BEFORE THE STATE OF SOUTH CAROLINA DEPARTMENT OF INSURANCE

IN THE MATTER OF:)	DECISION AND ORDER
)	No. 2007-001
THE TEMPORARY EXPANSION OF THE)	
SOUTH CAROLINA WIND AND HAIL)	
UNDERWRITING ASSOCIATION TO PROVIDE)		
ESSENTIAL PROPERTY COVERAGE TO)	
AREAS WITHIN THE SEACOAST TERRITO	ORY)	

This matter relates to the determination of whether the South Carolina Wind and Hail Underwriting Association (hereinafter referred to as "Wind Pool") should be temporarily expanded to provide essential property insurance coverage to areas within the seacoast area¹ of South Carolina in accordance with the requirements of § 38-75-460.² Section 38-73-1120 requires the Department to issue a report regarding the cause and potential solutions to coastal insurance issues.³ The Department's report issued in January 2007 is attached to this order as Exhibit 1. This order is based, in part, upon the findings, analyses and conclusions reached in that report as well as consumer complaints about availability of essential property insurance and supplemental information.

FINDINGS

After considering the results of the Coastal Property Insurance Data Call, current market conditions, consumer complaints and requests for assistance, and the Department's analysis and review of the other pertinent information, I find and conclude as follows:

- 1. Essential property insurance is not available on a reasonable basis through normal channels⁴ for all consumers within the seacoast area.
- 2. As was evident with the 2006 hurricane season, the risk of loss from hurricanes like Katrina or a mega catastrophe has changed the insurance environment in all coastal states

¹ The South Carolina Code defines "seacoast area" as all areas within Horry, Georgetown, Berkeley, Charleston, Dorchester, Colleton, Beaufort, and Jasper Counties. *See* S.C. Code Ann. § 38-75-310 (2002).

² See S.C. Code Ann. § 38-75-460 (Supp. 2006).

³ S.C. Code Ann. § 38-73-1120 (Supp. 2006).

⁴ The phrase "through normal channels" means the licensed admitted market.

around the country, including South Carolina. Insurers have not increased the number of policies written in the seacoast areas of South Carolina relative to the demand. While there are indications that the property market is improving slightly, there remain areas within the coastal regions of this state where property insurance is not readily available due to the lack of capacity of insurers within the admitted market. The reasons for the restriction in capacity include: insufficient surplus to support current writings due to more stringent requirements by rating agencies, the effect of new catastrophe modeling, and forecasting of more frequent and severe storms due to climactic changes.

- 3. Some insurers' total Probable Maximum Loss (PML) is impacting a significant portion of their surplus, which potentially exposes them to the risk of insolvency. According to the data received, some insurers have: 1) ceased writing insurance in the coastal markets of this state; 2) tightened their underwriting so they are writing fewer risks; or 3) redefined the coverage in property and casualty policies to better control their catastrophe exposure risk. Insurers' attempts to better manage or control their PMLs have caused constriction in the property insurance market.
- 4. Insurers have also attempted to manage claims costs by removing or narrowing coverage and by increasing policyholder deductibles. The current trend nationally is for insurers with significant hurricane exposures to exclude wind coverage from their property policies. South Carolina law permits insurers to exclude the wind in the coastal area covered by the Wind Pool. The Department has received information from producers that indicates insurers in both the admitted and eligible surplus lines market are either excluding wind on policies they write within the wind territory or increasing hurricane or wind deductibles. Some insurers have increased the base deductible of the policy from a flat amount such as \$500 or \$1,000 per loss to a percentage of the amount of insurance on the property (or its value) for all losses, or a percentage deductible for certain named perils, such as windstorm or water damage.
- 5. Consequently, insurance is not readily available within the admitted market and some consumers must access residual market mechanisms or the eligible surplus lines market in order to obtain property insurance. The cost of coverage, especially through the surplus lines market, has increased significantly for some consumers. Others simply cannot afford it. Thus, there are consumers in this state who are opting to forego property insurance coverage altogether.

- 6. Moreover, the data received by the Department of Insurance indicates an increase in premium growth within the coastal counties of this state. The increase in premium growth, however, is directly related to an increase in rates, not policy counts. Rates have increased because property values and the cost to replace and/or repair property has increased. Construction costs in the coastal counties have increased significantly in the last few years. According to some information received, the average cost of a single family residence in the coastal counties of South Carolina is approximately \$300,000. A \$300,000 house constructed in Horry County in 2001 would be worth \$ 392,000 in 2006 representing a 30% average increase. This is significant because losses (i.e., claims) account for more than \$60 of every \$100 of homeowners insurance premium earned.
- 7. The average insurance premium in South Carolina has increased 63% over the past five years while the number of personal lines policies in force has only increased by 3% overall. Following the 2004-2005 hurricane seasons, the policy count increased 3% whereas it had increased 5% (2001-02) and 8% (2003-04) in prior years. Additionally, the population in the coastal counties of South Carolina has increased 33% since 1980. It is estimated that over one million people live along South Carolina's coast.
- 8. Dr. William Gray of Colorado State University's Department of Atmospheric Science predicts that there is a 40% chance of a major hurricane hitting the East Coast during the 2007 Hurricane Season. For South Carolina's coastal property owners, hurricane or wind exposure is the most significant risk of catastrophic loss.
- 9. Due to the risk of catastrophic exposure, some admitted insurers are unwilling and unable (due to a lack of capacity) to write the wind coverage at any price. Several insurers have ceased writing new coastal business outside of the coastal area and some have non-renewed a significant portion of their existing policies. Other insurers have indicated that they have increased or will increase the amounts of hurricane deductibles.
- 10. It is evident that the number of policies being written along the coast by the admitted market is not increasing at the same rate as new home ownership or increases in the coastal population. Allstate non-renewed 12,000 policies and is threatening to non-renew additional policies. State Farm non-renewed 1,000 policies along the barrier islands. South Carolina Farm Bureau also non-renewed 3,000 policies in the coastal area. As a result, there is an

