STATUS OF THE SOUTH CAROLINA WIND AND HAIL UNDERWRITING ASSOCIATION

STATUS REPORT FOR 2009

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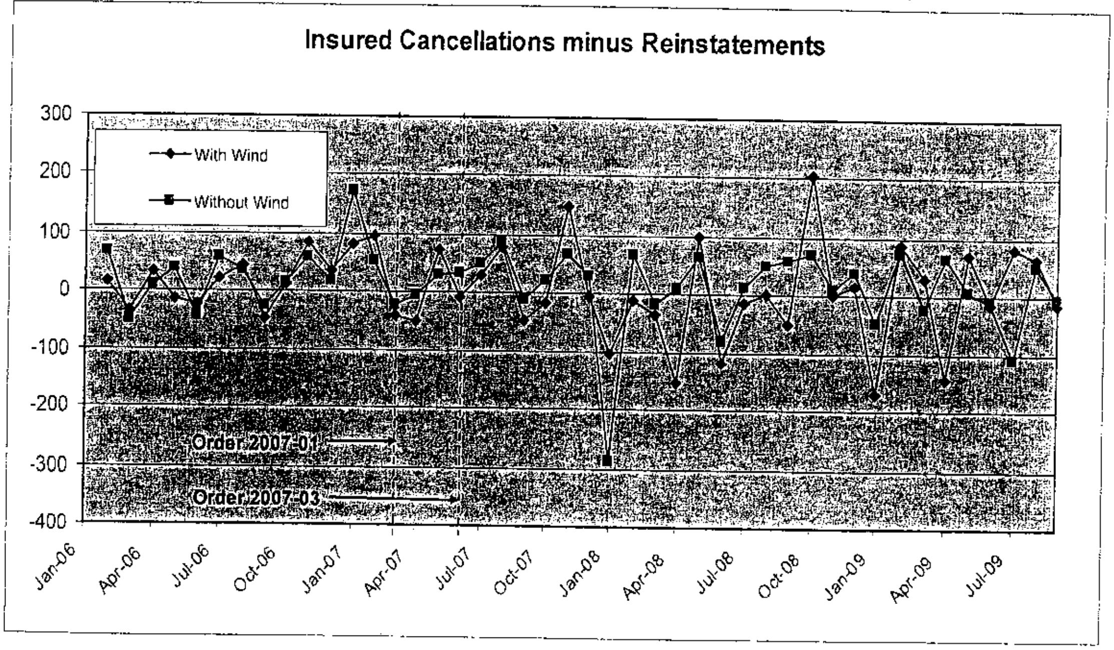
The average number of monthly "insured cancellations, minus reinstatements", of policies with wind compared to those without wind, shown below, depicts numbers were in the same range although the number of "with wind" policies-in-force is three times that of the number of "without wind" policies-in-force. The negative spike in January 2008 implies a market correction; the reinstatements outweighed policyholder initiated cancellations.

The average number of insured cancellations, minus reinstatements, was 11 to 16 in 2006, and stands at -1 to -1 in 2009 through the third quarter.

Graph VI(12): Number of Insured Cancellations less Reinstatements, Commercial



VII. Impact of the Omnibus Coastal Property Insurance Reform Act of 2007

The Omnibus Act included a number of reforms aimed at enhancing the availability and affordability of property insurance coverage in the coastal territories of South Carolina. Mitigation is a critical component of the legislation and most of the reforms were aimed at assisting the property owner with the fortification of his residence or business, thereby making it more resistant to hurricane damage.

Tax Credits for Property Owners. The Omnibus Act includes three state income tax credits, two of which are for the costs a homeowner incurs in making his home more resistant to losses due to hurricane damage. Section 12-6-3660 provides an income tax credit for the costs incurred to retrofit a structure qualifying as the taxpayer's legal residence to make it more resistant to loss due to hurricane, rising floodwater, or other catastrophic windstorm event. The tax credit for any taxable year is limited to 25% of the total costs incurred or $1,000, whichever is less. In addition, Section 12-6-3665 allows an income tax credit of up to $1,500 for state sales or use taxes paid on purchases of tangible personal property used to fortify one's legal residence.

