

**DIVISION X  
FREQUENTLY ASKED QUESTIONS**

**A. ACTUAL CASH VALUE, DEPRECIATION AND THE CLAIMS PROCESS**

1. How do you determine actual cash value?

The South Carolina Wind & Hail Underwriting Association's policies are primarily written on an actual cash value basis (ACV). Actual cash value is equal to the replacement cost of new materials minus any physical depreciation (ACV = replacement cost - depreciation) at the time of loss. We determine depreciation based on a combination of objective criteria (taking into account the category and age of the property) and the adjuster's assessment based on visual observations or a photograph of the property.

2. How is depreciation calculated?

The most common method of calculating depreciation is based on the life expectancy of the item, with adjustments made for the item's age and condition. For example, the normal life expectancy of a composition roof is 20 years. Under normal conditions, the roof depreciates at a rate of 5 percent per year. If the roof is eight years old with typical wear and tear, the depreciated amount is 40 percent. (5 percent x 8 years = 40 percent.) The actual cash value of the roof is 60 percent of the replacement cost. (100 percent - 40 percent = 60 percent).

Age alone does not determine ACV. An older structure may be properly maintained and periodically updated. For instance, the heating and air conditioning system may be less than five years old. The siding may have been recently painted and any deteriorated wood replaced. In such a situation, depreciation may be limited on those components of the building.

Most courts, however, when using replacement cost as a basis for determining actual value, take depreciation into account. This method is favored because it comes closer to reimbursing an insured for the actual loss. In loss situations, an insured will normally repair or replace property with new materials. In most instances, this will increase the value of the property and if the insured were reimbursed the full amount of the repair costs, the insured would recognize a gain. Therefore, a reduction for depreciation is proper in calculating the actual cash value of the loss.

Finally, the modern trend in determining actual value in South Carolina is the "broad evidence rule" test. Under this rule, any evidence logically tending to the formation of a correct estimate of the value of the insured property at the time of loss is used. This broad rule allows the adjuster to consider such items as:

market value	real estate listings
economic conditions	pending contracts of sale
functional obsolescence	tax assessments
replacement cost	prior sales of the property
depreciation	real estate appraisals
age of the property	use
original cost	location
condition of the property	

## B. MITIGATION PROGRAM

1. Why did you implement a mitigation credit program?

Section 38-75-755 of the South Carolina insurance code requires insurance companies to notify policyholders of the availability and range of each premium discount, credit and other differential, or reduction in deductibles for properties on which fixtures or construction techniques demonstrated to reduce the amount of loss in a windstorm have been installed or implemented. The change was contained in a South Carolina Department of Insurance sponsored bill (H380). The provision was effective January 1, 2008.

2. What are the various options available to obtain mitigation credit?

There are three ways in which an insured can obtain mitigation credits.

The first method is the ***Insurance Institute for Business and Home Safety's Fortified Homes ..... For Safer Living (IBHS)***. The credit is 20% and only applies to the dwelling program. To obtain the credit, the insured must produce a document from IBHS which certifies that the home was constructed to the ***IBHS Fortified For Safer Living*** standards.

The second option is the **SC Safe Homes Program**. The South Carolina Department of Insurance sponsors this program. Consumers can have a certified inspector conduct an inspection of the property. If deficiencies are found, there is a list of certified contractors that can perform the work necessary to bring the home in compliance with the program standards. Additionally, there is a grant program from the state to assist in funding repairs. There is a 5% credit available at the time of certification. The credit applies to the dwelling and mobile home programs. The insured must supply a copy of the **SC Safe Home Program** inspection as well as a copy of the report from the certified contractor indicating that the home is in compliance with the standards.

The third method is "Other Mitigation Techniques". The Association provides credit in each of four areas. These are as follows:

Openings – Impact resistant windows and/or shutters

Roof Construction – Techniques such as roof ties and/or clips

Non-frame Construction – Structures made of masonry non-combustible materials or better (does not include masonry veneer or "hardi-plank" construction)

Building Codes – Structures built which meet the 2006 building code and which were issued a certificate of occupancy on January 1, 2007 or later.

