding, the storm office was not activated in 2015; all claims were handled by regular staff, so additional examiners were not needed.

While there was limited tropical storm activity in 2015, the SCWHUA received 77 hail claims in 2015 with dates of loss linked to the 2014 hailstorm. In addition, the October 2015 severe storm brought significant rain and flooding to the state. While the main focus of (and damage caused by) the storm was in the Midlands area, 218 claims were reported to the SCWHUA. In the vast majority (over 80%) of the claims, there was no coverage due to the fact that the loss was not caused by damage resulting from wind or hail. In some instances, however, prior hail damage caused from the 2014 or 2015 hailstorms was found as a part of the claims handling process, which resulted in the losses attributable to that prior damage being paid. While consumers experiencing losses is not desirable, these events offered the SCWHUA 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, in 2014, 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

The SCWHUA reports that, during 2015, every staff member participated in a Cyber Security Course. This online program consisted of ten modules covering various aspects of cyber security. Each staff member successfully completed the program.

5. 2015 Tri-Annual Audit

In 2015, the SCDOI conducted its Tri-Annual audit of the SCWHUA. The audit covered Association Years 2012, 2013, and 2014. The audit team sampled transactions, verified assets, and examined regulatory requirements. A full report was prepared by the SCDOI and signed by the Director of Insurance. A copy of the report was formally submitted to each board member of the SCWHUA. The singular item mentioned in the report involved the SCWHUA's disaster recovery program; the SCDOI requested a review of the offsite plan including a test of the recovery system. In its response, the SCWHUA noted that it was in the process of undertaking a detailed Enterprise Risk Management effort. A status report was filed with the SCDOI during the fall of 2015. This project is discussed at length in the next section.

6. Enterprise Risk Management Program

The SCWHUA has undertaken a comprehensive Enterprise Risk Management Program (ERM). The document currently consists of over 100 pages and focuses on:

- Governance Issues
- Risk Management
- IT Security
- Disaster Recovery

As a part of this process, the SCWHUA is moving to a virtual machine (VM) environment. A VM machine allows a powerful server to emulate a number of personal computers. This makes for a quicker recovery time in the event of a problem. A VM unit as well as a reserve unit have been installed in the SCWHUA office. At the SCWHUA's primary backup facility, a separate VM unit is operating and is supported by a generator. A reserve VM unit is also being installed at the primary backup site as an additional precaution. An arrangement has been made with an insurance organization in another part of the state to host a VM unit on behalf of the SCWHUA to serve as a secondary backup site. The next step in this process is to run a test recovery from the primary backup site and later the secondary backup site. In addition, a data penetration test will be scheduled in 2016.

The ERM disaster plan was tested during the October severe weather. Due to damaged roads and bridges, the Governor requested all citizens to stay in their homes. Many businesses and government agencies were closed. As a result, the SCWHUA implemented its disaster plan. Incoming business was handled remotely. Reported claims were received and assigned to available adjusters. Phone calls and emails were returned. On a positive note, several SCWHUA employees who themselves were under emergency evacuation orders chose to come in to the office to assist consumers.

C. SCWHUA Book of Business

As noted in previous annual reports, there are positive trends occurring in terms of the coastal property insurance marketplace in South Carolina. Anecdotal reports from insurance producers indicate that they have markets and/or alternatives for clients seeking coastal property insurance. Consumer complaints 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, 2015, 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 $5.7 billion. As a note for comparison purposes, the $5.7 billion decrease in total insured limits equates to more than five times the total exposure that the Association had when Hurricane Hugo made landfall in 1989.

Table 2.2: SCWHUA Book of Business Changes from Peak in 2011 to 2015 Year End

	August 31, 2011	December 31, 2015	Change
Policy Count	47,366	33,549	-29.2%
Premium	$97,007,667	$72,954,897	-24.8%
Total Insured Limits	$17,310,330,477	$11,615,506,260	-32.9%

Source: SCWHUA

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

Table 2.3: SCWHUA In-Force Policy Changes from 8/31/2011 to 12/31/2015

Zone	County	Policy Count	Policy Count % Change	In-Force Premiums	Insured Limits
1	Beaufort	-3,658	-37%	-$9,392,515	-$2,194,461,971
1	Charleston	-1,970	-38%	-$5,640,259	-$1,174,941,551
1	Colleton	-287	-25%	-$438,552	-$114,431,397
1	Georgetown	-693	-26%	-$1,249,315	-$295,333,185
1	Horry	-5,200	-29%	-$5,402,915	-$1,421,405,077
Total Zone 1		**-11,808**	**-32%**	**-$22,123,556**	**-$5,200,573,181**
2	Beaufort	-293	-23%	-$475,646	-$102,962,791
2	Charleston	-872	-18%	-$816,038	-$200,348,489
2	Colleton	-2	-100%	-$6,848	-$1,320,800
2	Georgetown	29	3%	$86,286	$20,743,734
2	Horry	-871	-24%	-$716,968	-$190,362,690
Total Zone 2		**-2,009**	**-19%**	**-$1,929,214**	**-$474,251,036**
Grand Total		**-13,817**	**-29%**	**-$24,052,770**	**-$5,674,824,217**

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, Horry County now has the highest exposure with $3.6 billion of in-force liability; Beaufort County has the second highest with $3.49 billion. Despite these large values, the downward trends during the past three years (discussed earlier in this section) are encouraging. From year end 2014 to year end 2015, the total number of policies decreased by 4,233 (11.2%). In-force liability decreased by $1.68 billion (12.6%) over that same period.

