2021 STATUS REPORT ON THE SOUTH CAROLINA COASTAL PROPERTY INSURANCE MARKET

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I. Executive Summary

A. Overview of 2021 Hurricane Season

The 2021 Atlantic Hurricane Season was an active one with 21 total named storms, seven hurricanes, and four major hurricanes. That made 2021 the third most active year on record for named storms; it is also the sixth consecutive hurricane season with a greater than average number of named storms. The 2021 season is also notable in that it was the first time that the list of storm names was exhausted in two consecutive years.

Of concern to coastal residents is that eight of the storms made landfall along in the United States.[1] The most significant hurricane event in 2021 was Hurricane Ida which caused an estimated $36 billion in insured losses.[2] As a result of losses from Hurricane Ida, the Louisiana Department of Insurance placed two of its domestic insurers into receivership. To pay their claims, the Louisiana Insurance Guaranty Association issued an assessment of $100 million to fund the losses.[3]

[1] "Active 2021 Atlantic Season Officially Ends," noaa.gov, November 30, 2021.
[2] "Munic Re Pegs Ida Insured Loss at $36bn as 2021 Becomes Second Costliest Year on Record," theinsurer.com, January 10, 2022.
[3] "Louisiana Insurers Face $100 Million Assessment Fee after Ida-Related Insolvencies," insurancejournal.com, December 2, 2021.

While 2021 was a difficult hurricane season, the state of South Carolina was mostly spared. A weakening Tropical Depression Claudette brought heavy rain and winds to the Midlands, Tropical Storm Danny swept the coast with rain and strong winds, and Hurricane Elsa passed through the state as a tropical storm after making landfall along the Florida Gulf Coast. Fortunately, these three storms had limited impacts on South Carolina residents.

B. Background

The General Assembly began requiring the South Carolina Department of Insurance (SCDOI) 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).[4] 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.[5] 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.*[6]

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 2021.

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 Insurance Locator Service. Each of these sources would suggest that the coastal property insurance market is stable and, for many risks, can be competitive. The SCWHUA has seen decreases in the number of policies and insured values in both personal and commercial lines of insurance. Data gathered for 2020 and 2021 via the insurer data call show that personal and commercial policy counts rose over that time period. Anecdotal information from the SCDOI's Office of Consumer Services indicates

[4] 2007 S.C. Act No. 78.
[5] 2014 S.C. Act No. 191.
[6] S.C. Code Ann. § 38-3-110 (2014).

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 Insurance Locator Service 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 drastically since its peak in 2011. Additionally, the top five and top ten property insurers have seen their market shares decrease, which generally indicates increased competition in the marketplace. The concentration in the market has decreased since 2008, 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. Additionally, there are brief discussions of flood insurance and earthquake insurance.

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.[7] 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.[8] 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.[9]

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.[10] All admitted property insurance companies licensed by the SCDOI are members of and are required to participate in the SCWHUA.[11] In 2020, the SCWHUA completed its 50th year of operation; in keeping with its mission, the 50 years of operation have resulted in an aggregate net loss of just under $2 million.

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

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[7] S.C. Code Ann. § 38-75-330(A) (2014).
[8] S.C. Code Ann. § 38-75-400(B) (2014).
[9] *Id.*
[10] S.C. Code Ann. § 38-75-320 (2014).
[11] S.C. Code Ann. § 38-75-330(B) (2014).
[12] 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.[13]

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-250 year event number. Over an extended period of time, for example, 10,000 years, the SCWHUA should expect to see a 1-in-250 year storm once every 250 years. This is a long-term, statistical number; it means that there is approximately a 0.4% 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-250 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.

Purchasing reinsurance to the 1-in-250 year event number and beyond is expensive and can impact assessment amounts if not bought. The SCWHUA 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. To keep more funds on hand in the event of a hurricane, the SCWHUA generally does not close out a Fiscal Year in the fall after all claims have been paid. One of the goals of the SCWHUA is to break even financially. SCWHUA data show that from Fiscal Years 1973 to 2020, the SCWHUA incurred a net operating loss of

Table 2.1: SCWHUA Assessments

Association Year (11/1 to 10/31)	Assessments (Refunds)
2012	$6,422,460
2013	$4,227,955
2014	($7,281,366)
2015	($3,735,212)
2016	$8,000,000
2017	$1,659,444
2018	($1,956,182)
2019 (Preliminary)	($1,219,304)
2020 (Preliminary)	($793,088)
2021 (Preliminary)	($3,588,546)

Source: SCWHUA

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

$3,827,301. This amount represents a -0.26% return based on an aggregate written premium for that time period of $1.455 billion.[14]

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 reports that this approach resulted in a tempering of losses from Hurricane Matthew; of the current $25.6 million incurred loss estimate, only $10 million was paid by member insurers with reinsurers paying the balance.

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 SCWHUA's loss retention was reduced from $10 million to $5 million for the 2019, 2020, and 2021 hurricane seasons. 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.

Other states' residual property insurance plans have taken different approaches. North Carolina, for example, 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.