The credits apply to the various programs as outlined in the following chart.

	Opening Protection	Roof Tie Downs	Building Codes	Non-Frame Construction
Dwelling & Townhomes	X	X	X	X
Manufactured Homes	X		X	
Condo-Unit Owners	X	X	X	X
Commercial	X	X	X	

X – Indicates that a credit is available for that line of business/mitigation technique.

Meeting one technique results in a 1% credit

Meeting two or three techniques results in a 3% credit

Meeting all four requirements results in a 5% credit

(Commercial only) – 1 requirement = 1%, 2 requirements = 3%, 3 requirements = 5%

Two forms must be submitted to the Association in order to obtain credit. Each program (Dwelling, Manufactured Home, Condo-Unit Owner and Commercial) requires an Insured Verification and a Contractors Certification Form. Failure to properly complete and forward both forms will result in no credit applied (both forms must be signed and notarized). The forms can be found on the Association web site under the Forms heading.

2. Which coverages do Mitigation credits apply towards?

The credits apply to all coverages for a structure subject to the mitigation efforts (i.e. building, contents, increased cost in construction and time element). Credits do not apply to other structures or outdoor property items.

3. Why can't the agent rate and automatically apply credits when submitting applications and/or endorsements?

Due to the certification process, only the underwriters can apply the credits after a review of the submitted documentation. The insured's verification form and the contractor's certification form are both required to be submitted. The forms must be completed in their entirety and notarized. We accept mailed, faxed and e-mailed copies of the completed forms.

4. The Association periodically inspects property. Will the inspectors verify mitigation measures?

No. The Association inspection program is designed to provide underwriting information regarding the general condition of the exterior of the premises. Many of the mitigation techniques require access to the interior of a home or building and the vendors used to conduct the inspections are not qualified to determine mitigation efforts.

5. Why don't you allow credit for window film?

Window film offers many benefits (insulation, reduction in UV rays, security), but it does not offer protection against high winds. Window film can, in some instances, reduce the probability of shards of glass flying into a home.

The Institute for Business and Home Safety (IBHS) has produced a booklet on retrofitting existing structures which states, "To date, no daylight installed window film, regardless of its thickness, has passed any impact-resistant standard."

The same information is available from the International Window Film Association ([www.iwfa.com](http://www.iwfa.com)).

6. How can I learn more about mitigation?

A great place to begin is [doi.sc.gov/605/SC-Safe-Home/](http://doi.sc.gov/605/SC-Safe-Home/). This is a program sponsored by the South Carolina Department of Insurance. There is also information regarding a grant program to assist consumers with mitigation efforts.

The Institute for Business and Home Safety also sponsors an informative site at [www.disastersafety.org](http://www.disastersafety.org).

7. Can I obtain "partial" credit if a portion of the structure meets the mitigation requirements?

Examples include:

All oceanside windows have storm shutters, but none on the rest of the structure.

An addition was made that meets the mitigation standards, but the original structure does not.

No. Partial credits are not permitted. It is important to protect the entire exterior envelope of the structure.

8. Do mitigation credits apply to builders risk policies?

No. Credits do not apply to buildings under construction. The home must be complete and the certificate of occupancy issued.

9. Will the Association accept mitigation forms of other companies?

No. The Association's forms are filed with the South Carolina Department of Insurance. These particular forms are required in order to receive credit.

10. Are we required to annually notify the insured of the availability of credits?

Yes. All policy sets that are mailed to the insurance producer include a copy of the annual notification. This includes both new business and rewrites.

11. Can mitigation credits be applied mid-term?

Yes. If an insured undertakes mitigation efforts mid-term (i.e. installation of storm shutters), credit can be applied. The producer will also have to refund a portion of the unearned commission.

12. Do you have a list of qualified contractors or inspectors who can perform the required inspection and complete the necessary paperwork?

No. However, the South Carolina Department of Insurance has a list of qualified and approved individuals used in the South Carolina Safe Home Program. These individuals are qualified to complete the forms. The list can be found at [doi.sc.gov/605/SC-Safe-Home/](https://doi.sc.gov/605/SC-Safe-Home/) under the "Contractors" heading.