Table 2.4: SCWHUA In-Force Policies as of 12/31/2015 by Wind Pool Zone and by County

Zone	County	Policy Count	% of Total Policies	In-Force Premiums	% of Total Premium	Insured Limits
1	Beaufort	6,103	18%	$15,734,745	22%	$3,131,027,320
1	Charleston	3,222	10%	$11,863,402	16%	$1,729,932,137
1	Colleton	849	3%	$2,168,305	3%	$317,253,382
1	Georgetown	2,010	6%	$5,528,753	8%	$868,759,284
1	Horry	12,703	38%	$23,836,231	33%	$2,973,159,005
Total Zone 1		**24,887**	**74%**	**$59,131,436**	**81%**	**$9,020,131,128**
2	Beaufort	962	3%	$1,467,574	2%	$357,468,990
2	Charleston	3,994	12%	$7,347,462	10%	$1,344,836,911
2	Colleton	0	0%	$0	0%	$0
2	Georgetown	930	3%	$1,436,526	2%	$286,372,742
2	Horry	2,776	8%	$3,571,899	5%	$626,696,489
Total Zone 2		**8,662**	**26%**	**$13,823,461**	**19%**	**$2,615,375,132**
Grand Total		**33,549**	**100%**	**$72,954,897**	**100%**	**$11,635,506,260**

Source: SCWHUA

III. Department of Insurance Data Call

In October 2007, the SCDOI issued an ongoing data call to all admitted carriers[20] writing personal and commercial property insurance coverage in the SCWHUA territory, which is commonly referred to as the Wind Pool. The purpose of the data call is to evaluate the effect of the expansion on the number of policies written "with wind" and "without wind" in the Wind Pool. Companies that in the prior year have written more than $1 million in annual South Carolina property insurance premiums for personal or commercial lines or both are required to respond to the data call.[21] Due to the timing of these quarterly submissions, this report includes data for the first three quarters of 2014 and 2015.

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

1. Number of new policies written; and
2. Total number of policies in-force.

The data presented in this section differ from that in reports prior to 2011 by displaying only the current year's data call submissions as opposed to historical submissions. Due to new companies meeting the $1 million threshold as well as carriers entering and exiting the market, the list of companies reporting in the data call tends to change slightly each year.[22] Therefore, in order to minimize any distortion, we believe it is most appropriate to focus on the changes between 2014 and 2015 in this year's data call submissions for purposes of this annual report. Due to this change and the variance among companies reporting from year to year, it is more important to concentrate on trends rather than exact values when comparing figures from different annual reports.

A. Data Call Results for the Personal Lines Admitted Market

There were 89 carriers reporting in 2015 compared to 85 carriers reporting in 2014 and 83 in 2013. These numbers vary as carriers reach the established premium threshold and as carriers enter or

[20] The data call does not include Excess and Surplus lines policy information.
[21] 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.
[22] 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 data call period.

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

9 Months Ending	New Policies Issued With Wind	New Policies Issued Without Wind	Total Number of New Policies Issued	% With Wind	% Without Wind
Sep 2014	7,428	4,470	11,898	62.4%	37.6%
Sep 2015	8,841	4,364	13,205	67.0%	33.0%
% Change	19.0%	-2.4%	11.0%		

Source: SCDOI Data Call

The total number of new policies issued by admitted carriers in the Wind Pool area increased by 11.0% for the first three quarters of 2015 as compared to the first three quarters of 2014. By comparison, there was a net decrease of 6.5% in new policies issued for the same nine-month period between 2013 and 2014. The percentage of new, personal lines property insurance policies written in the Wind Pool that included wind increased as well, with a nearly 5% net increase (from 62.4% in 2014 to 67.0% in 2015).

While new policies written is one indication of the willingness of companies to expand their books of business in the Wind Pool area, we look to the total policies in-force (PIF) for information on the overall size of the personal lines, admitted market for property insurance coverage in the Wind Pool. This takes into account new policies written as well as renewals of existing policies net of any terminations due to cancellation or non-renewal.

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

Month	PIF With Wind	PIF Without Wind	Total Policies In-Force	% With Wind	% Without Wind
Sep 2014	71,693	43,425	115,118	62.3%	37.7%
Sep 2015	69,881	40,671	110,552	63.2%	36.8%
% Change	-2.5%	-6.3%	-4.0%		

Source: SCDOI Data Call

The total number of policies in-force reported by admitted carriers in the Wind Pool area decreased by 2.5% in 2015. This continues the downward trend that began in 2012. However, the percent of policies in-force that included wind coverage rose slightly, from 62.3% in 2014 to 63.2% in 2015. The number of personal lines policies written by the SCWHUA has also decreased over this time period. Despite these decreases, one cannot determine the overall market is contracting. As noted above, a major limitation of this data call is that it does not collect information from licensed companies with less than $1 million in premium or from non-admitted companies. Therefore, it is possible that companies with smaller books of business or surplus lines insurers are writing additional business.

B. Data Call Results for the Commercial Lines Admitted Market

There were 93 carriers reporting data for 2015 compared to 86 carriers reporting in 2014 and 92 in 2013. 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	New Policies Issued With Wind	New Policies Issued Without Wind	Total Number of New Policies Issued	% With Wind	% Without Wind
Sep 2014	340	263	603	56.4%	43.6%
Sep 2015	288	267	555	51.9%	48.1%
% Change	-15.3%	1.5%	-8.0%		

Source: SCDOI Data Call

A lower number of new policies were reported as being written with wind coverage in the first three quarters of 2015 as compared to the same period in 2014. This caused the percent of new policies written with wind to decrease. 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	PIF With Wind	PIF Without Wind	Total Policies In-Force	% With Wind	% Without Wind
Sep 2014	3,213	2,063	5,276	60.9%	39.1%
Sep 2015	3,336	2,172	5,508	60.6%	39.4%
% Change	3.8%	5.3%	4.4%		

Source: SCDOI Data Call

Total in-force commercial policies written with and without wind coverage increased in 2015. This coincides with a decrease in the number of commercial policies written by the SCWHUA during this period. It is unclear if these SCWHUA policies have been absorbed by the standard market, leading to the 4.4% increase shown in Table 3.4. As alluded to earlier, a major limitation of this data call is that it does not collect information from licensed companies with less than $1 million in premium or from non-admitted companies. Therefore, it is possible that companies with smaller books of business or surplus lines insurers are also writing less business. The change in the percent of total in-force policies written with wind was minimal, with a 0.3% decrease reported.

IV. Department of Insurance Outreach

The SCDOI has a responsibility to assist consumers with their insurance concerns and to promote consumer education of insurance.[23] It provides consumers with information and assistance via its website (www.doi.sc.gov), written publications, telephone, e-mail inquiries, and written correspondence regarding all lines of insurance coverage that are dictated by statute. The SCDOI continues to update its website to provide additional information via a more intuitive navigation process. The SCDOI's Market Assistance Program helps consumers that are having difficulty finding insurance coverage. Through the assistance of the SCDOI's 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.

