

**BEFORE THE STATE OF SOUTH CAROLINA  
DEPARTMENT OF INSURANCE**

**IN THE MATTER OF:**

**ORDER No. 2009-001**

RENEWAL OF THE MAY 23, 2007 EXPANSION )  
OF THE SOUTH CAROLINA WIND AND HAIL )  
UNDERWRITING ASSOCIATION TERRITORY )  
ENABLING THE ASSOCIATION TO PROVIDE )  
ESSENTIAL PROPERTY COVERAGE TO )  
OTHER AREAS WITHIN THE SEACOAST )  
TERRITORY. )  
\_\_\_\_\_ )

On March 21, 2007, the Director of Insurance temporarily expanded the area in which the South Carolina Wind and Hail Underwriting Association (hereinafter referred to as “SCWHUA”) provides essential property insurance in accordance with the requirements of § 38-75-460.<sup>1</sup> The March 21, 2007 order (March Order) set forth the initial expansion of territory covered by the SCWHUA and provided that additional expansion would continue to be analyzed while the initial expansion was implemented.<sup>2</sup> On May 23, 2007, (May Order) the Department of Insurance supplemented the March 2007 order and further expanded the SCWHUA territory to include additional areas within Charleston, Georgetown and Horry Counties. The May 2007 supplemental order incorporated the provisions of the March Order by reference and was based on the findings set forth in the March Order, the Department of Insurance’s continued evaluation of coastal property insurance market conditions, input from consumers<sup>3</sup> about the availability of essential property insurance, and the review and analysis of other pertinent information. Both orders are set to expire on March 29, 2009 unless renewed in accordance with the provisions set forth in § 38-75-460.

S.C. Code Ann. § 38-75-460 provides that:

“In order to maintain stability in the property insurance market and to assure the continued, consistent availability of essential property insurance coverage in the coastal area, the Director of the Department of Insurance... or his designee, by written order

<sup>1</sup> See S.C. Code Ann. § 38-75-460 (Supp. 2008).

<sup>2</sup> The number of non-renewals cited in that order was based on the 2006 projections of the insurer. Due to improving market conditions, some insurers did not non-renew the number of policies originally projected in 2006.

<sup>3</sup> The Department received a significant amount of input from consumers during and after forums conducted in the coastal counties of South Carolina following the issuance of the March 21, 2007 order.

complying with the requirements of Section 1-23-140, may expand the coastal area in which the association shall provide essential property insurance for periods up to twenty-four months. The order is subject to renewal by the director but no renewal shall exceed twenty-four months.”

This order renews the expansion set forth in the order May 23, 2007.

#### **FINDINGS**

After considering current market conditions, consumer complaints and requests for assistance, and the Department’s analysis and review of the pertinent information, I find and conclude as follows:

1. The SCWHUA writes wind-and-hail only coverage in the territory defined by §38-75-310. Section 38-75-460 gives the Director the ability to expand that territory upon a finding that coverage is not readily available through normal channels.
2. Since the 2007 expansion of the SCWHUA, the coastal property insurance marketplace has stabilized. Expansion has improved the availability of coverage to South Carolina coastal property owners and reduced the number of consumers who were unable to find coverage. Allowing the order to expire or deciding not to renew the order could result in significant market disruptions.
3. In 2007, SCWHUA written premium grew at a rate of 41%. In 2008, the rate of growth was 7.15%. The decrease in the rate of growth can be attributed to the following factors:
  - a. Improvements in the availability of reinsurance coverage;
  - b. Increased availability in the voluntary market, especially the commercial property insurance market.
  - c. The 2007 expansion of the territory covered by the SCWHUA.
4. While there are indications that the property market is softening and issues surrounding the availability of reinsurance have improved significantly, some consumers still have difficulty finding essential property insurance coverage. The expansion of the territory covered by the SCWHUA has been a safety net for those consumers unable to find coverage. If the 2007 expansion is not renewed, there could be significant disruption in the coastal property insurance market.
5. The renewal of the 2007 expansion of the territory covered by the SCWHUA is necessary to address those areas of the seacoast territory where essential property insurance

coverage is still not readily available and to provide access to consumers who continue to 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 exposure to hurricane and other wind events.