Regulation 69-75 prescribes the standards which must be met to qualify for the aforementioned income tax credits as detailed in the *South Carolina Safe Home Resource Document for Mitigation Techniques*. Fortification measures must be accomplished in accordance with the standards contained in the *Resource Document*, a complete copy of which is available on the Department's web site at www.doi.sc.gov/consumer/coastal.htm.

The *Resource Document* describes each of the qualifying fortification measures from the regulation in detail to assist the homeowner, contractor and inspector in determining the correct products to be used and the procedures for completing each mitigation technique. The items used must have an ICC Evaluation Services Legacy Report or other appropriate test reports that are acceptable to the building officials after review for that location.

The fortification measures that qualify for the tax credit include roof covering construction; roof attachment; roof-to-wall connections; secondary water resistance; and opening protection. All retrofitting measures have to comply with the current edition of the International Residential Code as adopted by the South Carolina Building Codes Council or an engineer's or manufacturer's requirements for the wind speed for the area in which the home is located.

Regulation 69-75 also sets forth the evidence that a taxpayer must provide to the Department of Revenue to claim the credit. This includes a written certification report from a professional with experience in construction techniques with the appropriate receipts attached or an affidavit from the taxpayer certifying that the fortification measures have been implemented. Copies of the receipts must also accompany the taxpayer's affidavit.

Finally, Section 12-6-3670 provides an income tax credit for excess premiums paid during the applicable tax year for property and casualty insurance on a taxpayer's legal residence. Excess premium is the amount by which the premium exceeds five percent of the individual's adjusted gross income. Taxpayers must be able to demonstrate to the Department of Revenue that they are eligible in order to claim the tax credit. Unused credits may be carried forward for the five succeeding taxable years.

The tax credits are applicable to all taxable years beginning after December 31, 2006. As of the date of this report, data was not available from the South Carolina Department of Revenue on the number of taxpayers that have claimed the tax credits.

Catastrophe Savings Accounts. Article 11, Chapter 6, Title 12, as added by the Omnibus Act, creates and sets forth the guidelines governing catastrophe savings accounts. Such accounts allow South Carolinians to prepare for the financial impact of a catastrophic storm using tax-free dollars.

The monies contributed to a catastrophe savings account can be treated as a deduction from South Carolina state income tax. This account may be used by the taxpayer to finance an insurance policy deductible or to self-insure. The total amount that may be contributed for an individual whose qualified deductible is $1,000 or less is $2,000; if the qualified deductible is more than $1,000, an amount equal to the lesser of $15,000 or twice the amount of the qualified deductible. A person who self-insures may contribute up to $250,000 to the catastrophe savings account, not to exceed the value of the individual taxpayer's legal residence. If the taxpayer contributes more than the amount allowed, the excess must be withdrawn and treated as income in the year of withdrawal.

The funds can only be deposited into either a regular savings or money market account. An individual taxpayer can establish only one account and the account must be designated as a catastrophe savings account at the time it is opened. For example, a catastrophe savings account opened by Jane Doe would be established and maintained as the "catastrophe savings account for the benefit of Jane Doe," or by a similar name clearly indicating the name of the taxpayer and the special purpose of the account.

Distributions from the catastrophe savings account must be treated as income unless the funds are withdrawn to cover qualified catastrophe expenses. If expenses do not qualify as a qualified catastrophe expense, the sum will be treated as income and subject to a 2.5% tax penalty. The penalty will not apply if the taxpayer no longer owns the residence, or the distribution is from a qualified account and the distribution is made on or after the taxpayer reaches age 70. If the account-holder dies, the distributions to heirs or devisees will be considered as income to the person who inherits the account, unless the distribution is to the surviving spouse. Upon the death of the surviving spouse, any distribution or withdrawal will be considered income to the person who inherits the account.

As of the date of this report, data was not available from the South Carolina Department of Revenue on the number of taxpayers who have: (1) claimed a deduction for a catastrophe savings account; (2) paid taxes in 2008 for distributions on the account; or (3) paid the 2.5% penalty for withdrawals that did not qualify as a qualified catastrophe expense.

Insurer Premium Tax Credit. As previously referenced, the Omnibus Act established a credit on premium taxes paid by licensed insurers that write full property and casualty insurance coverage within the coastal areas of the state. The nonrefundable credit applies to all new business written after December 31, 2007 and is equal to twenty-five percent (25%) of the tax that is otherwise due on the policy.[20] To date, fifteen insurers have received approximately $24,000 in Insurance Premium Tax credits.