Due to its reduced exposure, the SCWHUA was recently able to obtain reinsurance coverage at the 1-in-250 level at roughly the same price as that purchased previously. Similar state associations were not

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[14] It should be noted that the SCWHUA was formed in 1971, but financial records for 1971 and 1972 are not available.

as fortunate. Florida's Citizens Property Insurance Corporation (CPIC), the residual property market for that state, has a placeholder for reinsurance and catastrophe bonds of $400 million in its 2022 budget, a 60% increase over 2021.[15]

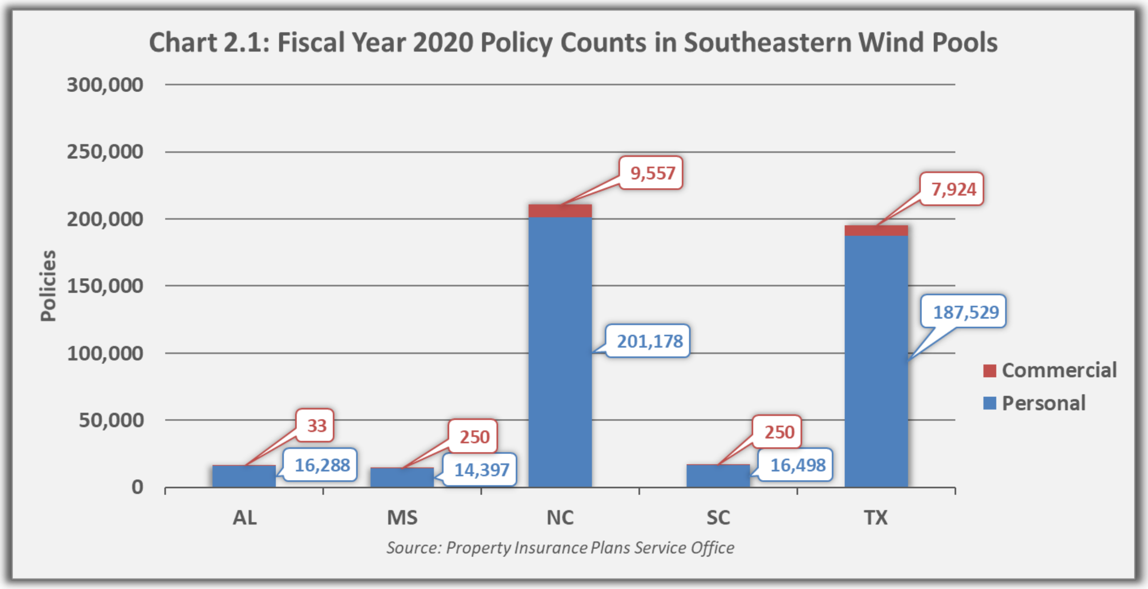


Chart 2.1 illustrates the standing of the SCWHUA in terms of policy counts relative to other wind pools in the Southeastern United States in Fiscal Year 2020 (latest data available). South Carolina is significantly below several other states in the region. Although this can partially be explained by 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 CPIC is an outlier and, as such, is not included in this comparison. Unlike traditional markets of last resort, CPIC has long been one of the top homeowners writers in the state. In 2020, CPIC had approximately 540,000 policies. At the current growth rate, CPIC is anticipated to reach one million policies by the end of 2022.[16]

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

[15] "Florida Citizens Reinsurance & Cat Bond Budget Hiked 60& for 2022," artemus.bm, December 17, 2021.
[16] "Florida Growth Could Near Previous Highs. Depopulation in Focus," artemus.bm, October 8, 2021.

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.

As indicated elsewhere in this report, the South Carolina coastal property insurance marketplace continues to offer choices to consumers. The SCWHUA has lost 69% of its policies since August 2011; this is a positive development for coastal consumers. It is also reassuring to consumers that the SCWHUA is available to provide coverage if needed.

During 2021, the SCWHUA submitted a rate filing to the Department proposing to increase rates for dwelling policies by 7.3% and for mobile home policies by 15%. Upon review, the SCDOI determined that the proposed rates would not be inadequate, excessive, or unfairly discriminatory and therefore approved the filing. The rate increase went into effect on December 1, 2021 and was the first rate increase implemented by the SCWHUA since December 2012.

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."[17] 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 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, 2015-01, 2017-01, and 2019-01, and 2020-06.

Prior to the issuance of the latest renewal via Order 2020-06, 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 regard 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 2020-06 on December 4, 2020 to renew Order 2019-01 and keep the territory expansion in effect until March 29, 2023 based on the SCDOI's review, which included the aforementioned feedback from the SCWHUA. The SCWHUA has reported to the SCDOI that it is not receiving feedback from coastal consumers that they are unable to obtain coverage from either the private market or the SCWHUA.

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

C. SCWHUA Book of Business

As noted in previous annual reports, there are encouraging 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 relating to the availability of coverage to the SCWHUA and the SCDOI have declined as compared to the complaints received during the coastal property insurance availability crisis in the mid-2000s. New insurers have been entering the state to provide coverage to coastal consumers.