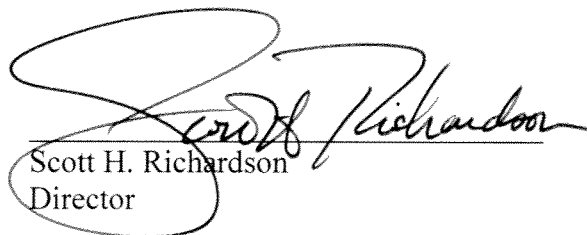
6. In accordance with the requirements of § 38-75-460, notice of the Department's intent to renew the order was issued to the President *Pro Tempore* of the South Carolina Senate and the Speaker of the South Carolina House of Representatives on February 27, 2009.

#### CONCLUSION

Based upon the foregoing, it is ordered that:

1. Orders 2007-01 and 2007-03 expanding the territory covered by the SCWHUA shall be renewed and remain in full force and effect. Those orders are attached and their terms incorporated into this order by reference.
2. This order shall take effect upon the expiration of the May Order and shall continue in effect until March 29, 2011 unless otherwise vacated or superseded by a subsequent order issued by the Director or vacated or superseded by action of the South Carolina General Assembly as set forth in § 38-75-460.

IT IS SO ORDERED.



Scott H. Richardson  
Director

March 13, 2009  
Columbia, South Carolina

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 TERRITORY	)	
_____	)	

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 area<sup>1</sup> of South Carolina in accordance with the requirements of § 38-75-460.<sup>2</sup> Section 38-73-1120 requires the Department to issue a report regarding the cause and potential solutions to coastal insurance issues.<sup>3</sup> 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 channels<sup>4</sup> 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

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<sup>1</sup> 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).

<sup>2</sup> *See* S.C. Code Ann. § 38-75-460 (Supp. 2006).

<sup>3</sup> S.C. Code Ann. § 38-73-1120 (Supp. 2006).

<sup>4</sup> 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.



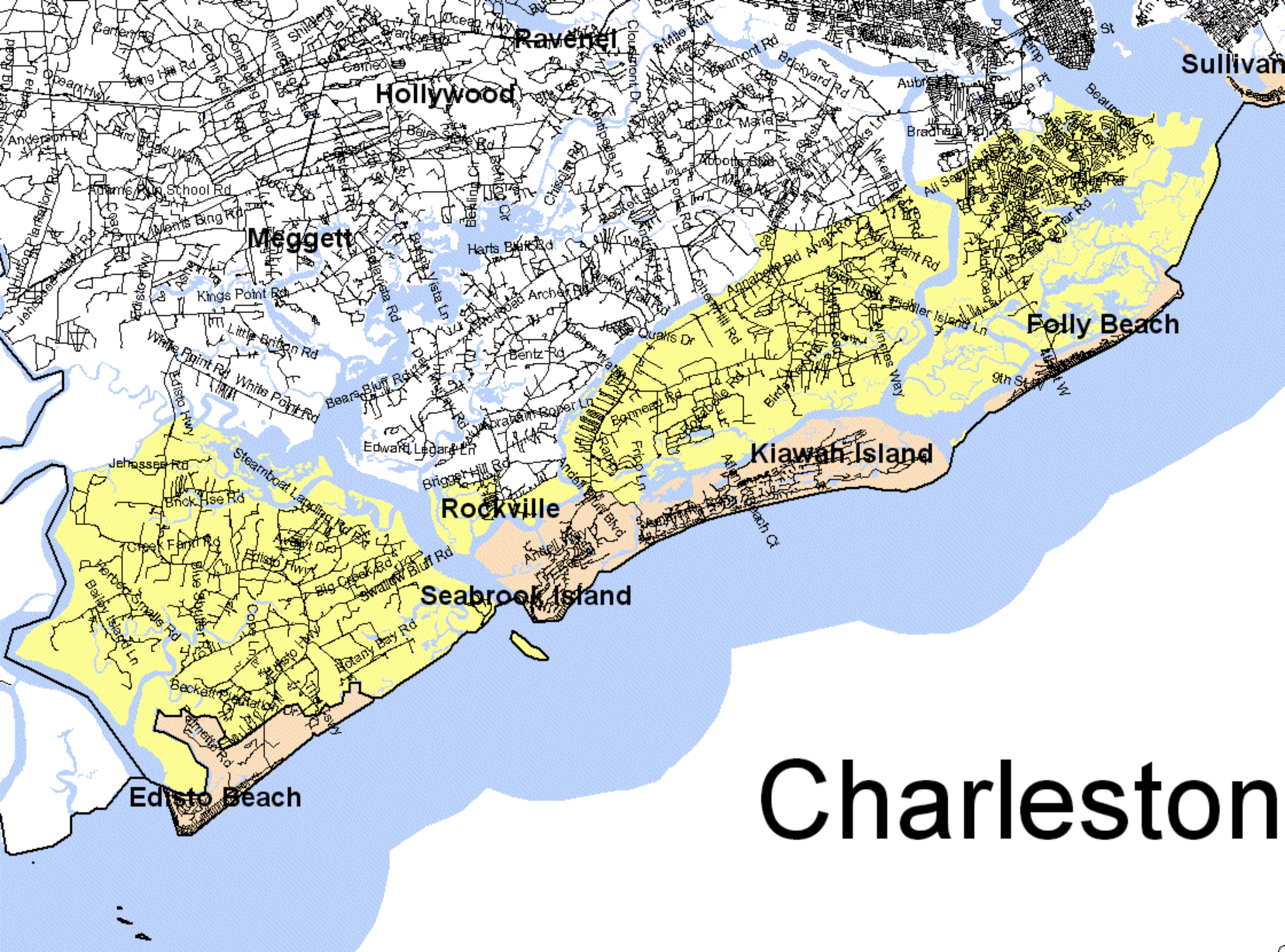
IT IS SO ORDERED.

