# South Carolina Property Insurance

Derek Chapman, FCAS, MAAA

South Carolina Department of Insurance
Coastal Property Insurance Information Session
May 9, 2013
Charleston, South Carolina



What does it cover?

- ➤ Non-Catastrophe Losses
  - Fires, Lightning, Wind/Water
  - Crime, Liability



### What does it cover?

➤ Non-Catastrophe Losses

### ➤ Non-Hurricane Catastrophe Losses

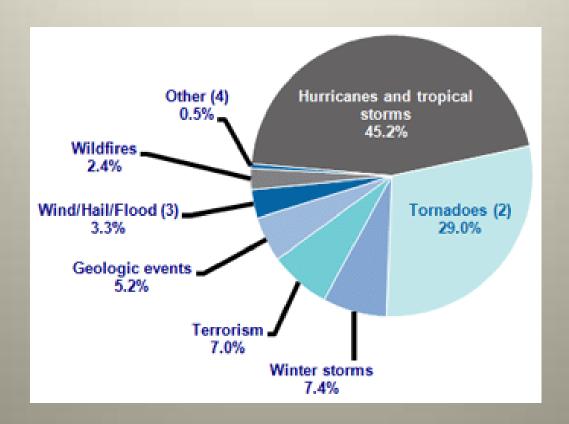
- Severe Storms, Tornado, Tropical Storm
- Wildfire, Winter Storm, Terrorism
- Flood or Earthquake not in base policy



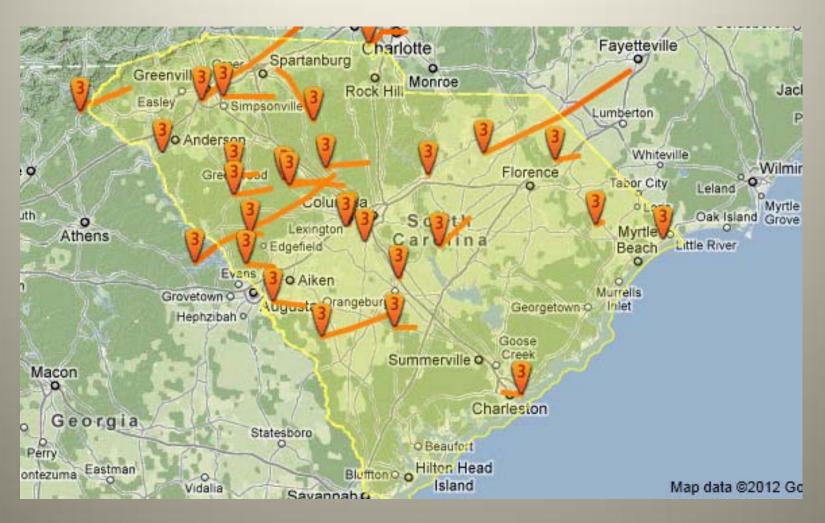


## Summary of U.S. Catastrophe Losses

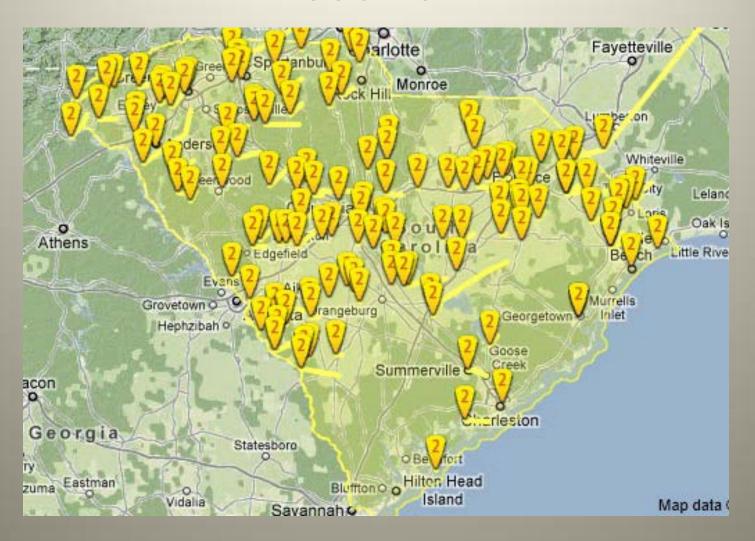
Inflation-Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990-2009