The SCDOI works with other state regulators throughout the country to share information and best practices. Director Farmer is a Co-Vice Chair on the National Association of Insurance Commissioners (NAIC) Property and Casualty Insurance (C) Committee. The SCDOI also participates in the 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.

President Obama recently announced his intent to nominate Director Farmer to serve as a member on the Board of Directors of the National Association of Registered Agents and Brokers (NARAB). Legislation to establish NARAB was signed into law on January 12, 2015 and is an organization with specific authority to oversee insurance producer non-resident licensing and continuing education standards on a national level.

[23] A number of the SCDOI's responsibilities toward the insurance consumers of this state were codified in S.C. Code Ann. § 38-1-110(5)(b) (2014) via the Competitive Insurance Act of 2014.

In 2014, the Resilient America Roundtable, a division of the National Academies of Sciences, Engineering, and Medicine, initiated a pilot program in Charleston. The goal of this program is to facilitate engagement with citizens and decision makers to mitigate risk and build resilience within the community. In July of 2015, SCDOI staff attended an event hosted by the Resilient America Roundtable entitled "The Role of Disaster Insurance in Improving Resilience: An Expert Meeting" in Washington, DC. This conference assembled a group of experts to discuss how insurance can help promote resilience to flooding and earthquakes.

A. Annual Public Hearing

As a part of the overall reforms included in the Omnibus Act in 2007, the duties of the Director of Insurance were amended to add a provision requiring the Director to hold an annual public hearing relating to the South Carolina Wind and Hail Underwriting Association in a location within one of the eight coastal counties that make up the "seacoast area." The Competitive Insurance Act of 2014 updated this requirement to ensure that publicizing this hearing may be accomplished through a variety of mediums.

The 2015 annual public hearing was held on May 28, 2015 at The Citadel in Charleston, South Carolina. In keeping with prior practice, the agenda typically covers a variety of subjects relative to coastal property insurance in addition to specifically addressing the status and hearing public input relating to the SCWHUA. The 2015 public hearing began with an educational program and a forecast for the upcoming year. Dr. Paul Gayes, Palmetto Professor of Marine Sciences and Geology at Coastal Carolina University, provided the forecast for the upcoming storm season. The agenda also included presentations from Smitty Harrison (Executive Director of the SCWHUA), Maria Cox-Lamm (Director of the State Flood Mitigation Program with the South Carolina Department of Natural Resources), Rob Rogerson (Flood Plain Manager for the Town of Mt. Pleasant), Cindy Chitty (South Carolina Department of Revenue), and Ray Farmer (Director of the SCDOI). The meeting concluded with a question and answer session in which consumers were invited to ask the panel questions regarding insurance, flood perils and other risks, mitigation measures, and ways that they might prepare their properties for the upcoming storm hurricane season. In addition to SCDOI staff, a number of exhibitors were available to answer questions before and after the hearing.

B. Consumer Focused Initiatives

As both coastal property insurance and exceptional consumer service are priorities to the SCDOI, it responded to ongoing concerns about coastal property insurance by initiating a Market Assistance Program and by implementing additional coastal outreach in 2013. Due to its increasing success, the Market Assistance Program was expanded statewide in 2014 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.

Since 2013, the Market Assistance Program has helped 368 consumers shop the coastal property insurance marketplace and find better coverage, attain more affordable coverage, or become more informed about their risk and the spectrum of insurance costs that the market is currently generating to insure their property. Since the program's inception, the number of consumers helped in this way statewide is 473. Table 4.4 provides a breakdown of the coastal versus non-coastal consumers assisted in 2015.

Table 4.4: SCDOI Market Assistance Program Consumer Requests in 2015

	Number	Percent of Total
Coastal	98	63%
Non-Coastal	58	37%
Total	156	

Source: SCDOI Market Assistance Program

Furthermore, the SCDOI has developed a page on its website (http://doi.sc.gov/599/Market-Assistance) 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 Market Assistance Program. This service is free and allows consumers to make their information available to agents and companies.

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.

The Department's coastal consumer liaison has continued an effort the Department began in 2013 to provide assistance to consumers in their local communities on a regular basis. The towns of Ridgeland and Hardeeville (in Jasper County) have each provided office space, and the coastal consumer liaison has maintained hours twice a month in each location. Biweekly, the SCDOI has sent its coastal consumer liaison to meet coastal property insurance consumers closer to where they live and in a more convenient location for them. In December 2015, the SCDOI announced that this assistance program will be expanded to include office hours at the Hilton Head Island-Bluffton Chamber of Commerce (in Beaufort County) every other week in January and February of 2016. 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. This training was also put to good use during the many consumer outreach events following the October 2015 flooding.

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.[24] 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

[24] S.C. Code Ann. Reg. 69-1 (2001).

the future.[25] 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 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 VI of this report.

1. Mitigation Efforts

With regard to mitigation, the Department continues to implement the SC Safe Home Program and participate in meetings and events focused on mitigation and resilience. On July 29, 2015, the SC Safe Home Program Manager and the Deputy Director for Market and Consumer Services participated in a Disaster Mitigation Assistance Meeting hosted by the Institute for Business and Home Safety (IBHS). The meeting was held at the IBHS multi-peril research facility in Richburg, South Carolina which works to produce mitigation measures for perils such as wind, water intrusion, hail, and wildfire. The meeting brought representatives together from the private and non-profit sector as well as the state, local, and federal levels to discuss the federal mitigation assistance system currently in place and how it could be improved to better assist communities in their pre- and post-disaster mitigation and preparation efforts.

The SC Safe Home Program was featured in a Federal Emergency Management Authority (FEMA) sponsored webinar during the LLS series of free information and educational webinars. The Program Manager presented an overview of the SC Safe Home program in a live online format for webinar participants. For those consumers interested in the discussion, the event was recorded and is available through FEMA.

[25] Bulletin 2014-13, September 25, 2014.

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 4,800 grants totaling more than $20.8 million. Based on program data, the average year built of the homes that are retrofitted is 1982, and the average value of homes receiving the grant award is $136,481; by comparison, the median home value in South Carolina is $133,500. The program awarded 678 grants worth $3,141,189 in 2015 compared to 797 grants for $3,753,042 in 2014. In 2015, roughly 41% of award recipients qualified as low-income applicants based upon the U.S. HUD Median Income Guidelines.