imbalance between the supply of homeowners and commercial property and casualty insurance coverage within the admitted market and consumers' demand for such coverage.

- 11. The South Carolina Wind and Hail Underwriting Association (the Wind Pool) writes wind-only coverage in a narrow territory defined by § 38-75-310 (the coastal area). In the event coastal property insurance is not available on a reasonable basis through normal channels, the Director may temporarily expand the territory covered by the Wind Pool for twenty-four months.
- 12. The 2007 hurricane season is approaching, and another busy season has been predicted. Expansion of the territory covered by the Wind Pool is necessary to provide access to consumers who still have problems finding essential property insurance coverage in the admitted market. It should also help prevent market disruptions in the areas with the most significant hurricane exposure. The expansion will serve as a needed safety net for South Carolina consumers who may be unable to obtain property insurance coverage within the admitted market

CONCLUSION

Based upon the foregoing, it is ordered that effective March 30, 2007:

- 1. The Coastal Area plus the expanded territory are defined as follows:
- (a) all areas in Beaufort County and Colleton County which are east of the west bank of the intracoastal waterway;
- (b) the following areas in Georgetown County: all areas between the Harrell Siau Bridge and the Georgetown Horry County border which are east of a line paralleling U.S. Highway No. 17, and Cedar Island, North Island, and South Island;
- (c) all areas in Horry County east of U. S. Highway No. 17 or By-Pass 17, whichever is further west;
- (d) the following areas in Charleston County: Edisto Island, Edingsville Beach, Kiawah Island, Botany Bay Island, Folly Island, Seabrook Island, Morris Island, and all areas north of the city of Charleston which are east of the west bank of the intracoastal waterway, and the following areas:
 - (1) The portion of James Island which is east of the west bank of the James Island Creek.

- (2) The portion of John's Island which is east of a line paralleling Exchange Road which becomes Plow Ground Road to Hoopstick Island Road to Church Creek.
- (3) The portion of Wadmalaw Island which is east of a line paralleling Roseville Road to west of Cherry Point Road to Maybank Highway to Brigger Hill Road.

Zone 1 shall be defined as:

- A. All areas in Beaufort County and Colleton County which are east of the west bank of the intracoastal waterway;
- B. The following areas in Georgetown County: all areas between the Harrell Siau Bridge and the Horry County-Georgetown border which are east of a line east of U.S. Highway No. 17 Business, and Cedar Island, North Island, and South Island;
- C. All areas in Horry County east of a line east of U. S. Highway No. 17 Business;
- D. The following areas in Charleston County: Edingsville Beach, Kiawah Island, Botany Bay Island, Folly Island, Seabrook Island, Morris Island, and all areas north of the city of Charleston which are east of the west bank of the intracoastal waterway.

Zone 2 shall be defined as the Coastal Area, not including Zone 1 with the exception of: a) in Horry County the area lying between U.S. Highway No. 17 Business and a line paralleling and lying 150 feet east of U.S. Highway No. 17 Business; b) in Georgetown County the area lying between U.S. Highway No. 17 Business and a line paralleling and lying 150 feet east of U.S. Highway No. 17 Business. Additional expansion will continue to be analyzed while the initial expansion is implemented. Maps of the Wind Pool territory are attached as Exhibit 2.

- 2. The proposed expansion shall be planned and implemented so as not to compete with the admitted market. The Wind Pool shall develop and submit to the Department a plan for approval of a multi-tiered rating based upon territory which reflects the relative risks of the properties located in the respective area.
- 3. Inasmuch as this is the initial, temporary and limited expansion of the territory covered by the Wind Pool, the "seacoast area" will be considered a separate territory from the coastal area for ratemaking purposes. The same rate will be used initially for all areas. However, the Wind Pool must develop rates commensurate with the risk of the properties for Zone 2 using acceptable models.
- 4. This order will continue in effect until March 29, 2009 unless otherwise vacated or superseded by a subsequent order issued by the Director.

IT IS SO ORDERED.

Scott H. Richardson

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Director

March 21, 2007 Columbia, South Carolina