13. How do I apply mitigation credits on rewrite business?

If the Association has previously endorsed a policy to apply mitigation credit, the rewrite will reflect the discount in the rate. The mitigation paperwork is not required to be forwarded annually.

**C. AGENT OF RECORD ASSIGNMENTS** -- Why doesn't the Association honor agent of record (AOR) assignments/letters?

1. Association policies are written on an annual basis with no continuation privileges and a new application is required from the producer annually. Payment of the wind and hail policy is net of commission. The Association reports producer commissions to the IRS and if we allowed the change mid-term, premiums would not be assigned to the correct producer.
2. If a new producer desires to takeover an existing policy, the following options are available:
  - a. Have the current agent cancel the existing policy.
    - (1). Cancellation is on a prorated basis.
    - (2). The new agent must submit a new application (photos not required) and full term premium (net of commission). This effort must be coordinated in order to ensure that the cancellation request and the new application are submitted together.
    - (3). If coordination is not achieved, there is a possibility that there will be a lapse of coverage.
    - (4). Any increase in coverage requested on the new application is subject to the waiting period.
  - b. An alternative (and much simpler) process is for the new agent to submit a new application at rewrite. The current producer will allow the existing policy to expire and the new agent will submit a rewrite application and will not be required to submit new photos. The new rewrite application is subject to the Association timelines (the application and premium payment must be received within seven days of the prior policy expiration).

**D. MORTGAGEE REQUESTS FOR ATIMA/ITS SUCCESSORS AND/OR ASSIGNS** – Why doesn't the Association include as their interests may appear and/or its successor and assigns language when requested by a mortgage company?

1. Any loss is payable as interests may appear when there is a mortgagee named in the policy. There are specific conditions in the mortgage clause that provide special conditions for a mortgagee's interest.
2. When the mortgagee is stated under the mortgage clause, the conditions in that clause are activated and such conditions are sufficient for that interest.
3. Any other terminology or references are unacceptable. The Association must know the successor and/or assigns (must be specifically named) as the label is too far reaching and broad to identify the assignment of successors.
4. We must have a firm identification of the mortgagee in order to process a claim and complete a settlement. It is our prerogative to review any assignment made with the contract.
5. Assignments can be made to a specified interest at the time of claim handling.

**E. VALUATION, RATING AND THE LOSS SCALE** - Can you explain the purpose of the Loss Scale rating algorithm and why the rates are different for two policies both insured for the same amount of coverage?

The loss scale calculation (also known as the Texas Loss Scale) is a rating mechanism that provides a way to adequately charge for structures which exceed the values available under the wind and hail policy.

The maximum available limits for all coverages (structure, contents, increased cost in construction and indirect loss) at any one location cannot exceed the following:

1. \$1,300,000 for one-to-four family dwellings (including mobile homes and condominium-unit owners) and condominium buildings consisting of one or two units.
2. \$2,500,000 for all other classes of risks

Because of this limitation, the Association can write coverage on higher valued structures, but the rates are based on the Loss Scale calculation. The wind and hail policy provides first dollar coverage in the event of loss. The Association does not write excess of loss coverage.

By South Carolina Law, the maximum available limits from the Association must be used prior to obtaining excess wind coverage. Also, the Association does not provide any type of deductible buy back coverage.

An example may help explain the reasoning behind the methodology.

The Association is insuring a condominium building for \$2,500,000 (replacement cost is \$2,500,000) and an oceanfront hotel for \$2,500,000 (replacement cost is \$10,000,000). The hotel policy will be charged a higher premium due to the increased exposure \$10,000,000 vs. \$2,500,000 and the fact that the Association pays first dollar coverage.

Assume that Hurricane Anna causes 10% damage to both structures. The condominium building has suffered a \$250,000 loss while the oceanfront hotel has a \$1,000,000 loss. From a ratemaking viewpoint, the condominium building should not have to pay the same premium as the oceanfront hotel since the loss exposure is not as great. The loss scale formula provides the equitable solution to the problem.