Table 4.2: 2015 SC Safe Home Grants Awarded by County

County	Grants	Awards
Beaufort	16	$75,850
Berkeley	91	$432,358
Charleston	156	$729,559
Colleton	10	$46,624
Dorchester	59	$317,438
Florence	0	$0
Georgetown	45	$212,407
Horry	291	$1,278,175
Jasper	2	$7,646
Marion	2	$10,000
Williamsburg	6	$31,132
2015 Total	678	$3,141,189

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 152, 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 4.3: SC Safe Home Approved Contractors and Inspectors

Location	Contractors	Inspectors
Greater Myrtle Beach Area	39	26
Greater Charleston/Berkeley Area	39	31
Greater Beaufort/Jasper Area	5	7
Other Areas	3	2

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, 95% of the SC Safe Home grantees have selected to retrofit their roof with grant funds. Additionally, homeowners that have selected to replace their windows with impact resistance systems and hurricane shutters through SC Safe Home have reported savings of up to 29% on their energy costs. Structures retrofitted through SC Safe Home are more attractive risks to insurance companies. Homeowners are reporting premium reduction savings of up to 24% from their insurance carriers. According to a report by the Multihazard Mitigation Council on behalf of FEMA, society saves $4.00 in potential losses and reconstruction costs for every $1.00 spent on mitigation.[26] 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 $83.2 million.

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

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.

2. Third Annual Hurricane Expo

Over the last three years, the Department has partnered with Home Depot and Channel 2 (WCBD-TV) in Charleston to host a hurricane expo to kick off the hurricane season. The third annual hurricane expo was held on May 30, 2015 at the Home Depot on Magwood Drive in Charleston. With dozens of exhibitors participating, consumers had an opportunity to speak with experts about hurricane preparedness, property insurance, flood insurance, roof retrofits, opening protection, the SC Safe Home program, and a variety of related topics. Consumers from nearby communities enjoyed a day of education and fun activities, complete with giveaways and prizes, as a part of this program that focuses on bringing attention to preparedness and mitigation at the beginning of the annual hurricane season.

3. Catastrophe Savings Account

One of the many consumer-based initiatives included in the Omnibus Act is the creation of catastrophe savings accounts (CSAs).[27] 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.

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

4. State Income Tax Credits for Fortification Measures

As a market-based approach to reform, a primary focus of the Omnibus Act is consumer-based initiatives aimed at proactively preparing for the possibility of a hurricane or catastrophic event occurring. Several of these are in the form of tax incentives for fortifying one's legal residence. A state income tax 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.[28] This credit applies to items such as labor and materials but is not applicable to ordinary repair or replacement expenditures. The fortification measures tax credit for any taxable year is limited to $1,000 or 25% of the total costs incurred, whichever is less. A second state income tax credit is offered for retrofit supplies and is in addition to the fortification measures tax credit.[29] 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 4.4: 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
2014	159	$178,960
Total	**1,122**	**$1,289,585**

Source: SC Department of Revenue

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

C. Coastal Property Writers

The SCDOI's efforts to recruit new insurers to the state while simultaneously working with existing markets to provide coastal 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 30 new companies to write coastal property insurance coverage.

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.[30] The amount of the credit taken by companies was $69,692 in 2014, $63,734 in 2013, and $50,576 in 2012.[31] The effects of the entry of new admitted market carriers, together with the premium tax credit incentive and growth in the Excess and Surplus Lines market, provide for greater availability of coastal property insurance for South Carolina property owners.

An example of the impact of these efforts can be seen through the growth in new personal lines property insurance programs that have been implemented by newly licensed and existing companies. In 2015, the Department's Office of Market Services approved rates, rules, and policy forms filings for over a dozen new programs. While many of these programs indicated plans to write coverage along the coast, the following five companies indicated that they intended to specifically target coastal business:

- Safe Harbor Insurance Company (Homeowners Program)
- RLI Insurance Company (Condominium Program)
- Federated National Insurance Company (Owner Occupied Homeowners, Tenant, and Condominium Programs)
- Gulfstream Property and Casualty Insurance Company (Owner Occupied Homeowners, Tenant, and Condominium Programs)
- Spinnaker Insurance Company (Homeowners Program)

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,

[30] S.C. Code Ann. § 38-7-200 (2014).
[31] 2015 data will not be available until mid-2016.

and not become the primary market for property insurance. Having a healthy voluntary market also requires that exposure be spread among many carriers as opposed to it being concentrated in a small number of companies.

V. October 2015 Severe Storms and Flooding

As previously discussed, the State of South Carolina experienced an historic event in October 2015. In preparation for the potential for catastrophic rainfall and flooding, Governor Haley issued Executive Order 2015-21 declaring a state of emergency effective October 1, 2015. The following day, the South Carolina Emergency Management Division (SCEMD) announced that the State Emergency Operations Center (SEOC) in West Columbia would be operating on a 24-hour schedule for the duration of the incident, noting that forecasters with the National Weather Service were predicting a record amount of rainfall throughout much of South Carolina, creating the conditions for flash flooding.[32]

At the Governor's request, President Obama issued an Emergency Declaration for Direct Federal Assistance[33] for South Carolina on October 3, 2015, which activated federal resources to support state and local efforts to protect the public during the storm and recovery. On that same day, SCEMD announced that it had increased the state's operating condition to level one (OPCON 1), which is the highest of the five operational classifications and indicates that a disaster or emergency situation is in effect and full emergency operations are ongoing. This emergency status persisted for 10 days[34] before the state began transitioning its focus to short- and long-term recovery efforts.

As of January 15, 2015, 51 roads and bridges remained closed due to the October flooding. This is much lower than the peak closure of 541 roads and bridges in the state. The final repair cost is estimated to be $137 million.[35]

The SCDOI is assigned to the Business and Industry Emergency Support Function (ESF-24) under the state's Emergency Operations Plan.