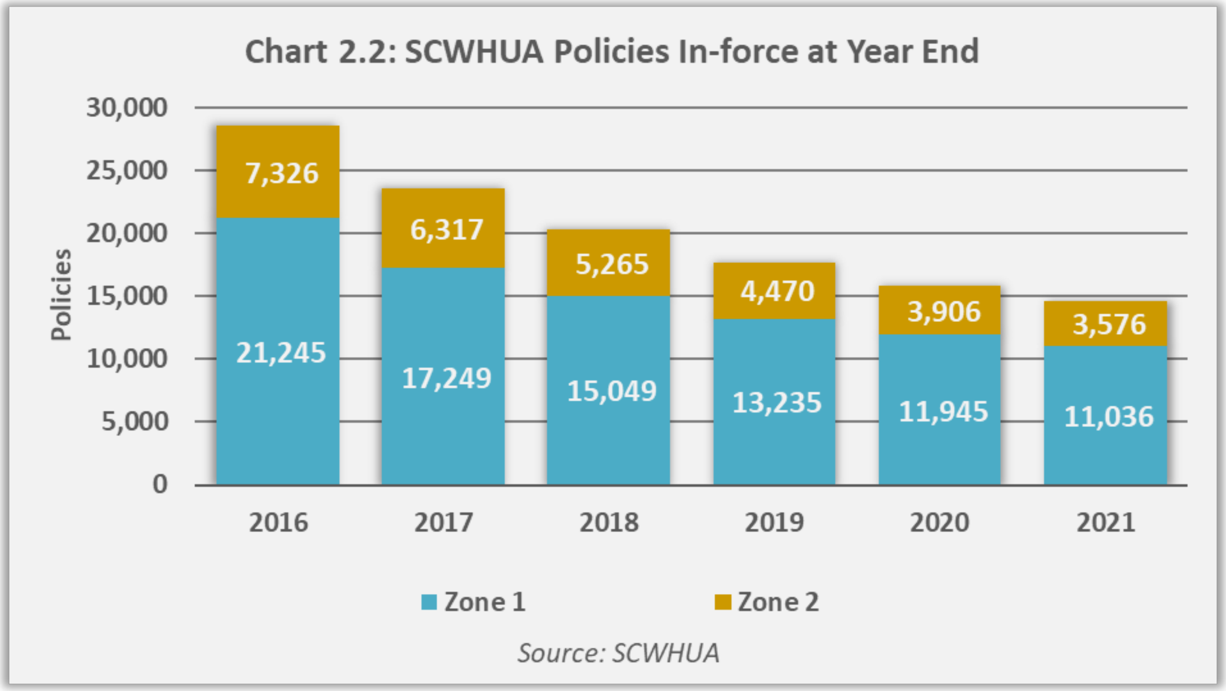
Table 2.2: SCWHUA Book of Business Changes from Peak in 2011 to 12/31/2021

	08/31/2011	12/31/2021	Change
Policy Count	47,366	14,612	-69.2%
Premium	$97,007,667	$31,985,355	-67.0%
Total Insured Limits	$17,310,330,477	$4,992,006,049	-71.2%

Source: SCWHUA

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, 2021, we 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 $12.3 billion, cutting the total insured limits by more than two thirds as compared to the SCWHUA's 2011 peak. As a note for comparison purposes, the $12.3 billion decrease in total insured limits far exceeds the total exposure of $930 million that the Association had when Hurricane Hugo made landfall in 1989.

While opportunities are expanding for coastal consumers in South Carolina, this is not true in all states. In Florida and Louisiana, more consumers are moving to residual markets. In California, areas subject to wildfire risk are facing challenges. Insurers are finding it difficult to offer coverage, resulting in consumers seeing availability and affordability challenges.



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. As demonstrated in Chart 2.2, these decreases have been observed steadily in recent years. 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. Table 2.3 breaks down the changes by county and SCWHUA zone from the SCWHUA's 2011 peak and year-end 2021.

Table 2.3: SCWHUA In-Force Policy Changes from 8/31/2011 to 12/31/2021

Zone	County	Policy Count	Policy Count % Change	In-Force Premiums	Insured Limits
1	Beaufort	-7,625	-78%	-$19,476,720	-$4,234,712,219
1	Charleston	-3,888	-75%	-$12,220,114	-$2,144,304,441
1	Colleton	-855	-75%	-$1,862,369	-$321,463,045
1	Georgetown	-1,760	-65%	-$4,045,164	-$736,418,526
1	Horry	-11,531	-64%	-$17,962,532	-$2,969,732,039
Total Zone 1		**-25,659**	**-70%**	**-$55,566,899**	**-$10,406,630,270**
2	Beaufort	-856	-68%	-$1,220,530	-$283,657,031
2	Charleston	-3,526	-72%	-$5,178,369	-$1,001,640,760
2	Colleton	-2	-100%	-$6,848	-$1,320,800
2	Georgetown	-320	-36%	-$356,351	-$76,142,693
2	Horry	-2,391	-66%	-$2,693,222	-$548,932,874
Total Zone 2		**-7,095**	**-66%**	**-$9,455,320**	**-$1,911,694,158**
Grand Total		**-32,754**	**-69%**	**-$65,022,219**	**-$12,318,324,428**

Source: SCWHUA

As seen in Table 2.4, Horry County has the highest exposure with $1.7 billion of in-force liability ("Insured Limits"); Charleston County has the second highest with $1.3 billion. Despite these large values, the downward trends during the past ten years are encouraging. The SCWHUA reports these trends are continuing—even after the impacts of hurricanes in recent years. Insurers are still seeking coastal business; in a regular week, the SCWHUA receives more mid-term cancellation requests than it does new business submissions.