An often misunderstood aspect of the calculation is that the Association **is not** charging a premium based on the total value of the oceanfront hotel. The formula bases the premium on a **percentage of the total value** which reflects the "first dollar" coverage aspect of the wind and hail policy.



**F. NAMED STORM DEDUCTIBLE, NON-NAMED STORM DEDUCTIBLE, AGGREGATE DEDUCTIBLE**

1. Personal Line Policies (Dwelling, Mobile Home, Condo-Unit Owner)
  - a. The deductible percentage shown on the Declarations page is both an occurrence deductible (for named storms) and a policy year aggregate deductible.
  - b. A standard 1% deductible applies to all non-named storm claims.
2. Commercial Lines Policies
  - a. The deductible percentage shown on the Declarations page is an occurrence deductible only. Commercial policies are not eligible for the aggregate deductible or the non-named storm deductible.
3. Personal lines claims examples
  - a. Assumptions - Policy effective 01/15/2015 - 01/15/2016
    - (1). Dwelling Coverage A limit - \$300,000 (With replacement cost coverage).
    - (2). Dwelling Coverage C limit - \$150,000 (Actual cash value coverage).
    - (3). Non-named storm deductible – 1% or \$3,000 for dwelling, \$1,500 for contents.
    - (3). Named storm deductible (shown on the Declarations page) – 5% or \$15,000 for dwelling, \$7,500 for contents.
    - (4). Aggregate deductible – 5% or \$15,000 for dwelling, \$7,500 for contents.
  - b. Claims
    - (1). Wind claim occurs 2/15/2015 – Thunderstorm that results in \$2,000 in covered damage to the dwelling, \$500 damage to contents. Since this is a non-named storm claim, the claim would be adjusted as follows:
      - (a). The dwelling non-named storm occurrence deductible is \$3,000.
      - (b). The contents non-named storm occurrence deductible is \$1,500.
      - (c). The dwelling loss is below the \$3,000 deductible and therefore no payment would be made. The aggregate deductible however would be reduced by \$2,000. The current aggregate deductible becomes \$13,000.

- (d). The contents loss is below the \$1,500 deductible and therefore no payment would be made. The aggregate deductible however would be reduced by \$500. The current aggregate deductible becomes \$7,000.
- (2). Hail claim occurs on 3/15/2015 – The claim results in \$4,000 roof damage, no damage to contents.
- (a). The dwelling non-named storm occurrence deductible is \$3,000.
  - (b). The dwelling loss exceeds the \$3,000 deductible. The Association would pay \$1,000 and the aggregate deductible would be reduced by \$3,000. The current aggregate deductible becomes \$10,000.
  - (c). Since there was no contents claims activity, the contents aggregate deductible remains unchanged at \$7,000.
- (3). Hurricane Anna occurs on 9/1/2015 – The claim results in \$20,000 damage to the dwelling and \$8,000 damage to contents.
- (a). The dwelling named storm occurrence deductible is \$15,000.
  - (b). The contents named storm occurrence deductible is \$7,500.
  - (c). The dwelling loss exceeds the \$15,000 named storm deductible. The Association payment would be as follows:
 

Claim	\$20,000
Deductible	\$10,000
	(\$15,000 named storm less \$5,000 previously applied to the aggregate deductible)
Payment	\$10,000
  - (d). The contents loss exceeds the \$7,500 named storm deductible. The Association payment would be as follows:
 

Claim	\$8,000
Deductible	\$7,000
	(\$7,500 named storm less \$500 previously applied to the aggregate deductible)
Payment	\$1,000

(4). Hurricane Laura occurs on 10/1/2015 – The claim results in \$40,000 damage to the dwelling and \$20,000 damage to contents.

(a). The dwelling named storm occurrence deductible is \$15,000.

(b). The contents named storm occurrence deductible is \$7,500.