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[32] http://www.scemd.org/component/content/article/21-home-page/public-information/219-hurricane-joaquin

[33] FEMA Emergency Declaration FEMA-3373-EM-SC

[34] On October 12, 2015, SCEMD announced that the South Carolina Emergency Response Team would begin transitioning the state's emergency operational status to level 3 (OPCON 3), which is the third lowest of five operational conditions and allows state agencies to continue actively monitoring potential effects from the historic flooding, while supporting local governments and residents in ongoing recovery efforts. (http://www.scemd.org/component/content/article/21-home-page/public-information/219-hurricane-joaquin) S.C. Code Ann. §38-3-410 et. seq. (2014)

[35] "Infrastructure Recovery Monthly Report," South Carolina Department of Transportation, January 15, 2016.

A. Emergency Protections for South Carolina Insurance Consumers

Pursuant to the emergency powers granted to the Director of Insurance as a part of the 2007 Omnibus Act reforms,[36] the Governor's declaration empowered the Director to issue temporary, standardized requirements to help facilitate the state's recovery and protect insurance consumers. On October 8, 2015, the Department issued Emergency Regulation 69-77; the next day, the SCDOI issued Emergency Order No. 2015-EO-001 to implement the provisions of the Emergency Regulation.

Emergency Regulation 69-77 imposed restrictions on cancellations and nonrenewals of insurance coverage and provided for grace periods to give insureds additional time to pay premiums, among other things. The regulation's protections extend to all lines of insurance and all persons licensed by the SCDOI or authorized by South Carolina law to transact the business of insurance in this state; the only exception is workers' compensation insurance. All regulated individuals and entities were required to implement these protections for all counties that were declared for Individual Assistance in the federal disaster declaration as originally issued and subsequently amended. In total, these protections were extended to South Carolina insureds in the following 24 counties (in order of designation for Individual Assistance):

- Charleston, Dorchester, Georgetown, Horry, Lexington, Orangeburg, Richland, and Williamsburg (Major Disaster Declaration FEMA-4241-DR-SC, 10/05/2015)
- Berkeley, Clarendon and Sumter (Amendment No. 1, 10/06/2015)
- Calhoun, Darlington, Florence, Kershaw and Lee (Amendment No. 2, 10/07/2015)
- Bamberg, Colleton and Greenwood (Amendment No. 3, 10/09/2015)
- Newberry (Amendment No. 4, 10/13/2015)
- Fairfield and Marion (Amendment No. 7, 10/20/2015)
- Greenville and Spartanburg (Amendment No. 11, 10/27/2015)

B. Regulatory Actions to Expedite Claims Process

According to SCDOI data, approximately 2,800 adjusters and motor vehicle physical damage appraisers were licensed in the state prior to the October Flood. Following a catastrophic event, the SCDOI must ensure that there are adequate resources on the ground in order to respond to and process insurance claims. As such, the SCDOI took action to ensure that insurance companies could activate additional adjusters and appraisers to assist in the recovery.

[36] S.C. Code Ann. §38-3-410 et. seq. (2014)

On October 5, 2015, the SCDOI issued Bulletin 2015-05 to permit emergency insurance adjusters to enter the state in order to expedite the claims handling process. In the first five days after the bulletin's issuance, over 365 new adjusters were authorized to enter the state to respond to insurance claims.

As a part of Emergency Regulation 69-77, the Director determined that the licensure of temporary motor vehicle physical damage appraisers may be necessary because of the significant losses resulting from this event. The SCDOI subsequently issued Bulletin 2015-06 to provide for the emergency licensure of motor vehicle physical damage appraisers to assist with the evaluation of claims resulting from this catastrophic event. By mid-October, the SCDOI had authorized an additional 553 adjusters and appraisers from out of state. As of December 30, 2015, a total of 723 permits had been issued for emergency adjusters and appraisers.

C. Insurance Claims

1. SCDOI Data Call for Catastrophe Claims Information

The SCDOI issued a data call on October 13, 2015 requiring all authorized property and casualty insurance companies, including licensed insurers, eligible surplus lines insurers, and companies that write private and/or excess flood insurance coverage to periodically submit data relating to the claims that were filed following the October 2015 Flood. Lines of business highly unlikely to have claims directly resulting from the flooding (e.g., life and health, medical malpractice, workers compensation, etc.) were excluded from the data call. This data call was subsequently extended on January 5, 2016 and will continue until 95% of claims industrywide are closed for all lines of business subject to this data call.

In an effort to reduce the reporting burden on insurers, the SCDOI utilized the data call that was utilized by state departments of insurance in the Northeast following Superstorm Sandy. The SCDOI also coordinated this reporting with the National Association of Insurance Commissioners and leveraged their technical resources for aggregation of the submissions.

The latest data call submissions contain information on claims associated with the October 2015 Flood as of December 30, 2015, which are aggregated below in Table 5.1.

Table 5.1: Insurance Claims Related to October 2015 Flooding (Data as of 12/30/2015)

Line of Business	# Claims Reported	Paid Losses	Case Incurred Losses	% of Claims Closed with Payment	% of Claims Closed Overall
Residential Property	39,048	$62,854,287	$70,364,855	42.7%	90.2%
Commercial Property	2,794	$12,899,744	$80,359,030	17.6%	64.2%
Personal Auto	15,817	$75,682,553	$73,258,501	61.3%	78.0%
Commercial Auto	329	$4,994,807	$5,589,009	54.7%	72.0%
Business Interruption	173	$839,793	$1,748,969	14.5%	64.7%
Flood	470	$3,858,619	$8,069,108	40.4%	72.6%
All Other Lines	2,813	$6,542,396	$18,534,734	33.8%	59.7%
Totals	**61,444**	**$167,672,200**	**$257,924,205**	**45.9%**	**84.2%**

Source: SCDOI Data Call

Below are explanations for each of the column headings in the Table 5.1:

- *# Claims Reported* – total number of claims (losses) filed with insurance companies that are related to this event, regardless of whether they are still open or if they have been closed
- *# Claims Closed with Payment* – those claims that have been finalized and resulted in a payment to the policyholder or third-party claimant for all or some of the losses
- *# Closed without Payment* – those claims that have been finalized with no payment issued*
- *Paid Losses* – dollar amount of claims payments made by insurance companies to policyholders and third-party claimants
- *Case Incurred Losses* – dollar amount already paid out by insurance companies plus the amount these companies expect to pay out on claims that are still open (excluding loss adjustment costs)
- *% of Claims Closed with Payment* – those claims that have been finalized and resulted in a payment to the policyholder or third-party claimant for all or some of the losses expressed as a percentage of the total number of claims (losses) filed
- *% of Claims Closed Overall* – those claims that have been finalized – with or without payment – as a percentage of the total number of claims (losses) filed

2. National Flood Insurance Program Claims

As discussed at length in the Flood Insurance section of this report, most property insurance policies exclude flood insurance; the majority of insurance consumers that purchase flood insurance do so through the National Flood Insurance Program (NFIP), which is overseen by FEMA. The SCDOI worked closely with FEMA and the NFIP throughout this catastrophic event and continues to do so today. As a part of those efforts, the SCDOI asked FEMA to host a training session for staff in the SCDOI Office of Consumer Services so that they would be able to better assist consumers with NFIP claims. That training session was held on Thursday, October 22, 2015.