Table 2.4: SCWHUA In-Force Policies as of 12/31/2021 by Wind Pool Zone and by County

Zone	County	Policy Count	% of Total Policies	In-Force Premiums	% of Total Premium	Insured Limits
1	Beaufort	2,136	15%	$5,650,540	18%	$1,090,777,072
1	Charleston	1,304	9%	$5,283,547	17%	$760,569,247
1	Colleton	281	2%	$744,488	2%	$110,221,734
1	Georgetown	943	6%	$2,732,904	9%	$427,673,943
1	Horry	6,372	44%	$11,276,614	35%	$1,424,832,043
Total Zone 1		**11,036**	**76%**	**$25,688,093**	**80%**	**$3,814,074,039**
2	Beaufort	399	3%	$722,690	2%	$176,774,750
2	Charleston	1,340	9%	$2,985,131	9%	$543,544,640
2	Colleton	0	0%	$0	0%	$0
2	Georgetown	581	4%	$993,889	3%	$189,486,315
2	Horry	1,256	9%	$1,595,645	5%	$268,126,305
Total Zone 2		**3,576**	**24%**	**$6,297,355**	**20%**	**$1,177,932,010**
Grand Total		**14,612**	**100%**	**$31,985,448**	**100%**	**$4,992,006,049**

Source: SCWHUA

III. Department of Insurance Data Call

In October 2007, the SCDOI issued an ongoing data call to all admitted carriers[18] 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.[19] Due to the timing of these quarterly submissions, this report includes data for the first three quarters of 2020 and 2021.

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.

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.[20] Therefore, in order to minimize any distortion, we believe it is most appropriate to focus on the changes between 2020 and 2021 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 104 carriers reporting in 2021 compared to 108 carriers reporting in 2020 and 95 in 2019. These numbers vary as carriers reach or fall below the established premium threshold for reporting.

[18] The data call does not include Excess and Surplus lines policy information.
[19] 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.
[20] Carrier data submissions with clear data inconsistencies which could not be resolved have been omitted.

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	Percent with Wind	Percent without Wind
Sep 2020	24,508	2,459	26,967	90.9%	9.1%
Sep 2021	35,679	3,631	39,310	90.8%	9.2%
% Change	45.6%	47.7%	45.8%		

Source: SCDOI Data Call

The total number of new policies issued by admitted carriers in the Wind Pool area increased significantly for the first three quarters of 2021 as compared to the first three quarters of 2020. The percentage of new personal lines property insurance policies written in the Wind Pool that included wind remains high relative to that obtained in prior data call cycles. The increase in the total number of new policies written could be due in part to an increase in the willingness of consumers to shop for coverage as well as recent trends in home sales.

While the number of new policies written is one indication of the willingness of companies to expand their books of business in the Wind Pool area, it is important to also review 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 PIF	Percent with Wind	Percent Without Wind
Sep 2020	113,219	26,194	139,413	81.2%	18.8%
Sep 2021	127,087	27,700	154,787	82.1%	17.9%
% Change	12.2%	5.7%	11.0%		

Source: SCDOI Data Call

The total number of policies in-force reported by admitted carriers in the Wind Pool area increased by 11.0% from 2020 to 2021. The percent of policies in-force that included wind coverage rose from 81.2%

in 2020 to 82.1% in 2021. The number of personal lines policies written by the SCWHUA has decreased over this same time period. While there are limitations to the conclusions we may draw from this data call (as noted previously), these results are indicative that there is, generally speaking, availability of coverage outside of the residual market for most personal lines coastal property insurance consumers along the South Carolina coast.

B. Data Call Results for the Commercial Lines Admitted Market

There were 88 carriers reporting data for 2021 compared to 93 carriers reporting in 2020 and 92 in 2019. 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	Percent with Wind	Percent without Wind
Sep 2020	1,182	240	1,421	83.1%	16.9%
Sep 2021	1,063	236	1,299	81.8%	18.2%
% Change	-10.0%	-1.5%	-8.6%		

Source: SCDOI Data Call

A smaller portion of new policies were reported as being written with wind coverage in the first three quarters of 2021 as compared to the same period in 2020. The total number of new policies issued fell by 8.6%.

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

Month	PIF with Wind	PIF without Wind	Total PIF	Percent with Wind	Percent Without Wind
Sep 2020	3,778	2,563	6,340	59.6%	40.4%
Sep 2021	4,126	2,372	6,498	63.5%	36.5%
% Change	9.2%	-7.4%	2.5%		

Source: SCDOI Data Call

Total in-force commercial policies written with wind coverage in the admitted market saw an uptick in 2021. In aggregate, the number of commercial policies written by the SCWHUA decreased during this same period. The percent of total in-force policies written with wind experienced an increase from 59.6% in 2020 to 63.5% in 2021. As noted under the personal lines data call section, there are limitations to this data call, but these trends are indicative of the availability of admitted property insurance coverage to commercial consumers along the South Carolina coast.

IV. Department of Insurance Outreach

The SCDOI has a responsibility to assist consumers with their insurance concerns and to promote consumer education of insurance.[21] 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 subject to the agency's regulatory authority. The SCDOI continues to update its website to provide additional information via a more intuitive navigation process. The SCDOI's Insurance Locator Service helps consumers that are having difficulty finding insurance coverage. Through the assistance of the SCDOI's Office of Consumer Services, coastal consumer liaison and SC Safe Home program, 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 also works with other state regulators throughout the country to share information and best practices. One of the collaborative efforts directly related to coastal property is the National Association of Insurance Commissioners (NAIC) Catastrophe Insurance (C) Working Group. This group is tasked with reviewing and reporting on issues ranging from availability and affordability of insurance related to catastrophe perils to potential solutions regarding insuring for catastrophe risk at each NAIC national meeting.