Mitigation Discounts and Credits. Section 38-75-755 requires all insurers upon the issuance or renewal of a residential policy to clearly notify the applicant or insured of the availability and range of each premium discount, credit, other rate differential, or reduction in deductibles for

[20] S.C. Code § 38-7-200

properties that have been retrofitted or constructed to be more resistant to loss due to hurricane. The notice must also state what measures the policyholder can take to reduce their windstorm premium. For commercial insurance policies, the insurer shall include a notice that advises the policyholder that a reduction in premium may be available if the policyholder has taken steps to prevent or mitigate losses due to damage from windstorms. Policyholders may obtain additional information about the credits or discounts from their insurance agents.

The average retrofit discount or credit offered in this state is approximately 25%. The South Carolina Department of Insurance is in the process of reviewing the mitigation credits and discounts offered by insurers in this state.

***SC Safe Home* Program.** The SC Safe Home Program provides a comprehensive and coordinated approach to strengthen and fortify homes against natural disasters by distributing grant funds, limited to $5,000.00 per home, by way of matching and non-matching grants. An eligible homeowner is awarded a matching or non-matching grant based upon their personal income compared with the median annual income for the county in which he resides, as determined by United States Department of Housing and Urban Development (U.S. HUD), and the value of their home. For matching grants, the homeowner's money is matched "dollar-for-dollar", if the value of his home does not exceed $300,000. For non-matching grants, the value of the home may not exceed $150,000. The Program's contribution is capped at $5,000.

To date, the SC Safe Home Program has received 1,932 grant applications and has awarded 966 grants totaling approximately $4,205,221 to help retrofit and strengthen homes located in the following coastal counties: Beaufort, Berkeley, Colleton, Charleston, Dorchester, Florence, Georgetown, Horry, Jasper, Marion and Williamsburg. The breakdown of grant awards by county is as follows.

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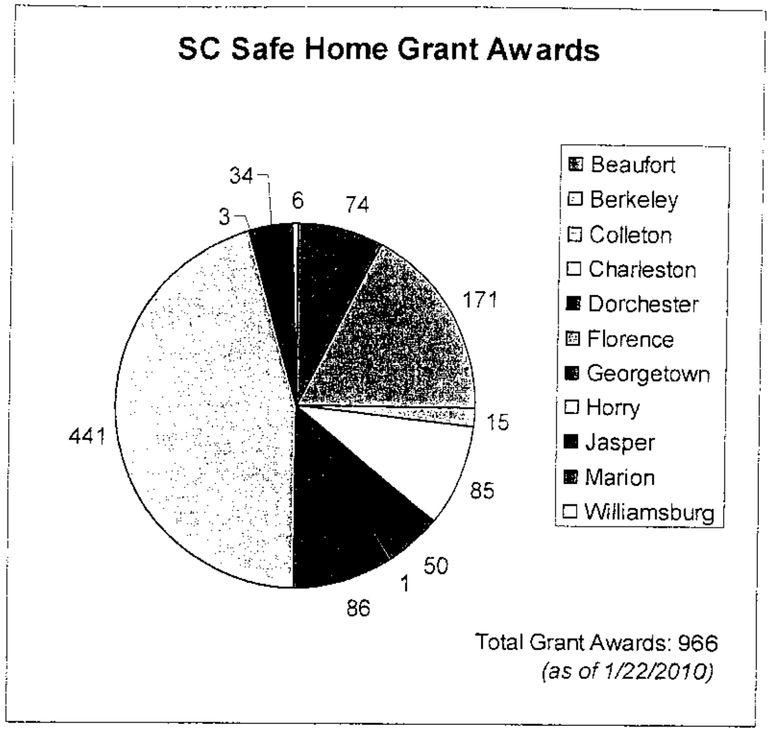
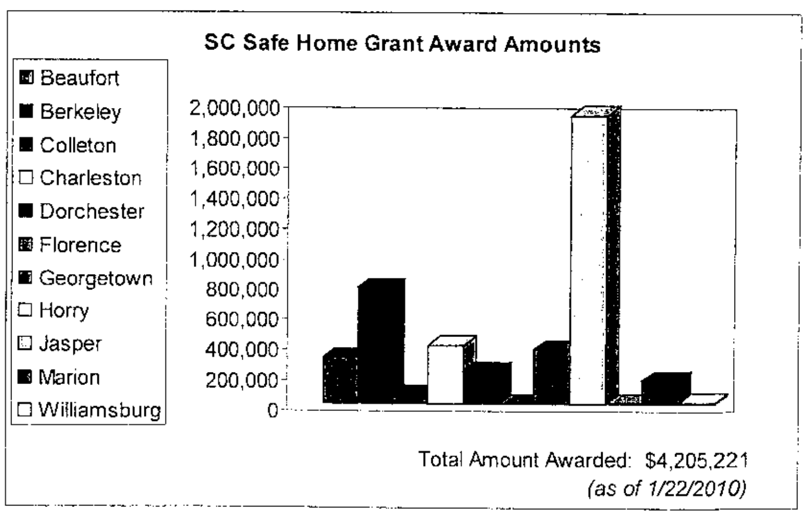
Graph VII(1). Breakdown of SC Safe Home Grant Awards Count by County