(c). The dwelling loss exceeds the \$15,000 named storm deductible. The Association payment would be as follows:

Claim           \$40,000

Deductible     \$     0  
(\$15,000 named storm less \$15,000 previously applied to the aggregate deductible)

Payment       \$40,000

(d). The contents loss exceeds the \$7,500 named storm deductible. The Association payment would be as follows:

Claim           \$20,000

Deductible     \$     0  
(\$7,500 named storm less \$7,500 previously applied to the aggregate deductible)

Payment       \$20,000

Policy Period 1-15-2015/1-15-2016

Coverage A \$300,000

Coverage C \$150,000

5% Named Storm (NS) Deductible

1% Non-Named Storm (NN) Deductible

Coverage A Aggregate Deductible - \$15,000

Coverage C Aggregate Deductible - \$7,500

Loss Date	Loss Type	Cov A Loss	Deductible	Cov C Loss	Deductible	Cov A Pymt	Cov C Pymt	Cov A Aggregate	Cov C Aggregate
								\$15,000	\$7,500

2/15/2015	NN	\$2,000	\$3,000	\$500	\$1,500	\$0	\$0	\$13,000	\$7,000
3/15/2015	NN	\$4,000	\$3,000	\$0	\$1,500	\$1,000	\$0	\$10,000	\$7,000
9/1/2015	NS	\$20,000	\$15,000	\$8,000	\$7,500	\$10,000	\$1,000	\$0	\$0
10/1/2015	NS	\$40,000	\$15,000	\$20,000	\$7,500	\$40,000	\$20,000	\$0	\$0

**G. LOSS OF USE COVERAGE** – Can you describe the coverage provided by the Loss of Use coverage which is applicable to the Dwelling, Mobile Home and Condo-Unit Owners policies?

Loss of Use coverage is comprised of two basic types of coverage – Additional Living Expense and Fair Rental Value.

The Additional Living Expense component provides coverage for any necessary increase in living expense incurred so that a household can maintain its normal standard of living. This coverage is particularly useful for insured's that are covering their primary dwelling under the Association policy. Payments under this coverage would help cover expenses such as temporary hotel/motel expenses arising out of the inability to reside in the dwelling due to wind damage.

The Fair Rental Value coverage provides "fair rental value" to that part of the insured location that is rented to others. If the location is not "fit to live in" then Fair Rental Value coverage is paid based on the likely rental income if no loss or damage had occurred. Dwellings that are seasonal or secondary and which are rented would benefit from this coverage part.

There are two limits options available under Loss of Use Coverage (they must be requested as the coverage is not automatically provided).

If the dwelling is covered under the Association policy, the following options can be provided:

1. 20% of Coverage A (Dwelling) – High option
2. 10% of Coverage A (Dwelling) – Low option

If the dwelling is not covered under the Association policy (personal property coverage only), the following options can be provided:

1. 40% of Coverage C (Contents) – High option
2. 20% of Coverage C (Contents) – Low option

Loss of use coverage is subject to a deductible. The deductible is a time deductible and is based on the underlying percentage deductible for dwelling or contents. For example, the insured has requested the following:

1. Dwelling coverage - \$100,000, 3% deductible
2. Contents coverage - \$50,000, 3% deductible
3. Loss of use coverage (Low option based on Dwelling limit) - \$20,000, 20 day deductible period.

Payment for Loss of Use coverage would begin on the 20<sup>th</sup> day following a covered loss. Direct loss of covered property is required for the coverage to activate and will be paid up to the applicable limit of insurance (\$20,000). There is no coverage for evacuation prior to a storm or due to acts of governmental authority.

**H. SCWHUA INSPECTION PROGRAM** – Can you explain the purpose of the SCWHUA inspection program?

The Association endeavors to inspect all insured property using the services of a third party vendor. The application for insurance has a section on the rear which notifies the insured of the inspection and authorizes the Association to conduct the inspection. Inspections are typically completed in fifteen minutes or less and simply require access to the exterior of the premises. There is no charge to the insured for the service. The producer plays a key role in this process and should inform the insured of the inspection program at the time the application is prepared and again at time of policy deliverance.