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. Legislation enacted in 2019 made the annual public hearing optional at the discretion of the Director. Given the competitiveness of the coastal property insurance market and the wide availability of coverage, a hearing was not deemed necessary in 2021.

[21] 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.

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 an Insurance Locator Service (previously referred to as the Market Assistance Program) and by implementing additional coastal outreach in 2013. Due to its increasing success, the Insurance Locator Service was expanded statewide in 2014. The SCDOI encourages consumers to shop around for coverage, and the Insurance Locator Service was established to help consumers do so. This service is designed so that a representative from the SCDOI connects consumers directly to insurance professionals who can further help them obtain coverage at competitive costs.

Since 2013, the Insurance Locator Service has helped 1,461 consumers shop the 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 coastal consumers helped in this way is 922 (63% of the statewide total). Table 4.1 provides a breakdown of the coastal versus non-coastal consumers assisted in 2021. Furthermore, the SCDOI has developed a page on its website (https://doi.sc.gov/599/Insurance-Locator) that is specifically dedicated to shopping for insurance coverage. Located on this page is an online form that allows consumers to submit their information to the SCDOI's coastal consumer liaison to request assistance through the Insurance Locator Service. Individuals may also contact the consumer liaison directly for further information and assistance. This service is free and allows consumers to locate agents and companies in their area to address their specific property insurance coverage needs.

Table 4.1: SCDOI Insurance Locator Service Consumer Requests in 2021

	Number	Percent of Total
Coastal	67	68%
Non-Coastal	31	32%
Total	98	

Source: SCDOI

The SCDOI also developed an online Price Comparison Tool (doi.sc.gov/pricecompare) to aid consumers in comparing price estimates of companies writing auto and homeowners insurance in the state. Consumers answer a few basic questions about themselves, where they live, the desired level of coverage, and their car or home to receive price estimates.

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 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 has been demonstrated in the wake of multiple weather events impacting the state since 2014.

1. SC Safe Home

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 7,291 grants totaling roughly $32.8 million. Important changes were made to the program in 2017 that included the modification of the award methodology as well as the requirements necessary for application. As a result of 2017 SC Act No. 28, the SC Safe Home Program no longer requires applicants' homes be insured for $300,000 or less. Additionally, the program modified the award methodology to utilize the homeowner's total adjusted gross income for the number of individuals residing in the home, the cost of the retrofit, and the median county income in order to determine the award amount.[22] These two changes allow the program to benefit more South Carolina residents and seek additional resources (Including federal grants) to supplement the annual premium tax funding for the program.

Table 4.2: 2021 SC Safe Home Grants Awarded by County

County	Grants
Beaufort	9
Berkeley	70
Charleston	147
Colleton	2
Dorchester	26
Florence	2
Georgetown	22
Horry	158
Jasper	2
Marion	1
2021 Total	439

Source: SC Safe Home

[22] See SCDOI Bulletin 2017-13 for more details.

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

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, more than 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 National Institute of Building Sciences, the nation saves $6.00 in future disaster costs for every $1.00 spent on mitigation.[23] Based on this statement, it is estimated that grants awarded by SC Safe Home have reduced the potential costs from future hurricanes and severe wind events by more than $160 million.

2. Annual Hurricane Expo

In light of concerns stemming from the COVID-19 pandemic, the SCDOI did not host its annual hurricane expo event in 2021 but did hand out 200 starter emergency kits to consumers at a Home Depot in the Myrtle Beach area. In prior years, the hurricane expo has provided consumers an opportunity to speak with dozens of exhibitors and 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 have had the opportunity to take part in educational 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.

[23] *Natural Hazard Mitigation Saves: 2017 Interim Report*, National Institute of Building Sciences, 2017.

3. Catastrophe Savings Accounts

One of the many consumer-based initiatives included in the Omnibus Act is the creation of catastrophe savings accounts (CSAs).[24] 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.

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.[25] 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.[26] 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

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[24] S.C. Code Ann. § 12-6-1620 (2007).
[25] S.C. Code Ann. § 12-6-3660 (2007).
[26] 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 property insurance have contributed to the decrease in the SCWHUA's total policies and insured values. Since 2012, the number of companies licensed to write property insurance has increased by more than 100 companies.

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.[27] As shown in Table 4.3, the aggregate credit taken by companies from 2011 to 2020 was $588,002.[28] 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 2021, the Department's Office of Market Services approved rates, rules, and policy forms filings for twelve new programs, five of which indicated plans to write with wind coverage along the coast.