Additionally, the SCDOI requested that the NFIP share its claims information with our agency. Since early October, the NFIP has been sending regular reports of NFIP claims activity to the SCDOI so that the SCDOI is better able to monitor the development of claims associated with this event across the entire insurance industry.

One benefit of the above coordination and oversight of NFIP claims resulted in an extension of the proof of loss deadline for NFIP claims. A standard NFIP policy requires that an insured submit proof of loss documentation within 60 days of the date of loss. That 60 day period was set to expire around December 1, 2015. At the request of the Director of Insurance, FEMA issued a memorandum on November 18, 2015 extending the deadline by 60 days (to a total of 120 days) in an effort to provide affected NFIP policyholders with sufficient time to make their claims. As a result, NFIP policyholders have until the end of January 2016 to send insurers a complete, signed, and sworn-to-proof of loss for claims stemming from the October 2015 Flood.

Similar to the commercial insurance industry's experience, NFIP claims are continuing to be adjusted and have not fully developed. The NFIP claims estimates as of December 31, 2015 are detailed in Table 5.2 below.

Table 5.2: NFIP Claims Related to October 2015 Flooding in South Carolina (Data as of 12/31/2015)

# Claims Reported	Paid Losses	% of Claims Closed with Payment	% of Claims Closed Overall
5,037	$106,007,709	64.2%	86.3%

Source: NFIP

When combining the above NFIP data with the claims information from the SCDOI's data call, as of the end of 2015, insurers have paid in excess of $273 million under insured losses resulting from the October 2015 Flood. As outstanding claims are closed, this number is expected to continue to develop and will be updated accordingly in the next annual report.

D. Consumer Education and Assistance

1. Catastrophe Claims Centers

In an effort to assist consumers in filing their insurance claims, the SCDOI hosted Catastrophe Claims Centers in the days following the October 2015 flooding. Given the particularly devastating impact of the storms and flooding in Columbia, the first Catastrophe Claims Center was held over two days in Columbia. The Columbia event, which was held in the parking lot of the Shoppes at Woodhill on Garners Ferry Road on Wednesday, October 7, 2015 and Thursday, October 8, 2015, provided 13 hours of on-site assistance for local communities. In less than 48 hours, the SCDOI was able to secure on-site representation by the NFIP/FEMA, brought in catastrophe claims teams from the top auto and homeowners insurers, including Allstate, Nationwide, USAA, South Carolina Farm Bureau, and State Farm, and leveraged its relationship with the United Way to help secure a location suitable for the event.

Following the success of the Columbia event, the SCDOI scheduled a second Catastrophe Claims Center for the following week in North Charleston. On Wednesday, October 14, 2015, the SCDOI was joined by the City of North Charleston and Senator Marlon Kimpson as co-hosts for a Catastrophe Claims Center at the North Charleston Coliseum and Convention Center.

Over 200 consumers took advantage of these opportunities to talk face-to-face with representatives from the NFIP, FEMA, their insurance company, and state agencies about their losses, how to request individual assistance, and their insurance claims.

In addition to hosting Catastrophe Claims Centers, the SCDOI participated in over a dozen events across nine counties in the three weeks following the flood. These include:

- Town Hall Forum, Forest Lake Presbyterian Church, Columbia (10/13/15)
- Disaster Assistance Forum, Columbia Convention Center (10/14/15)
- Team South Carolina: Sumter County, Sumter Civic Center (10/16/15)
- Sumter County Legislative Delegation Flood Forum, 21 North Main Street, Sumter (10/19/15)
- Team South Carolina: Richland County, Temple of Faith Church, Columbia (10/20/15)

- Support Lake City, Florence County EMD (10/21/15)
- Team South Carolina: Orangeburg/Calhoun Counties, Orangeburg YMCA (10/23/15)
- City of Columbia Flood Recovery Meeting (10/23/15)
- Team South Carolina: Williamsburg/Florence Counties, 2086 Thurgood Marshall Highway, Kingstree (10/26/15)
- Team South Carolina: Clarendon County, Clarendon County Community Center (10/26/15)
- Clarendon County Community Meeting, Manning High School (10/27/15)
- Team South Carolina: Dorchester/Berkeley/Charleston Counties, Goose Creek Community Center (10/28/15)
- Kershaw County Community Meeting, Lugoff Fire Department (10/28/15)
- Team South Carolina: Georgetown/ Horry Counties, Beck Recreation Center (10/30/15)

2. Consumer Outreach

The SCDOI's outreach efforts began before the flooding started. In the days leading up to the flooding, the SCDOI began posting pertinent information to social media (i.e., Facebook and Twitter), published a consumer guide relating to flood insurance coverage and issued a second document with tips for consumers relating to the insurance claims process, and participated in a WIS Phone Bank and live interview during the 5:00 p.m. news hour on Friday, October 2, 2015 to highlight preparedness and insurance coverage differences between homeowners and flood insurance policies.

In the immediate aftermath of the flooding, the SCDOI opened its Office of Consumer Services despite state government closures to ensure consumers affected by this event (and those with other insurance issues or questions) could get help and answers to their questions. The SCDOI also created a dedicated webpage (http://www.doi.sc.gov/858/October-Flood-2015) on its website to aggregate all flood-related content and provide links to other important resources so consumers would have a one-stop shop for information.