A handwritten signature in black ink, reading "Scott H. Richardson". The signature is written in a cursive style with a large, looping "S" at the beginning. A horizontal line is drawn across the signature.

Scott H. Richardson  
Director

March 21, 2007  
Columbia, South Carolina





**Ravenel**

**Hollywood**

**Sullivan**

**Meggett**

**Folly Beach**

**Kiawah Island**

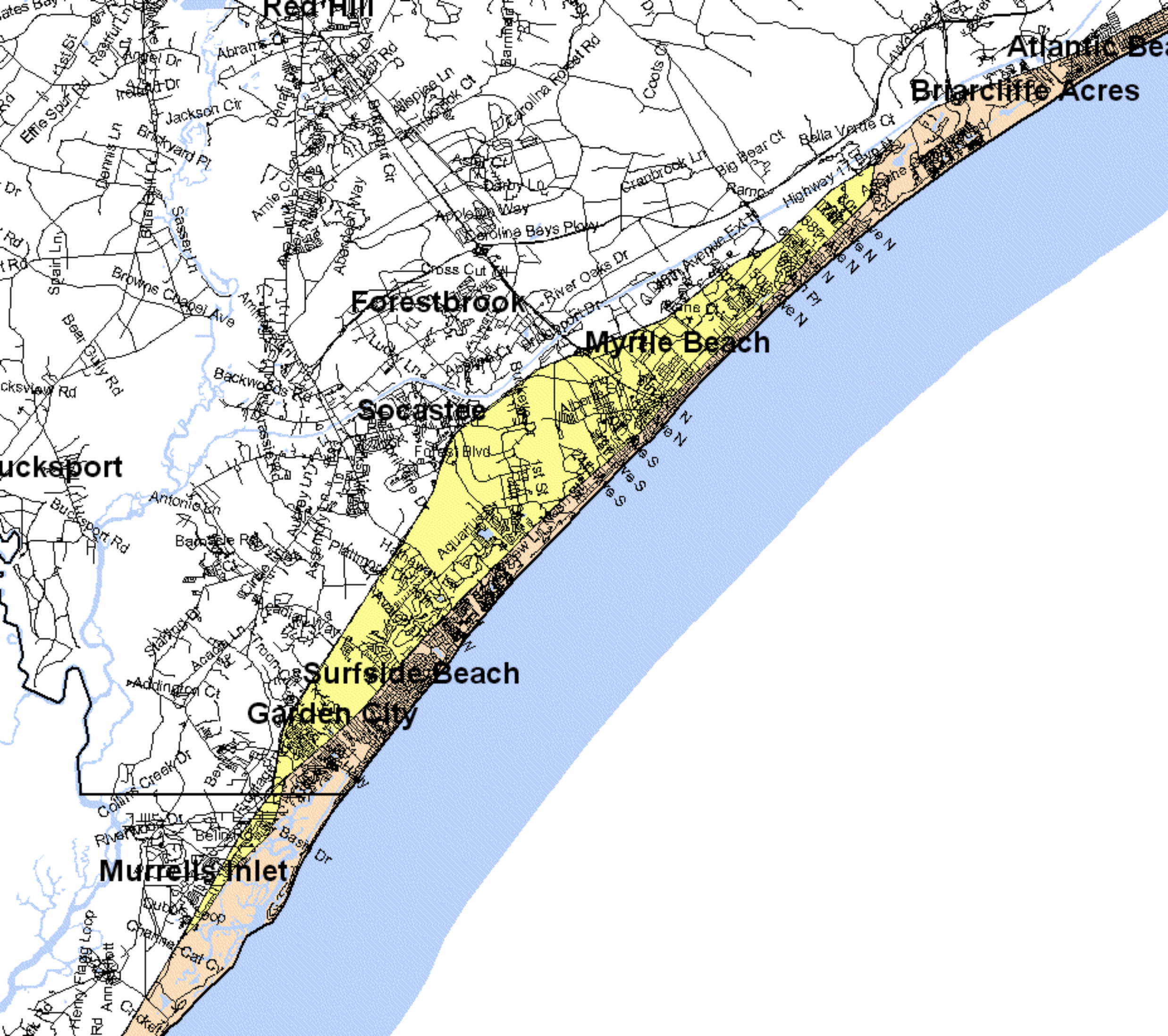
**Rockville**

**Seabrook Island**

**Edisto Beach**

**Charleston**





**Forestbrook**

**Myrtle Beach**

**Socastee**

**Surfside Beach**

**Garden City**

**Murrells Inlet**

**Atlantic Beach**  
**Briarcliffe Acres**

**Bucksport**

**BEFORE THE STATE OF SOUTH CAROLINA  
DEPARTMENT OF INSURANCE**

<b>IN THE MATTER OF:</b>	)	<b>SUPPLEMENTAL DECISION</b>
	)	<b>AND ORDER No. 2007-003</b>
	)	
THE ADDITIONAL EXPANSION OF THE	)	
SOUTH CAROLINA WIND AND HAIL	)	
UNDERWRITING ASSOCIATION TO PROVIDE)	)	
ESSENTIAL PROPERTY COVERAGE TO	)	
AREAS WITHIN THE SEACOAST TERRITORY )	)	
_____	)	

On March 21, 2007, the Director of Insurance temporarily expanded the area in which the South Carolina Wind and Hail Underwriting Association (hereinafter referred to as “Wind Pool”) provides essential property insurance in accordance with the requirements of § 38-75-460.<sup>1</sup> The March 21, 2007 order set forth the initial expansion of territory covered by the Wind Pool, and provided that additional expansion will continue to be analyzed while the initial expansion was implemented.<sup>2</sup> This order supplements the March 21, 2007 order and further expands the Wind Pool territory to include additional areas within Charleston, Georgetown and Horry Counties. This supplemental order is based upon the findings set forth in the March 21, 2007 order, the Department of Insurance’s continued evaluation of coastal property insurance market conditions, input from consumers<sup>3</sup> about the availability of essential property insurance, and the review and analysis of other pertinent information.

**FINDINGS**

After considering 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. The Wind Pool writes wind-and-hail only coverage in the territory defined by §38-75-310. Section 38-75-460 gives the Director the ability to expand that territory upon a finding that coverage is not readily available through normal channels.

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<sup>1</sup> See S.C. Code Ann. § 38-75-460 (Supp. 2006).

<sup>2</sup> The number of non-renewals cited in that order was based on the 2006 projections of the insurer. Due to improving market conditions, some insurers did not non-renew the number of policies originally projected in 2006.

<sup>3</sup> The Department received a significant amount of input from consumers during and after forums conducted in the coastal counties of South Carolina following the issuance of the March 21, 2007 order.