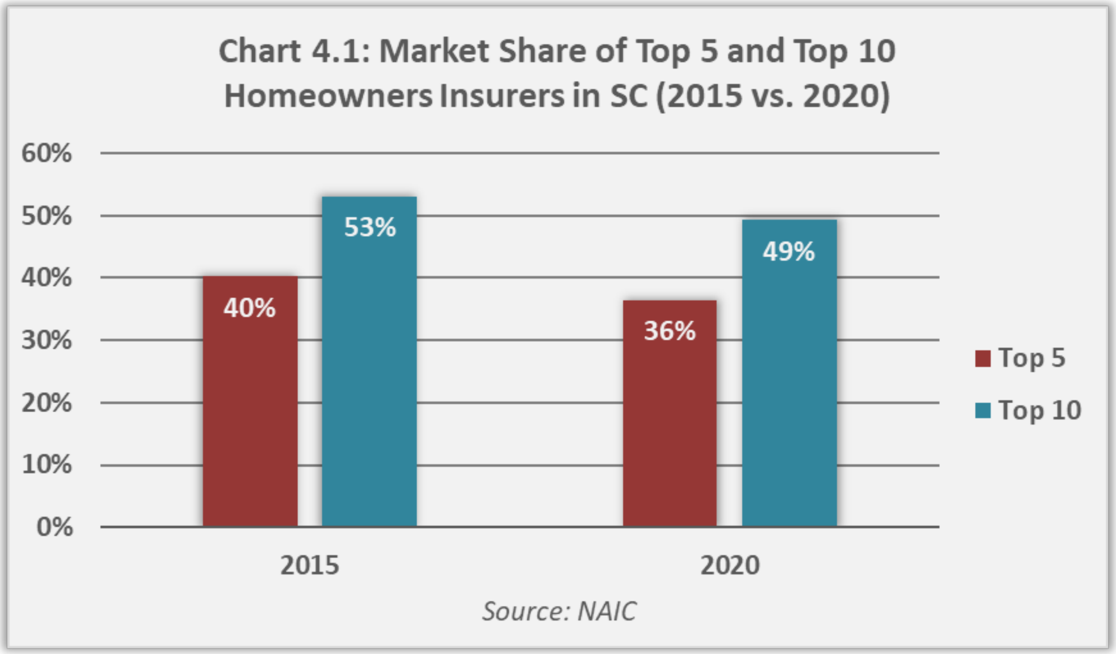
Table 4.3: Coastal Premium Tax Credits

Year	Total Amount of Credits
2011	$56,309
2012	$50,576
2013	$63,734
2014	$69,692
2015	$74,312
2016	$94,835
2017	$73,122
2018	$38,348
2019	$25,250
2020	$41,824
Total	**$588,002**

Source: SCDOI

[27] S.C. Code Ann. § 38-7-200 (2014).
[28] 2020 data will not be available until mid-2021.

Another measure is the market share of the top writers; over the last five years (2015 to 2020, which is the latest data year available), the largest five and ten homeowners insurers both saw their collective market share decrease by nearly 4%.



These efforts of the SCDOI, coupled with its recruitment of new insurers to write coastal property insurance coverage, have resulted in improved market stability. While there are many positive signs to indicate market improvements in coastal coverage availability, the SCDOI continues to monitor the coastal property insurance marketplace. To maintain a healthy voluntary market, it is imperative that the SCWHUA remain a market of last resort, a safety net for those that cannot find coverage elsewhere, and not become the primary market for property insurance. Having a healthy voluntary market also requires that exposure be spread among many carriers as opposed to it being concentrated in a small number of companies.

V. 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 originally 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 has, by design, not been actuarially sound. The NFIP is currently $20.525 billion in debt to the Treasury. In an effort to more accurately match premium to risk, the NFIP is in the process of introducing a new pricing methodology known as Risk Rating 2.0. This is the most significant change to NFIP's pricing structure since the program's inception in 1968. Premiums calculated under Risk Rating 2.0 will reflect an individual property's risk characteristics, account for additional types of flood risk, and utilize risk-based rates.

Beyond natural disasters and inadequate pricing, weaknesses in the management and operations of the NFIP also create a risk that funds allocated to NFIP and premiums paid by policyholders are not being used efficiently or effectively. The most recent NFIP reauthorization will expire on February 18, 2022. There have been numerous short-term extensions over the past several years. During the reauthorization process, Congress considers potential changes and improvements while trying to balance the financial solvency of the NFIP, taxpayer exposure, and affordability concerns.

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 nearly 78% of total policies in-force. As shown in Table 5.1, Florida accounts for the most NFIP policies and has more policies than Texas, Louisiana, New Jersey, and South Carolina—the next four highest states—combined. Florida also contributes the most written premium and insured value to the NFIP. South Carolina is fifth in NFIP policy count with 206,570 policies which insure $56.8 billion of property. The NFIP has a total insured value of approximately $1.33 trillion and roughly $3.7 billion in annual written premium.

Table 5.1: NFIP Policy Data by State as of 9/30/2021

State	Policies	% of Total Policies	Total Insured Value	% of Total TIV	Written Premium	% of Total Written Premium
FL	1,714,008		$440,721,817,994		$1,050,040,741	28.0%
TX	786,051		$232,921,739,240		$515,570,897	13.8%
LA	509,020		$141,874,510,284		$374,800,789	10.0%
NJ	210,483		$54,653,466,400		$201,521,746	5.4%
SC	**206,570**		**$56,783,641,400**		**$131,600,888**	**3.5%**
CA	203,929		$61,017,863,000		$179,433,637	4.8%
NY	165,633		$46,571,850,100		$209,629,716	5.6%
NC	139,127		$37,570,206,400		$103,276,613	2.8%
VA	100,739		$27,630,725,900		$80,154,496	2.1%
GA	79,545		$22,314,930,200		$57,577,366	1.5%
NFIP Total	**4,955,870**		**$1,327,129,147,018**		**$3,744,023,216**	