The Association endeavors to inspect all new business and then every 2-5 years thereafter depending on the results of the prior inspection. Notification is mailed to the policyholder approximately one week prior to the inspection service receiving the request from the Association. The notification letter states that the property is being sent to inspection and provides a summary of what the inspector will be doing. The inspectors do not call ahead for appointments. The insured is not required to be on-site at the time of the inspection since the inspectors do not need access to the interior of the structure.

The inspector will go to the front door to notify the insured (or tenant) that they are on the premises and will be conducting the inspection on behalf of the Association. The inspectors carry identification and have a letter of introduction on Association letterhead explaining the purpose of the visit. The inspectors also have signs on their vehicles which indicate their business name. The inspectors carry appropriate insurance coverage (workers compensation and liability coverage).

The major aspects of the inspection include:

- Take pictures of the exterior of the insured structure (and match the photo submitted by the insurance producer when the application was originally submitted)

- Examine the property for any maintenance or structural deficiencies (i.e. broken windows, fogged windows, missing/damaged fascia, rotting wood, torn screens, etc.)

- Stand on the roof and provide an estimate of roof wear (i.e. 50% worn, missing or damaged shingles or shingle tabs, missing/damaged flashing around chimneys, etc.)

- Obtain the latitude and longitude of the location using a hand held geo-coding device.

- Verify that Association tie-down and pier requirements are met on all mobile home policies.

The inspection is extremely important. The coastal environment is particularly harsh with regards to the roof and exterior wear. The roof is often the weakest link in the exterior envelope of a building. The inspection helps to point out potential problems with regard to roof wear and tear and in the overall condition of the structure at the time of the inspection.

Copies of the inspection are available to the insurance producer using the Policy Inquiry function on the Association's web site.

## I. SCWHUA – WHO WE ARE

### 1. Why is there a wind and hail association in South Carolina?

The South Carolina Wind and Hail Underwriting Association (SCWHUA) is the residual property insurance market in South Carolina. It provides coverage for the perils of wind and hail in the coastal area of the state designated by the Legislature as "Beach." The territory is defined by state law.

In 1971, the South Carolina Legislature required the insurance industry to make wind and hail insurance coverages available to home and business owners in the coastal area. This action was necessary because some residents and business owners were unable to obtain wind and hail coverages due to their close proximity to the coastline. The Association has served as a tremendous benefit for businesses and residents living in the beach region of the state.

Although its official name is the South Carolina Wind and Hail Underwriting Association, it is often referred to as the Beach Plan or Wind Pool. It is an Association of insurance companies which makes wind and hail property insurance available to people and businesses in the coastal area who are not able to buy it through the standard insurance market.

Since the Association is formed as an annual partnership, the individual companies participate in the Association based on their total property writings in the state from a prior base year.

**The Association is not affiliated with the state of South Carolina and is not a state agency.** SCWHUA is treated as a domestic insurance company by the South Carolina Department of Insurance and is regulated by that Department for rates, rules and forms. The Association does not receive any type of funding or monies from the State of South Carolina.

### 2. Who Operates the Beach Plan?

SCWHUA is under the direction of a Board of Directors which acts as the governing body for the organization. The Board consists of eleven insurance company representatives, two coastal insurance agents, and four consumer representatives. The Plan is managed by a staff of professional insurance individuals who are independent of any single insurance company. All property and casualty insurance companies conducting business in the State are required to participate in funding the Plan and share in any losses or profits.

### 3. Who are our agents?

By state law, the Association does not have any agents. Any individual holding an insurance license from the South Carolina Department of Insurance may submit applications. These individuals have no authority to act on behalf of the Association.

The Association does not accept applications or requests for coverage directly from consumers.

**J. FLOOD INSURANCE REQUIREMENT – Why does the Association require Flood Insurance for the purchase of replacement cost coverage under the wind and hail policy?**

The Association requires that a flood insurance policy be in place in order to purchase replacement cost coverage under the wind and hail policy. The flood policy is required regardless of whether the property is in a special flood hazard area (Zones A and V) or in a low risk flood zone (Zones C or X).