2. On March 21, 2007, the Department issued an order expanding the territory as set forth in Exhibit 1.

3. While there are indications that the property market is softening and issues surrounding the availability of reinsurance have improved significantly, some consumers in Charleston, Georgetown and Horry Counties reported that they are still having difficulty finding essential property insurance within the admitted market.

4. Consequently, insurance is not readily available within the admitted market in all areas of the seacoast territory and further expansion of the Wind Pool territory is required.

5. June 1<sup>st</sup> marks the beginning of the 2007 hurricane season. Expansion of the territory covered by the Wind Pool is necessary to address those areas of the seacoast territory where essential property insurance coverage is not readily available and to provide access to consumers who are still having 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 June 1, 2007:

1. The territory covered by the South Carolina Wind and Hail Underwriting Association be temporarily expanded as set forth in paragraph 2 to include additional areas within Charleston, Georgetown and Horry Counties.

2. The expanded territory shall be divided into two zones: Zone 1 and Zone 2.

Zone 1 is defined as follows:

(a) all areas in Beaufort County east of the west bank of the intracoastal waterway with the exception of Lady's Island, Coosaw Island, and Morgan Island.

(b) all areas of Colleton County which are east of the west bank of the intracoastal waterway.

(c) the following areas in Charleston County: the portion of Edisto Island which is east of Peters Point Road and Point of Pines Road, 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.

(d) the following areas in Georgetown County: all areas between the Harrell Siau Bridge and the Georgetown – Horry County border which are east of U.S. Highway No. 17 or By-Pass 17, whichever is further west, and all areas south of the Harrell Siau Bridge which are east of the west bank of the intracoastal waterway.

(e) the following areas in Horry County:

(1) beginning at the northern border of Horry County, all areas east of the west bank of the intracoastal waterway to the point where the where U.S. Highway 17 crosses the intracoastal waterway

(2) from the point where U.S. Highway 17 crosses the intracoastal waterway, south to the Georgetown – Horry County border, all areas which are east of U.S. Highway 17 or By-Pass 17, whichever is farther west

3. Zone 2 is defined as follows:

(a) the following areas in Beaufort County: Lady's Island, Coosaw Island, and Morgan Island.

(b) the following areas in Charleston County:

(1) the portion of Edisto Island which is west of Peters Point Road and Point of Pines Road

(2) The portion of James Island which is east of the west bank of the James Island Creek.

(3) The portion of John's Island which is east of Exchange Road which becomes Plow Ground Road to Hoopstick Island Road to Church Creek.

(4) The portion of Wadmalaw Island which is east of Roseville Road to west of Cherry Point Road to Maybank Highway to Brigger Hill Road.

(5) all areas north of the City of Charleston which are east of U.S. Highway 17 and west of the intracoastal waterway.

(c) the following areas in Georgetown County:

(1) all areas between the Harrell Siau Bridge and the Georgetown – Horry County border which are east of the west bank of the intracoastal waterway and west of U.S. Highway 17 or By-Pass 17, whichever is farther west.

(2) all areas south of the Harrell Siau Bridge which are east of U.S. Highway 17 and west of the intracoastal waterway

(d) the following areas in Horry County:

(1) Beginning at the northern border of Horry County, an area bounded on the west by a line defined as follows: SC Highway 57 (Wampee Road) to the point where it meets SC Highway 9, then following SC Highway 9 east to SC Highway 31 (Carolina Bays Parkway), then following SC 31 west to River Oaks Drive, then following River Oaks Drive to US Highway 501, across US Highway 501, where the road becomes George Bishop Parkway, then following George Bishop Parkway and turning right onto Claypond Road, following Claypond Road to Burcale Road, then following Burcale Road until it ends at Riverside Drive. The line then continues in a straight line from the end of Burcale Road to the intracoastal waterway, where it then follows the waterway to the Georgetown – Horry County border.


(2) The eastern boundary of Zone 2 in Horry County is the western boundary of Horry County Zone 1 as defined above.

Maps of the Wind Pool territory are attached as Exhibit 2.

4. As set forth in the March 21, 2007 order, this additional expansion must be implemented so as not to compete with the admitted market. The Wind Pool shall develop and submit to the Department its tiered rates or a tiered rating plan that reflects the relative risks of the properties located in the respective area(s). Zone 1 will be considered a separate territory from Zone 2 for ratemaking purposes.