Source: FEMA

As expected, the bulk of NFIP policies in South Carolina are located in coastal counties. Charleston, Beaufort, Horry, Georgetown, and Berkeley counties account for roughly 89% of South Carolina's NFIP policies, total insured value, and annual written premium

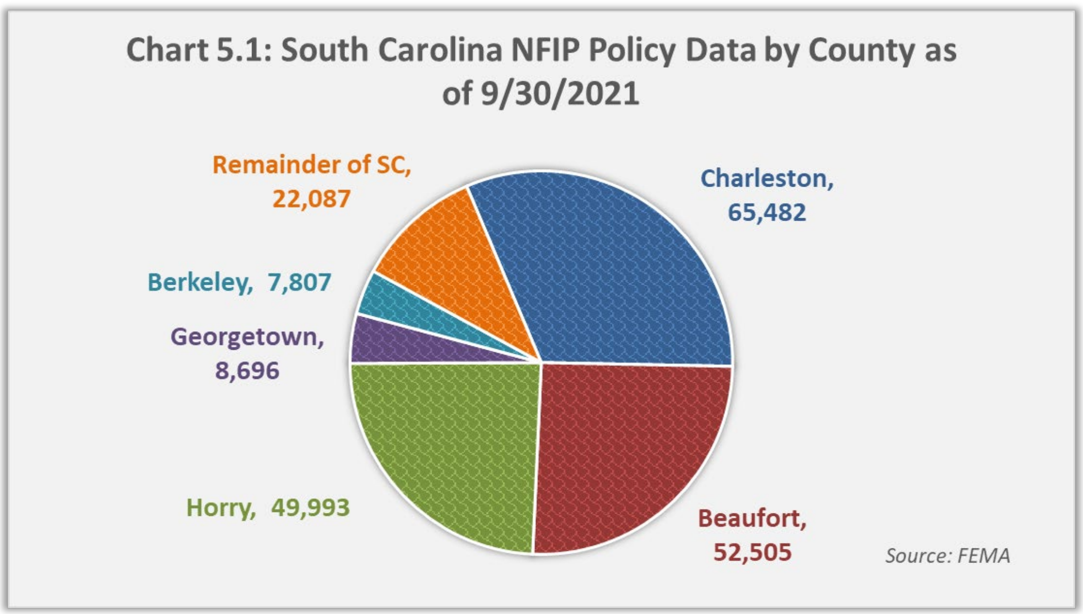


Chart 5.1: South Carolina NFIP Policy Data by County as of 9/30/2021

B. Private Flood Insurance

The SCDOI recognizes the benefits of a competitive marketplace and thus desires to increase the number of flood insurance coverage options available to South Carolina consumers. The SCDOI is active in the NAIC's work on this subject and strongly supports the expansion of the private flood insurance market. The SCDOI is encouraging companies to write private flood coverage in South Carolina and has had many discussions with potential carriers regarding new flood programs. To that end, the SCDOI drafted legislation designed to enhance the private flood insurance market in the state. On September 28, 2020, Governor Henry McMaster signed the South Carolina Private Flood Insurance Act into law (S. 882). This Act aims to foster innovative flood insurance coverage in South Carolina, allowing insurers the ability to test products in the market and offer consumers greater choice for flood insurance coverage. The S.C. Private Flood Insurance Act became effective November 28, 2020. The main provisions in the Act are:

- recognizing the various forms of private flood insurance available today—those meeting NFIP standards, discretionary acceptance policies, and any other type of coverage that covers losses resulting from flood;
- streamlining the regulatory oversight of forms and rates for private flood insurance coverage;
- allowing additional underwriting flexibility to incentivize carriers to offer coverage where and when it meets their underwriting criteria; and
- requiring 45 days' notice before a private flood insurance policy is canceled or nonrenewed to allow consumers time to purchase alternative coverage.

While certain statutory requirements must be met, the SCDOI is open to innovative flood coverage ideas and works with insurers on ways to meet their goals in a compliant manner in all regards—from the company licensing phase through implementation of new products. From 2016 to 2020 (the most recent year with data available), the number of private flood carriers writing business in South Carolina grew from 12 to 66 while aggregate written premium increased from just under $7 million to $18.6 million.

VI. Earthquake Insurance

Although the western United States is more widely known for its exposure to earthquakes, a 2014 report (although somewhat dated, the most recent available) 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 was raised.

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.