Graph VII(2). Breakdown of SC Safe Home Grant Award Amounts by County



The Program has and continues to make an important economic impact to the coastal communities by creating jobs in the construction and home improvement industries.

Graph VII(2) illustrates the dollar amounts awarded by county, which are as follows:

- Beaufort County: $303,660
- Berkeley County: $773,118
- Colleton County: $60,946
- Charleston County: $387,773
- Dorchester County: $218,972
- Florence County: $5,000
- Georgetown County: $362,730
- Horry County: $1,908,292
- Jasper County: $10,000
- Marion County: $161,785
- Williamsburg County: $12,945

According to the Federal Emergency Management Agency (FEMA), society saves $4.00 in potential losses and reconstruction costs for every dollar spent on mitigation. Based on this information, SC Safe Home has reduced the potential loss and future reconstruction costs from a hurricane or severe wind event by more than $16.8 million.

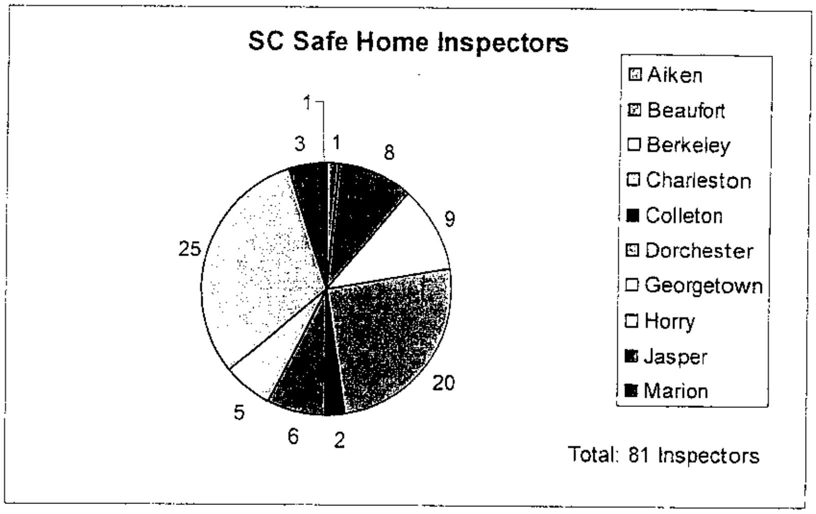
Based upon data received in the completed grant applications, the average age of the home that is retrofitted is 27 years old and the average value of the home receiving the retrofit award is $91,786.00. Approximately 65% of the applicants qualify as low-income applicants based upon the Secretary of Housing and Urban development Median Income Guidelines.

Science indicates 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. Seventy-six percent (76%) of the grantees have selected to retrofit their roof with the grant funds. Homeowners that have selected to replace their windows with impact resistant systems and hurricane shutters through SC Safe Home have also reported on average a 29% savings in their energy costs.

Structures retrofitted through SC Safe Home are more attractive risks to insurance companies. Homeowners have reported premium reduction savings up to 24% from their insurance carriers.