5. This order supplements and incorporates by reference the order that was issued on March 21, 2007 and 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.

  
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Scott H. Richardson  
Director

May 23, 2007  
Columbia, South Carolina



Ridgeland

Laurel Bay

Burton

Port Royal

Shell Point

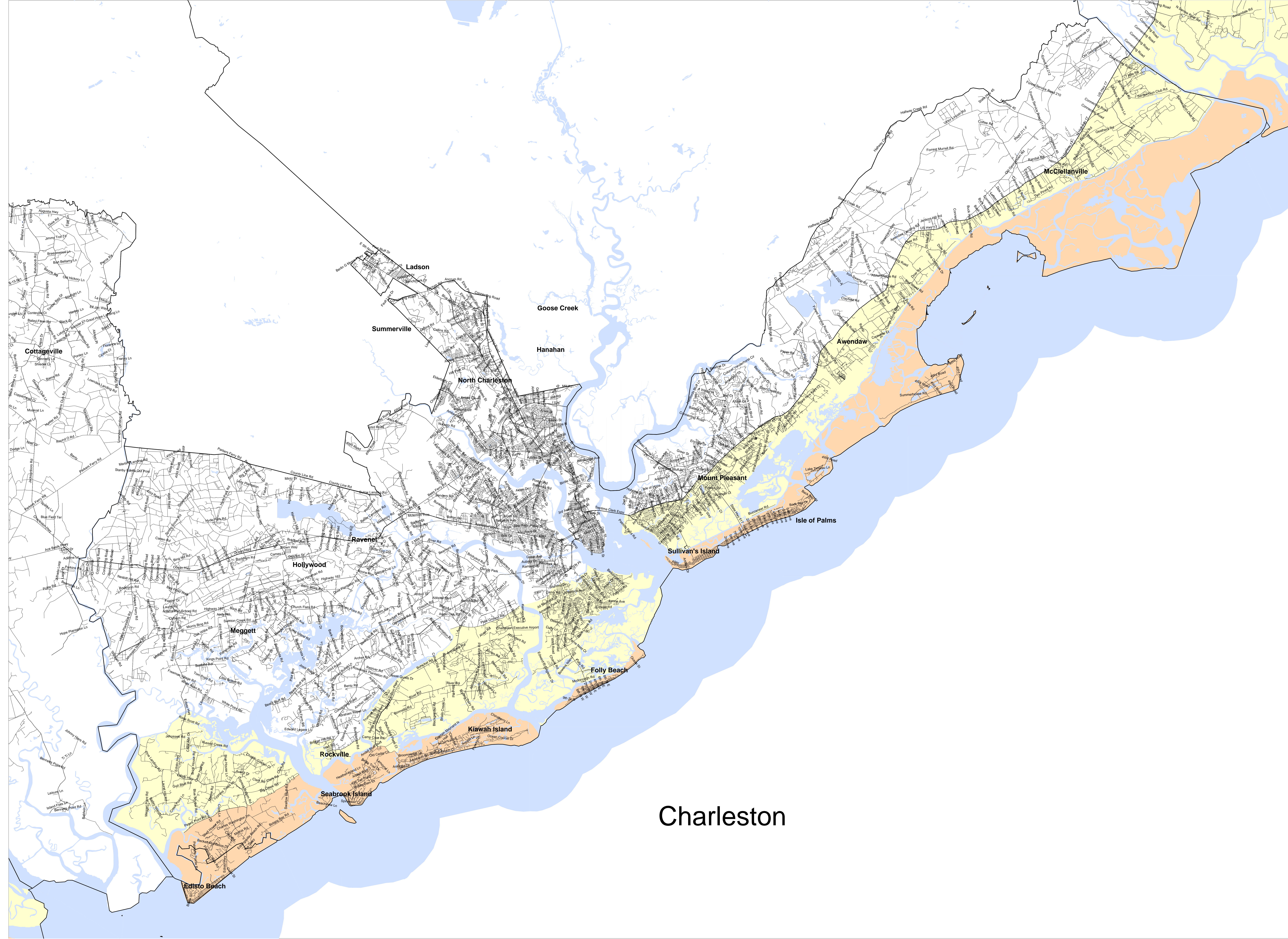
Parris Island

Hilton Head Island

Bluffton

Beaufort





Cottageville

Ladson

Summerville

Goose Creek

Hanahan

North Charleston

Awendaw

McClellanville