The requirement resulted from discussions with the South Carolina Department of Insurance after reviewing the claims and difficulties which arose along the Gulf Coast after Hurricanes Katrina, Rita, Wilma and Ike. Policyholders who purchased both wind and flood policies had far fewer problems at adjustment time and were in much better position to cover losses. Additionally, a number of insurance agents (and companies) were sued due to the lack of communication regarding the availability of the purchase of flood insurance. Astoundingly, 30-35% of all flood losses occur outside Zones A and V (also known as SFHAs) and flood premiums are relatively inexpensive when the properties are not located in an SFHA.

The flood policy must be written through the National Flood Insurance Program (NFIP) or through a Write-Your-Own flood carrier authorized by the NFIP. Non-NFIP policies can also meet the requirement.

The Association's replacement cost endorsement form requires that the insured produce a copy of an in-force flood policy declarations page at the time of loss. If there is no flood policy (or if the insured does not produce the required documentation), any loss will be adjusted on an actual cash value basis.

The experiences of Hurricanes Katrina, Rita and Wilma have reminded consumers that flood insurance is essential in the event of a major wind and flood event. The Association rule is designed to encourage more policyholders to purchase flood insurance.

**Hurricane facts**

- Flooding is the number one natural disaster
- Flood damage is not covered under most homeowners policies
- For SFHA eligible properties, one in four homes will experience a flood over the course of a 30 year mortgage
- Disaster assistance is often eligible to property owners after a flooding event. The amounts however are paid as a loan and must be repaid (with interest) in addition to the continuing monthly mortgage payments
- An inch of water can cause a great deal of damage to a home
- Flash floods often bring walls of water which are 10 to 20 feet high
- There is a 30 day waiting period after purchase before a policy becomes effective

Source [http://www.floodsmart.gov/floodsmart/pages/flood\\_facts.jsp](http://www.floodsmart.gov/floodsmart/pages/flood_facts.jsp)



**K. WIND DRIVEN RAIN POLICY EXCLUSION** – Can you explain the wind driven rain policy exclusion found in the wind and hail policy forms?

The wind driven rain exclusion precludes coverage for rain entering a structure due to inadequate window seals, leaking under doors, open windows, or any other situation in which wind does not first cause an opening to result in damage to the structure.

A case in which wind driven rain would be covered would be if wind caused a branch to fall on a roof which causes a hole. In this case, any water damage resulting would be covered since the wind first caused damage which allowed rain to enter.

Maintenance type claims (faulty seals) and structural issues (such as improperly hung doors which allow rain to seep around a door frame) are not covered since wind did not first cause damage to the building.

- L. **SCWHUA MAPPING PROGRAM** – Can you explain why the web site mapping program sometimes cannot identify (or improperly locates) a particular location?

The Association uses various databases and mapping software tools to map addresses. The vendors who provide the data obtain their information from the U.S. Census Bureau along with the United States Postal Service. It sometimes takes up to a year for the vendors to receive updates (and implement them in their software) before they appear correctly in the various mapping programs.

The Association understands that these limitations sometimes place a burden on the producer attempting to determine the eligibility (or Zone) of a particular address. The Quick Quote function of the web site requires that the address be entered in order to rate a policy. If a producer knows that an address has been mishandled by the mapping software, the quote can still be completed by overriding and entering a Zone manually.

Additionally, the Association verifies all addresses and Zones when the property is inspected. The inspectors obtain the property latitude and longitude coordinates using a handheld geo-coding device. If a property has been written incorrectly, the Association notifies the producer of the geo-code results and will either cancel the policy (if not in the territory) or modify the Zone based on the actual geo-code reading of the physical location.

**M. A.M BEST RATING** – Can you explain why the Association does not have a rating from any of the financial rating companies utilized by the financial markets?

The Association does not have a Best rating. No financial rating organizations analyze residual markets.

Several years ago, representatives of the residual property plans met with A.M. Best to discuss the possibility of rating the Associations. Two major points were discussed:

1. In order to receive a rating, an organization must purchase services from A.M. Best. The fees can be significant and would be passed along to consumers in the form of rate increases.
2. Due to the nature of residual markets, the rating assigned would be “NOT RATED”. There would be no benefit to the public of analyzing such a rating.

