



WIND AND HAIL UPDATE

*South Carolina Wind And Hail
Underwriting Association
P. O. Box 407
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March 31, 2003
03--03

JULY 1st UPDATES!

The Association announces the following changes for policies effective as of July 1, 2003, or later . . .

- 10% Rate Increase Across the Board
- Additional 25% Rate Surcharge on Skelton Construction (Commercial Risks only)
- Increase in Maximum Limits For Personal Lines To \$1,000,000
- Increase in Maximum Limits For Commercial Lines To \$2,500,000
- Change To Underwriting Guidelines For Loss Of Business Income
- Change To Underwriting Guidelines For Loss of Use
- Proposed Changes To Deductibles

These updates are described below. We have also included some of the common questions related to each change.

10% Rate Increase

A 10% rate increase has been approved for the Association. It will impact new and rewrite business with an effective date of July 1, 2003. The increase will impact all programs and rates.

Rate pages will be distributed in the near future.

When was the last increase?

The last increase was on June 1, 1998. In other words, it has been five years since the last increase.

Will the July 2003 rewrite applications include the new rates?

Yes.

25% Skeleton Surcharge

In addition to the 10% rate increase, commercial risks with the construction classification of skeleton will receive an additional 25% surcharge. This will take place on new and rewrite business effective July 1, 2003.

This surcharge will be included in the rates pages to be distributed.

Why is there a surcharge?

Loss experience has indicated that the previous rates were inadequate. If you have attended a Wind and Hail Update Seminar, you have seen the information on this type of construction.

Does this apply to dwellings?

No. Construction is a factor only for commercial risks.

\$1,000,000 Personal Lines Maximum Limit

The Independent Insurance Agents and Brokers of South Carolina asked that the Association review the maximum available limits for Personal Lines risks. The current limit of \$650,000 was set in 1995.

Effective July 1, 2003, the maximum limit for new and rewrite Personal Lines risks will be \$1,000,000. This limit is comprised of structure, contents, and loss of use coverages.

Can we purchase additional limits mid-term?

No. The change is effective for new and rewrite business as of the effective date. Besides, many of the providers of excess wind coverage mandate that their premiums are fully earned. It would be of no value to cancel those policies at this time.

Do we have to purchase the additional limits at rewrite time?

The guidelines require insurance to value. The limits must be adequate.

In addition, state law requires that the Association's maximum limits must be used *prior* to purchasing excess wind coverage.

Will this impact many structures?

Of the dwellings currently valued (structure, contents, and loss of use coverage) at \$650,000 or greater, 84% of them will benefit from the increased limits.

Will the increased limits be shown on the rewrite applications?

The Association is unable to determine how the insured may want to allocate the increased capacity. For this reason, we will not increase the coverage limits for you. However, we will note on the rewrite application that limits need to be increased.

You may return the rewrite applications with the increased limits for a Notice of Acceptance.

\$2,500,000 Commercial Lines Maximum Limit

The Big I also asked that the Association review the maximum available limits. The current limit of \$1,500,000 was set in 1985.

Effective July 1, 2003, the maximum limit for new and rewrite Commercial Lines risks will be \$2,500,000. This limit is comprised of structure, contents, and loss of business income coverages.

The additional limits may not be obtained mid-term. Risks must be insured to value. Excess wind coverage, by state law, can not be purchased until the full maximum limits from the Association are purchased.

Will this impact many structures?

Due to the high value of many commercial risks, 35% of the commercial risks currently valued (structure, contents, loss of business income) at \$1,500,000 or greater will benefit from the increased limits.

Will the increased limits be shown on the rewrite applications?

Commercial risks will be handled in the same manner as described above for personal lines risks.

Loss Of Business Guidelines

The Agents' Association also asked that the guidelines for loss of business income be examined. Their concern was that commercial risks with small building values or small contents values are not able to purchase adequate loss of business income coverage.

In examining the 409 policies with loss of business income coverage, only 12 policies purchased the maximum coverage. Many small "contents only" policies purchased only a minor amount of coverage.

Just the same, to address this issue, the following change will be made to the underwriting guidelines for policies effective July 1, 2003, or later:

- (b) If the applicant / insured is not the building owner, the limit for Loss of Business Income shall be:
- (1) An amount up to \$100,000, or
 - (2) An amount not to exceed the lesser of 200% of the Business Personal Property limit or \$500,000.

This will allow a "contents only" policy to purchase up to \$100,000 loss of business income coverage even if the business personal property limit is less than \$50,000.

Loss of Use Guidelines

The Association has been asked to review the guidelines for loss of use coverage. This is an optional coverage for dwellings, mobile home, and condo-unit owners policies.

Currently, the limit is 20% of Coverage A for risks where the Association insures the building. For contents policies, the limit is 40% of Coverage C.

For policies effective July 1, 2003, or later, loss of use coverage will be available at 10% or 20% of Coverage A. For contents only policies, the coverage will be available at 20% or 40% of Coverage C.

Why has the Association been offering only the higher limits?

When the coverage was first offered, coverage was designed to match the ISO forms.

While the additional options are being offered, agents and brokers need to be careful of an E&O exposure. Many insurance professionals feel that the

maximum exposure to loss of use is only a few weeks. However, it is important to note that Hurricane Floyd put some homeowners out of their homes for over a year.

In addition, a recent review of beach real estate guides indicated that a number of homes rent for \$5,000 to \$8,000 per week.

Proposed Deductible Changes

The Association has been asked to consider offering additional optional deductibles such as 3%, 4%, 5%, and 10%. Currently, the data is being modeled. The resulting report will be referred to the Association's actuaries for pricing.

Additional information will be forthcoming.

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If you have any questions, please feel free to contact any of our four underwriters. Or, you may email us at und@scwind.com.