Mount Pleasant

Isle of Palms

Sullivan's Island

Hollywood

Ravenel

Meggett

Folly Beach

Kiawah Island

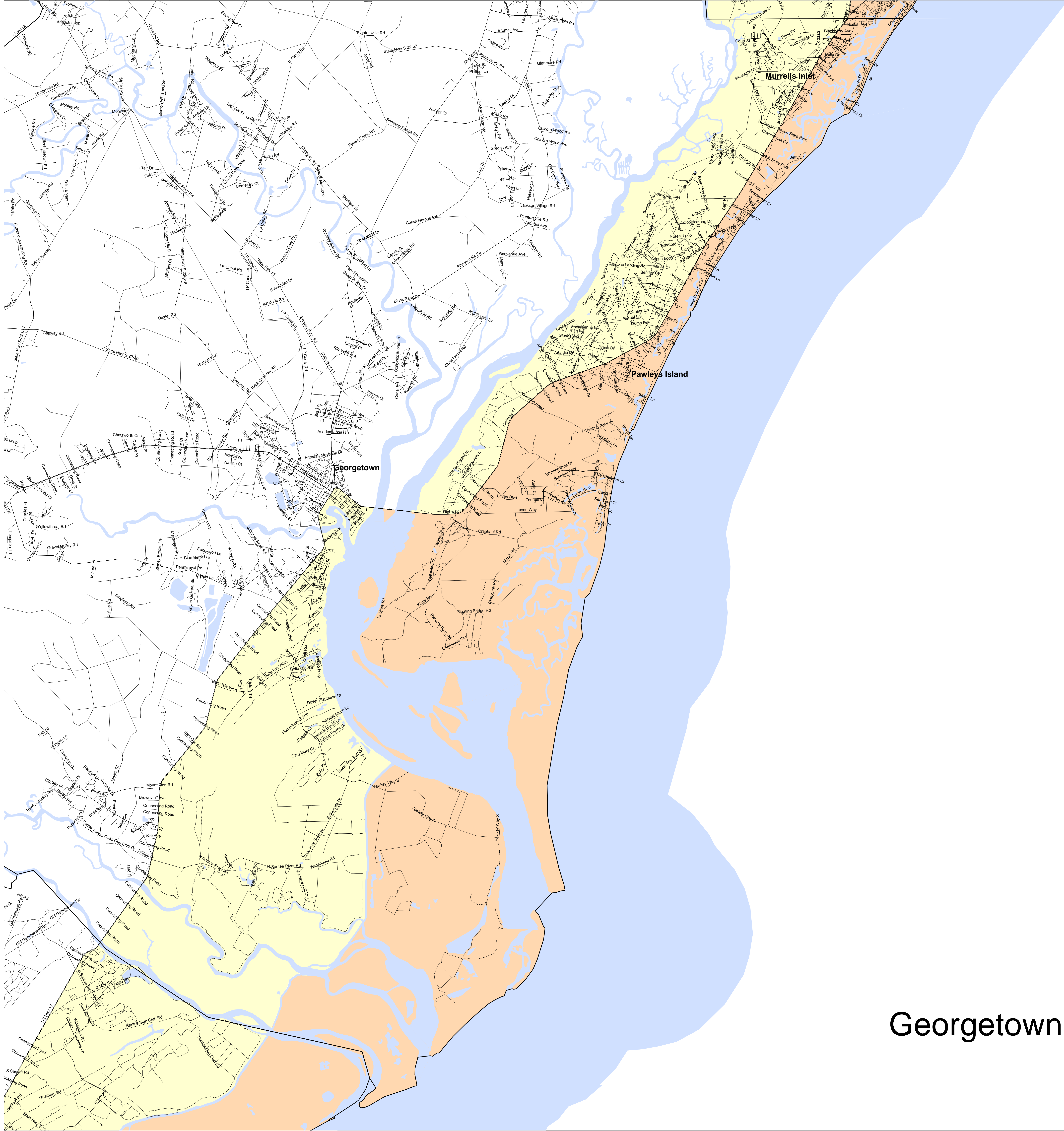
Rockville

Seabrook Island

Edisto Beach

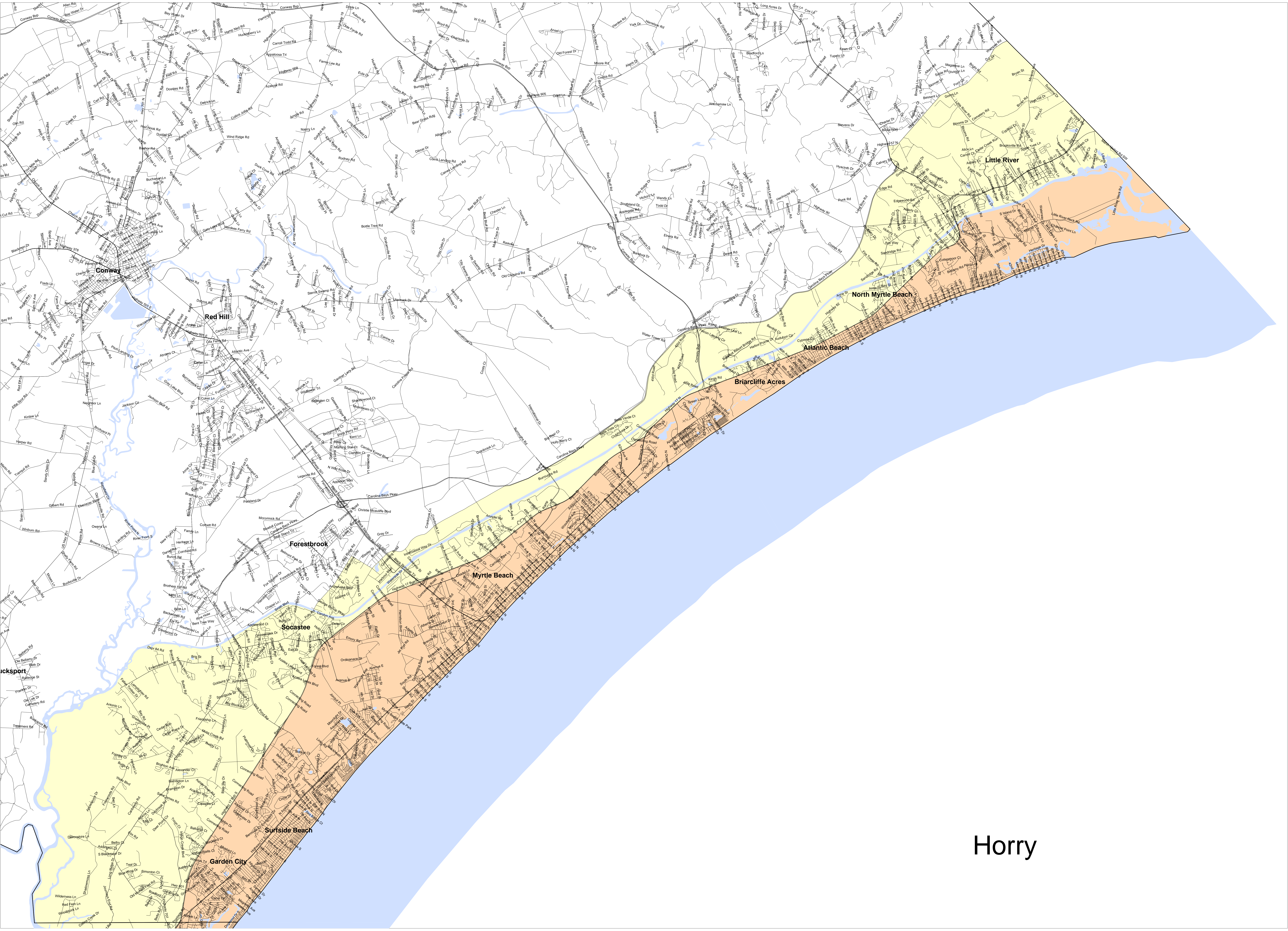
Charleston





Georgetown





Horry