In the following weeks and months, the SCDOI continued to create new content and provide up-to-date information through a variety of channels for impacted consumers. New consumer materials published or updated included the following:

- Flooding: Know Your Coverage, Understand Your Risk (10/1/15)
- Making the Claims Process Easier: What Consumers Should Know When Faced with a Loss (10/2/15)
- List of Claims #s for Insurance Companies (10/6/15)
- FAQs: Weather Related Damage about Flood Insurance, Homeowners Insurance, and Automobile Insurance (10/6/15)

- Don't Let Yourself Be Victimized Twice - Be Aware of Fraud and Other Scams (10/19/15)
- Used Car Buyers: Beware of Flood-Damaged Vehicles (10/20/15)

In total, SCDOI staff has logged nearly 250 hours of overtime and compensatory time spent working on flood related activities.

VI. 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.[37] 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.

[37] S.C. Code Ann. § 38-75-1140 (2014).

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. In 2015, the SCDOI reviewed AIR Worldwide's updated Atlantic Tropical Cyclone Model version 14.1.0 and approved it for use.

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.[38]

[38] 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.[39]

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.

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

VII. 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. Although Congress and FEMA intended that the NFIP be funded with premiums collected from policyholders and not with tax dollars, the program was, by design, not actuarially sound. As of December 31, 2014, FEMA owed the Treasury approximately $23 billion—up from $20 billion as of November 2012. In December 2014, FEMA made a $1 billion principal repayment; this was the first such payment 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.[40]

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 6.1, 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 199,242 policies which insure over $50 billion of property. The NFIP has a total insured value of approximately $1.2 trillion and roughly $3.6 billion in annual written premium.

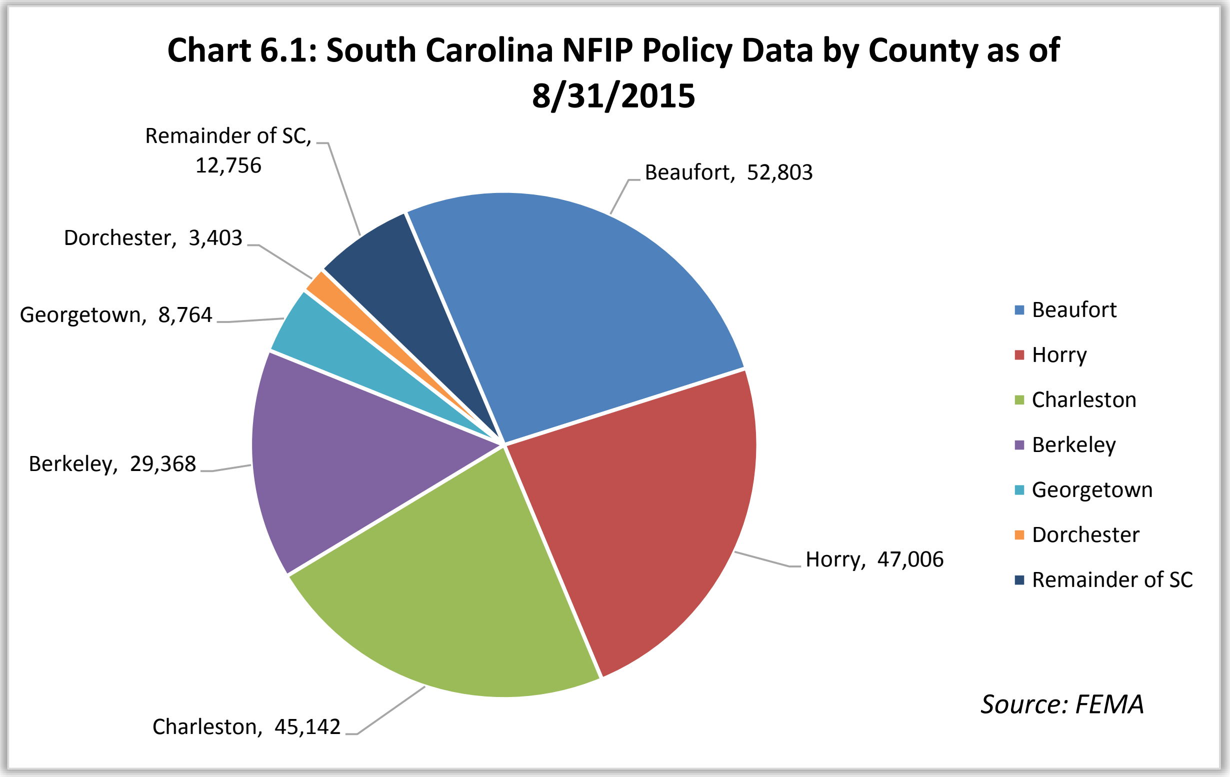
[40] *High Risk Series: An Update*, United States Government Accountability Office, February 2015.

Table 6.1: NFIP Policy Data by State as of 8/31/2015

State	Policies	% of Total Policies	Total Insured Value	% of Total TIV	Written Premium	% of Total Written Premium
FL	1,855,353	36.2%	$442,403,431,000	35.8%	$972,076,650	27.1%
TX	592,272	11.5%	$156,611,925,000	12.7%	$360,692,165	10.1%
LA	456,495	8.9%	$111,349,213,800	9.0%	$353,978,293	9.9%
NJ	237,783	4.6%	$57,418,304,600	4.6%	$235,055,933	6.6%
CA	229,538	4.5%	$62,521,149,100	5.1%	$194,818,754	5.4%
SC	**199,242**	**3.9%**	**$50,748,015,000**	**4.1%**	**$133,049,746**	**3.7%**
NY	194,401	3.8%	$50,602,298,000	4.1%	$208,139,801	5.8%
NC	131,138	2.6%	$31,820,621,200	2.6%	$104,084,014	2.9%
VA	107,972	2.1%	$27,210,342,500	2.2%	$79,782,540	2.2%
GA	90,055	1.8%	$22,821,910,800	1.8%	$67,493,642	1.9%
NFIP Total	**5,131,144**	**100%**	**$1,236,242,741,400**	**100%**	**$3,588,619,797**	**100%**

Source: FEMA

As expected, the bulk of NFIP policies in South Carolina are located in coastal counties. Beaufort, Horry, Charleston, Berkeley, Georgetown, and Dorchester counties account for roughly 94% of South Carolina's NFIP policies and annual written premium; these same counties account for 94% of the total insured value.