The residual markets (including SC Wind), are financed by the entire admitted insurance market doing business in a particular state. In fact, most residual market mechanisms are technically “bankrupt”. If premium revenues (and reinsurance recoverables) are not adequate to pay claims, the member companies of the Association(s) are required to fund the deficit.

The Association periodically receives requests from mortgage holders for “cut-through” endorsements since there is no A.M. Best rating available for review. Cut through endorsements are documents issued by the insurer (in this case SCWHUA) that state that a reinsurer will become responsible for any losses not paid by the insurer. The Association does not have a reinsurer willing to participate in such a program since losses exceeding the claims paying ability of the Association are assumed by the member companies.

**N. COINSURANCE** – Can you explain the application and reasoning for the coinsurance clause in commercial policies?

The Coinsurance Provision is a requirement placed on the policyholder to purchase a specified percentage of the value of the property (insurance to value). If the limit of insurance is not at least equal to the specified percentage, a penalty is imposed on any loss recovery.

Since most losses are partial, insured's could purchase an amount of insurance that would not fully cover their potential total loss. By doing so, they would be paying a rate that does not reflect the true cost of insuring the risk.

The rates in the Association's Commercial program are based on 80% coinsurance factors. This means that the insured's are required to carry at least 80% of the total value of their property. The Association also provides 90% and 100% coinsurance rates (which provide a premium discount since the policyholder is properly insuring to value).

A few examples to illustrate the concept follow.

**Example No. 1 (Underinsurance):**

The actual cash value of the property is	\$1,000,000
The Coinsurance percentage is	80%
The Limit of Insurance is	\$500,000
The Deductible is	\$30,000
The actual cash value of loss is	\$100,000

Step (1):  $\$1,000,000 \times 80\% = \$800,000$   
The minimum amount of insurance required to meet the Coinsurance requirement

Step (2):  $\$500,000 / \$800,000 = .625$   
The amount of insurance carried divided by the amount required to be carried  
Since the amount carried percentage (62.5%) is less than the 80% required to be carried, the insured will share in any loss

Step (3):  $\$100,000 \times .625 = \$62,500$   
The amount of the loss multiplied by the computed coinsurance requirement

Step (4):  $\$62,500 - \$30,000 = \$32,500$   
The coinsurance adjusted loss is then reduced by the amount of the deductible

We will pay no more than \$32,500. The remaining \$30,000 is not covered.

**Example No. 2 (Adequate Insurance):**

The actual cash value of the property is	\$1,000,000
The Coinsurance percentage is	80%
The Limit of Insurance is	\$850,000
The Deductible is	\$30,000
The actual cash value of loss is	\$100,000

Step (1):  $\$1,000,000 \times 80\% = \$800,000$

The minimum amount of insurance required to meet the Coinsurance requirement

Step (2):  $\$850,000 / \$800,000 = 1.0625$

The amount of insurance carried divided by the amount required to be carried

Since the amount carried percentage (106.25%) is greater than the 80% required to be carried, the insured will not share in any loss

Step (3):  $\$100,000 \times 1.00 = \$100,000$

The amount of the loss multiplied by the computed coinsurance requirement (will never be greater than 100%)

Step (4):  $\$100,000 - \$30,000 = \$70,000$

The loss is reduced by the amount of the deductible.

**O. CERTIFICATES OF INSURANCE** -- Why doesn't the Association honor certificates of insurance?

Producers are often requested to produce certificates of insurance for use by policyholders and other parties. Certificates referencing South Carolina Wind and Hail Underwriting Association coverage should be issued with caution.

1. **DO NOT** attempt to change policy terms/conditions. Certificates should never alter cancellation provisions or change deductibles. SCWHUA will in no way be bound by any producer issuing such certificates.
2. **DO NOT** indicate that SCWHUA will attempt to notify certificate holders of any policy changes. Certificate holders are not recognized as having an insurable interest in any SCWHUA policy form and will not receive any correspondence from the Association.
3. It is not necessary to send Certificates of Insurance to the Association since we do not maintain the Certificates or verify information listed on the Certificate.