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. To date, there are 81 certified inspectors and 58 certified contractors working with SC Safe Home, as outlined in Graphs VII(3) and (4). Due to an overwhelming interest, another round of training is scheduled for March 8-9, 2010 for contractors and inspectors interested in becoming involved with the program.

Graph VII(3). Breakdown of SC Safe Home Certified Inspectors by County



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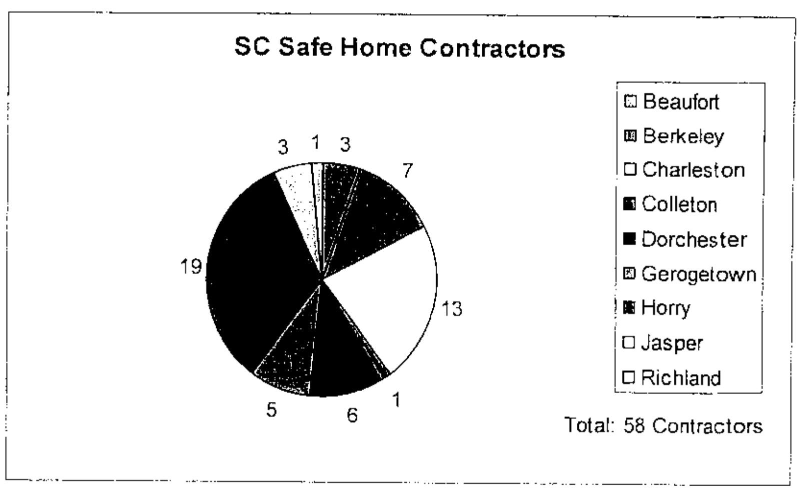

In March 2009, SC Safe Home issued a survey to a random sampling of fifteen percent of all grant recipients regarding their experience with the SC Safe Home grant program. Sixty-four percent of those surveyed responded. One hundred percent (100%) of survey respondents said that they would recommend SC Safe Home to friends and family. Additionally, the average rating of the SC Safe Home program by survey respondents was 9 out of a maximum of 10.

In addition to providing grant funds, SC Safe Home provides outreach and educational awareness about the importance of mitigation and preparedness. SC Safe Home staff contracted with Catalyst Advertising to develop and produce a brief video (less than ten minutes in length) that would provide a clear and concise understanding of the Omnibus Act and the incentives set forth by this legislation. The completed video is located on the Program website, www.scsafehome.sc.gov, and continues to be used at conferences and meetings to help further explain the legislation and the SC Safe Home Program.

In 2009, select members of Congress received letters from the Director encouraging them to include mitigation measures as they moved forward in their debates regarding the development and disbursement of the stimulus funds. A digital copy of the *Against the Wind* was included with those letters. Additionally, copies of the video were distributed at the Spring 2009 National Conference of Insurance Legislators (NCOIL) meeting where both the Omnibus Act and the SC Safe Home Program were featured.

The SC Safe Home staff has met with members of Congress and the South Carolina Congressional Delegation to discuss the program and the possibility of additional funding through the reauthorization of both FEMA and stimulus dollars. Currently, several bills have been introduced that will assist state-based initiatives such as SC Safe Home and programs that are being modeled after SC Safe Home in other states with similar coastal exposures.[21]

In August 2009, SC Safe Home hosted, along with Charleston County, The South Carolina Wind and Hail Underwriting Association, The Independent Agents and Brokers of South Carolina, and The South Carolina Insurance News Service, the first hurricane mitigation expo and training

[21] H.R. 1239 and H.R. 6424

session in North Charleston. The two and one-half day event provided a free forum for homeowners to learn more about the incentives established by the Omnibus Act as well as mitigation techniques and retrofit measures. Flood insurance, life safety and emergency preparedness information was also available. The training session provided continuing education credits for those professionals in the real-estate and insurance industries as well as code enforcement officials and floodplain managers. Both events received outstanding press coverage. The training session was extremely well received and staff has been asked to provide similar training sessions in other coastal areas in the very near future.