## South Carolina F3 Tornadoes 1950-2011



## South Carolina F2 Tornadoes 1950-2011



### What does it cover?

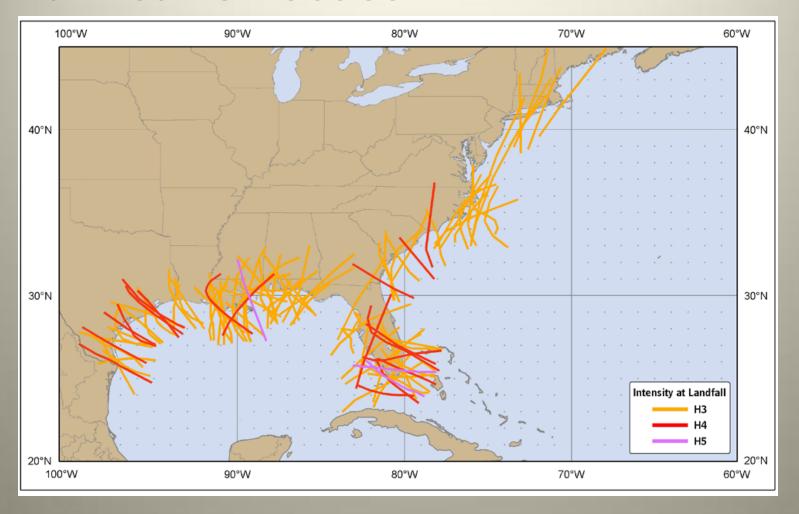
- ➤ Non-Catastrophe Losses
- ➤ Non-Hurricane Catastrophe Losses

### > Hurricane Losses

- Retained by Company
- Financing Cost



### **Hurricane Losses**



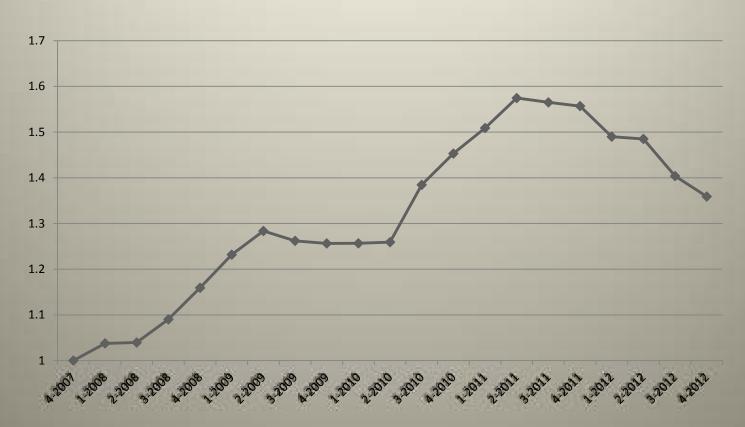
Category 3 or higher hurricane strikes; 1851 to 2010. (National Hurricane Center)

### How are rates calculated?

- ➤ Non-Catastrophe Losses
  - Five Years of Premium and Loss experience
  - ➤ Rates vary by location, physical characteristics of the home
  - > Relatively stable cost estimates year to year
  - Cost increases driven by inflation and changes in claim reporting

### Non-Catastrophe Losses

## South Carolina Homeowners Insurance Change in Average Non-Catastrophe Loss Per Policy 2007-2012



Source: Insurance Services Office, Inc.

### How are rates calculated?

- ➤ Non-Hurricane Catastrophe Losses
  - > 20 or more years of claims experience
  - Usually loaded into rates on a statewide basis
  - Relatively stable cost estimates year to year
  - Some perils can be estimated by using simulation models instead of loss experience
  - Cost increases driven by frequency and severity of storms

### How are rates calculated?

- > Hurricane Catastrophe Losses
- Extremely low number of occurrences
- Extremely high average losses per hurricane occurrence
- Use Hurricane Loss Simulation Models to estimate losses
- Changes in estimated hurricane losses occur based on model updates, changes in exposure

### Reinsurance

### Why Reinsurance is needed:

- > 2012 SC Homeowners Premium: \$1.4 billion
- ➤ Hugo Insured Loss in 2012: > \$10.0 billion
- Where do the funds come from to pay the losses from hurricanes?
  - ☐ Insurance company income and surplus
  - ☐ Reinsurance coverage
- Costs driven by supply and demand

### Average Statewide Premium Breakdown

Non-Catastrophe Losses	35%
Non-Hurricane Cat. Losses	10%
Hurricane Losses	10%
Reinsurance/Cat Risk Finance	15%
Fixed Expenses	10%
Commissions & Taxes	15%
Underwriting Profit	5%

### Breakdown of Premium Across State

#### Catastrophe vs. Non-Catastrophe Dollars

	Percentage of Premium	
	Catastrophe	Non-Cat
Statewide Average	45%	55%
Lexington	47%	53%
Beaufort	65%	35%
Charleston	71%	29%
Myrtle Beach	77%	23%

<sup>•</sup> Catastrophe losses: generally describe as events that produce \$25 million or more of insured losses.

<sup>•</sup>Statistics from rate filing analysis for top six writers (approximately 45% of market).

## Insurers Responses to Higher Costs

- Raise rates based on estimated losses and expenses
- ➤ Modify coverage
  - ☐ Increase deductibles
  - Change policy language
- > Reduce exposure
  - ☐ Offer premium credits for mitigation measures
  - ☐ Stop writing new policies
  - ☐ Non-Renew inforce policies

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