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.

To fulfill HFIAA's requirement that it conduct an affordability study of NFIP policies, FEMA requested two reports from the National Academy of Sciences (NAS). The first report discusses policy options and decisions to be made by FEMA as it creates affordability policy alternatives for Congress to consider. The second report outlines how FEMA may cultivate the analytical capability and databases necessary to evaluate affordability policy alternatives. While developing an affordability framework, Congress and FEMA will need decide how to allocate the cost of flood losses. According to the second report, there are several groups that could be impacted in different ways:[41]

- Individual NFIP policyholders – insurance premiums and amounts below deductibles
- Federal taxpayers – federal treasury premium assistance program
- Property owners and floodplain or coastal inhabitants – uninsured or uncompensated losses

D. Residual Flood Market Mechanism Report

In 2014, the chairman of the Insurance Subcommittee of the South Carolina Senate Banking and Insurance Committee asked the SCDOI to study and 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.[42] 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] *Affordability of National Flood Insurance Program Premiums – Report 2*, National Academies of Sciences, Engineering, and Medicine, 2015.

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

VIII. Earthquake Insurance

Although the western United States is more widely known for its exposure to earthquakes, a 2014 report from the United States Geological Survey (USGS) points to increased estimated risk in areas of the eastern and central United States. The USGS report highlights the Charleston, South Carolina seismic zone as an area where earthquake hazard has been raised.[43] The availability of additional and updated data prompted the revision by the USGS. South Carolina is one of 16 states that have been struck by an earthquake of magnitude 6 or greater. As such, the USGS identifies South Carolina as having a relatively high likelihood of experiencing a damaging earthquake within the next 50 years. Charleston's 1886 earthquake is well known and is widely thought to have been of magnitude 7 or greater. There is geological evidence that this was not a standalone event but rather one in a series of recurring quakes every few hundred years. A layer of sand and sediment several kilometers thick covers local faults near Charleston, making it difficult to detect movement.[44]

It is important that policyholders keep all of this information in mind when purchasing insurance coverage for their residential and commercial property. A standard property policy excludes damage resulting from an earthquake. If an insurer offers this coverage, it generally must be added through an optional endorsement. Below are some common characteristics which have an impact on earthquake insurance premiums:

- Location – Being in an earthquake-prone area increases risk of loss
- Age of the Property – Older homes are more likely to be damaged by earth movement
- Construction Type – Earthquake damage varies between frame and masonry (brick) homes
- Amount of Insurance – Higher coverage amounts and insuring to replacement cost as opposed to actual cash value both result in larger premiums
- Deductible – Selecting a smaller deductible decreases the policyholder's out of pocket expenses in the event of a loss but increases the premium charged

[43] "Report: Eastern U.S. at Greater Risk for Earthquakes," usatoday.com, July 18, 2014.
[44] "New Earthquake Maps Show Charleston Still in the Bull's-Eye on East Coast," postandcourier.com, July 17, 2014.

IX. Conclusions

In summary, the South Carolina coastal property insurance market is stable. The SCWHUA's overall trend of decreasing premiums, policies, and exposure continued in 2015. The companies in the admitted market reporting in the SCDOI's data call experienced a reduction in personal lines policies in-force and a small increase in commercial lines policies in-force. The overall combined change for the reporting companies and the SCWHUA was a decrease, which is likely due in part to an increased appetite for coastal property risk from both new market entrants and Excess and Surplus Lines carriers. As previously discussed, the SCDOI Wind Pool data call does not provide a complete picture given its limited scope to only licensed (admitted) carriers writing above a certain premium threshold.

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.

X. Recommended Enhancements and Modifications

The ultimate solution to coastal property insurance issues is to build stronger structures that are better able to withstand hurricane damage. This, combined with proper land usage regulations, will create the needed long-term solution. In the short-term, efforts should be made to educate consumers on mitigation and retrofitting measures as well as encourage consumers to actively shop for insurance coverage. Accordingly, the Department recommends the following items to provide both long-term and short-term solutions:

- The State should continue to encourage mitigation and better land use planning so as not to increase the state’s exposure to hurricane and flood losses. South Carolina has a substantial amount of property exposed to significant hurricane risk. Mitigation, coupled with better land use planning, could help reduce the loss of South Carolina property and lives.
- The State should continue to strengthen statewide building codes and mandate training for building code inspectors and for contractors working in the construction and home improvement industry. Counties most prone to hurricane damage should be encouraged to consider adopting code-plus building techniques. Additionally, mechanisms should be put in place to encourage use of and education on IBHS’s FORTIFIED programs as well as standards set forth by the Federal Alliance for Safe Homes (FLASH).
- The State should codify the expansion of the SCWHUA territory as initially provided for in SCDOI Order 2007-03. Currently, this expansion is temporary and must be renewed every two years via an order from the Director. The expansion orders of 2007 have worked well to stabilize the coastal property insurance marketplace. The South Carolina General Assembly has already taken action to incorporate the initial expansion (SCDOI Order 2007-01) into the State Insurance Code. Over time, it has become evident that the second expansion should likewise be incorporated into the State Insurance Code.
- The State should encourage financial institutions to promote Catastrophe Savings Accounts to their customers. The money put into these accounts and the annual interest earnings are not subject to state income taxation. The State should further encourage our Congressional delegation to promote the expansion of this incentive to apply to federal income taxation as well.
- The State should consider offering a sales tax holiday prior to hurricane season for hurricane supplies such as flashlights, generators, storm shutters, emergency radios, batteries, and similar supplies. This will focus the public's attention on the need to be ready for a possible natural disaster.

XI. Appendix

1. *Affordability of National Flood Insurance Premiums – Report 1*, National Academies of Sciences, Engineering, and Medicine, 2015.
   https://www8.nationalacademies.org/cp/projectview.aspx?key=49584
2. *Affordability of National Flood Insurance Premiums – Report 2*, National Academies of Sciences, Engineering, and Medicine, 2015.
   https://www8.nationalacademies.org/cp/projectview.aspx?key=49584
3. 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
4. FEMA Memorandum W-15060 (Notice of the Limited Waiver of the SFIP to Extend the Time for Sending Proofs of Loss)
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