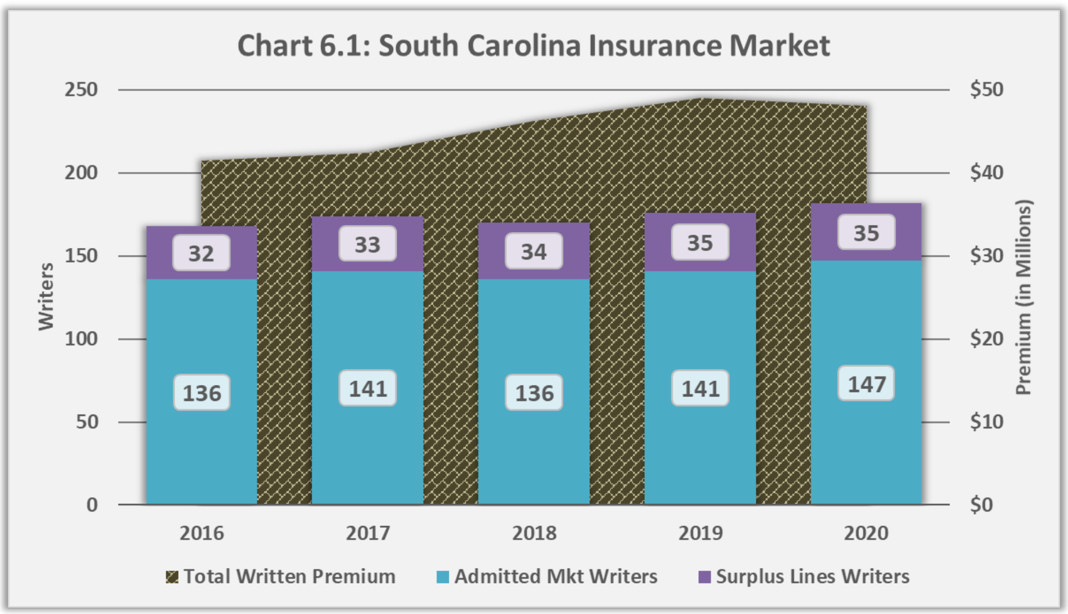
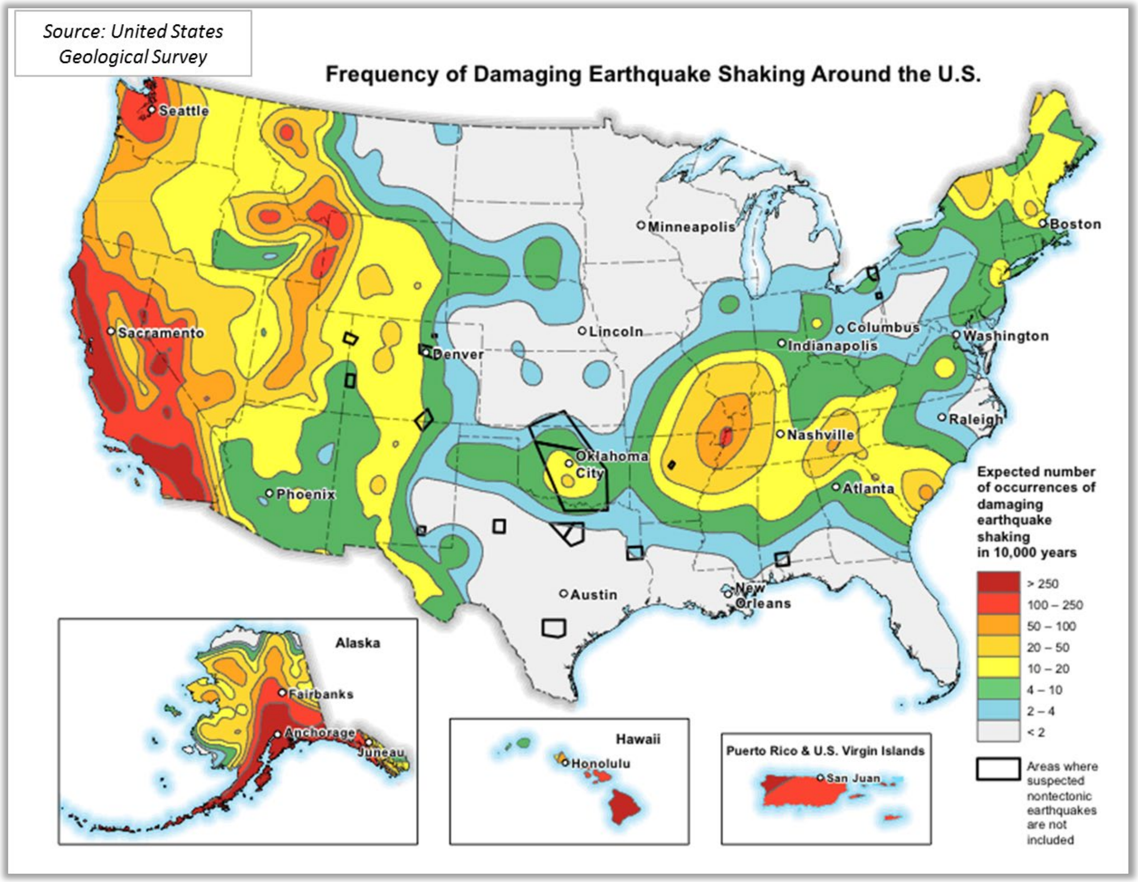


Chart 6.1 illustrates the number of admitted and surplus lines insurers writing earthquake insurance coverage during the most recent five years for which data are available; total direct written premiums are also shown. Total written premium has increased each year from 2015 to 2019. Since policy and exposure information is not available, it cannot be determined how much of this growth is due to more consumers purchasing earthquake coverage as opposed to other factors.

The USGS graphic below presents the expected number of damaging earthquakes occurring every 10,000 years across the United States. The Charleston area is shown to be in the range of 50 to 100 damaging earthquakes expected every 10,000 years. This can be translated to say that Charleston's chance of experiencing a damaging earthquake in an average year ranges from 0.5% to 1.0%.



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