



WIND POOL EXPANSION IN SOUTH CAROLINA: ONE YEAR LATER

By Molly H. Cherry

It appears that South Carolina's wind pool legislation is on the road to achieving its goals. The measure, which passed a year and a half ago, revised the state's system for providing wind storm insurance. Although some issues remain, it is possible to begin to draw conclusions about the new law's impact.

Since the 2005 hurricane season, many private insurers either stopped writing policies or significantly increased the premiums for coverage for wind damage in hurricane-prone areas, including in South Carolina. South Carolina responded in 2007 by passing the Omnibus Coastal Property Insurance Reform Act (the Act), which widened the wind pool – the state's coastal insurance market of last resort – so homeowners could get wind and hail insurance coverage when it was unavailable through the standard market.

The idea behind the enlarged wind pool was to keep insurers writing for the coast. To date, this effort has been successful: the wind pool expansion prevented approximately 33,000 policy cancellations in its first year. In fact, the overall policies in force in the wind pool increased by about 2,500 between January 31, 2008, and July 9, 2008. Since the legislation passed, at least 12 new companies have started writing policies, and the state is actively recruiting more to enter the market.

This success has, however, prompted some complaints from homeowners whose insurance rates have increased. While some increases were the result of changes in risk modeling and rating standards used by insurance companies, many homeowners who had not been in the pool saw a larger increase in rates when they were included in the expanded pool. Nevertheless, the South Carolina Department of Insurance anticipates the increases will be tempered over time. Wind Pool Director Smitty Harrison says "as the state entices more companies to write coverage, the insurance market will become more competitive and presumably, will result in better rates along the coast." Mr. Harrison believes it will take roughly three years to gauge the full effect of the changes, though the worst of the rate increases should be over since the last renewal cycle ended in fall 2007.

The legislation also created additional measures to lower costs for homeowners. For example, it established the South Carolina Safe Home Grant program to promote retrofitting homes to make them more hurricane resistant and less vulnerable to damage. One of just two such programs in the nation, it provides up to \$5,000 for qualifying homeowners to retrofit their homes. So far, it has awarded 736 grants totaling \$3.68

million. That means, on average, two homes are being strengthened along the coast each day.

These improvements are designed to reduce the potential for property damage and loss in the event of severe winds or hurricanes. In theory, less damage will result in fewer – or lower – claims, and, ultimately, reduce premiums for all South Carolinians. Moreover, according to the Federal Emergency Management Agency, for every dollar spent on mitigation, society saves four dollars in potential losses and reconstruction costs. Using these numbers and the grant data from the Department of Insurance, the grant program has reduced the potential costs from a hurricane or severe wind event by more than \$14 million.

Finally, the legislation also created discounts and tax credits for certain home retrofitting. However, the final regulation defining the fortification measures that qualify for the state income tax credit still awaits approval by the General Assembly. The Department of Insurance has posted a tax resource guide on its Website, which provides details about the various fortification measures outlined in the Act.

Overall, the most immediate, measurable impact of the legislation has been to increase the number of companies writing coverage and the number of policies in the wind pool and to assist with retrofitting more than 700 homes. The primary issue that remains is whether the Act will make it easier for homeowners to afford insurance coverage. Although the wind pool expansion may have contributed to some premium increases initially, the legislation was designed to encourage competition and create a market in which coverage becomes more affordable. The appropriate mechanisms are in place. However, it is still too early to assess if that will happen.