On October 30, 2009, The Traveler's Institute, a division of Travelers Insurance, selected South Carolina as the location and SC Safe Home as the initiative to highlight at their initial risk symposium. The meeting, held in partnership with the City of Charleston, the South Carolina Department of Insurance, The Heinz Center for Science, Economics and the Environment, Ceres, and the Independent Insurance Agents & Brokers of South Carolina, brought together business, government and community leaders to identify strategies and solutions to protect and insure the coastal region. The coastal region is an economic driver in South Carolina that supports recreation, tourism, industry and real estate with an insured value of more than $190 billion, according to AIR Worldwide.

SC Safe Home also began to publish a newsletter focusing on mitigation techniques and related issues. The first issue was released in the summer of 2009. This will become a quarterly publication and is currently distributed to all SC Safe Home applicants and interested individuals. Additionally, it is posted on the SC Safe Home website.

The SC Safe Home website, www.scsafehome.sc.gov, was revamped and updated. It went live on July 1, 2009. The new website is much more user-friendly than the original version and includes much new information. Additionally, with the implementation of the new website, the program update was revamped and updated.

SC Safe Home hosted a live webinar in the spring of 2009 for SC Safe Home Certified Inspectors and Contractors allowing them an opportunity to discuss retrofit techniques and issues that they were facing "on the ground." Bill York was the featured expert.[22]

Additionally, SC Safe Home has engaged the public through the use of social media. Staff created a Facebook page as a means for further communication with contractors, homeowners and members of the Advisory Committee in the summer of 2009. The Facebook page is also an effective medium for posting videos, photographs, articles and other pertinent information.

VIII. Legislative Recommendations

The long-term solution to coastal property insurance issues is to build stronger structures that are able to withstand hurricane damage. Accordingly, the Department recommends the following:

- The state should continue to encourage mitigation and better land use planning so as not to increase the state's exposure to hurricane and flood losses. South Carolina has a substantial amount of property exposed to significant hurricane risk. Mitigation, coupled with better land use planning, could help reduce the loss of South Carolina property and lives.

- The state should continue to strengthen statewide building codes and mandate training for building code inspectors and for contractors working in the construction and home improvement industry. South Carolina adopted the International Residential Building Code (IRC) in 1998 and is currently following the guidance set forth in the 2003 version of the IRC. The IRC establishes the minimum building standard. Counties most prone to hurricane damage should be encouraged to consider adopting code-plus building techniques.

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[22] William H. York. W. H. York Consulting, Inc., consults on wind mitigation techniques and inspections with insurance companies, FLASH, IBHS, large developers and the University of Florida. He also teaches classes for FLASH and IBHS on Code Plus programs and Florida and South Carolina Safe Home programs and is an instructor for both inspectors and contractors in both states.

- The state should increase grant funding for the South Carolina Safe Home Program. During its initial year, 736 consumers received grants totaling $3.68 million to strengthen their properties. Mitigation protects property and saves lives, and a retrofitted home is easier to insure in the voluntary market. Mitigation programs, such as the SC Safe Home Program, stress the benefits of a more resilient infrastructure with buildings designed to withstand hurricane damage. Buildings constructed and retrofitted to the higher standards promulgated by these programs will help ease the demand for state and federal post-disaster funding, reducing the losses to the state and to local governments, as well as to FEMA and the federal government.

- The state should consider funding the update of South Carolina's flood maps. While some may have been updated, the overall mapping project is not complete. Additionally, maps updated via the Light Detection and Ranging system (LIDAR) provide dramatically enhanced images. To complete this project, additional funding is needed. Identified flood risks have changed as a result of increased coastal development. Updated flood maps would encourage consumers in flood prone areas to further protect their property by securing a flood insurance policy.

IX. Conclusion

As a result of South Carolina's risk of catastrophic exposure, some insurers have been unable to expand their writings due to a lack of capacity (i.e., access to or ability to raise capital). The actions taken by the South Carolina General Assembly in 2007 prevented wholesale market disruption. By reforming the operation of the SCWHUA and redefining the territories that it covers, encouraging mitigation through consumer incentives and grants, and the Department's management of market exits while aggressively recruiting insurers to the coastal property market of this state, South Carolina has been able to maintain a relatively stable coastal property market in comparison to other coastal states. To date, South Carolina has been able to avoid some of the operational problems and deficits experienced by the residual markets in other southeastern states like Florida, Texas and Louisiana. While the 2007 reforms