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Sept. 26, 2020

Chairman William E. Sandifer III
House Labor, Commerce and Industry Committee
South Carolina House of Representatives
Columbia, SC 29211-1867

RE: S. 882, the South Carolina Private Flood Insurance Act

Chairman Sandifer and Members of the Committee,

My name is R.J. Lehmann and I am director of finance, insurance and trade policy at the R Street Institute. R Street is a think tank devoted to pragmatic free-market solutions to public policy challenges that has engaged on flood insurance issues since our founding eight years ago.

I write you with reference to S. 882, the South Carolina Private Flood Insurance Act. R Street's research program long has explored reforms to the National Flood Insurance Program (NFIP), as well as state and federal legislative and regulatory changes that would help to foment a vibrant, competitive market of private options for flood protection. We provided some of the early conceptual work for the legislation signed by then-Gov. Rick Scott in 2014 creating a regulatory regime for both admitted market and surplus lines flood insurance in Florida. Our analysis is that S. 882, which was approved unanimously by the state Senate in March, would offer a similarly strong model for South Carolina.

The legislation defines "standard flood insurance" policies as those that meet equivalent coverage as the NFIP, while also permitting the sale of nonstandard coverage on an excess basis, for those with broader definitions of flood and for cases of discretionary acceptance. It includes important consumer disclosures regarding the availability of NFIP coverage and about potential loss of subsidies for those policyholders who exit the program.

Importantly, the legislation ensures that insurance carriers will not be dissuaded from introducing innovative products due to onerous red tape. The bill waives statutory requirements that surplus lines brokers must demonstrate a diligent search before placing nonstandard flood insurance policies. It also establishes a "light touch" use-and-file regulatory system for both rates and forms in the admitted market.

Private flood insurance is important not only to provide alternatives for consumers whose only other option would be the NFIP, but to ensure that a much broader set of property owners purchase needed protection. Currently, only about 14 percent of South Carolina's 1.5 million households are insured for floods through the NFIP. According to S&P Global data, just $14.7 million of private flood insurance premiums were written in South Carolina in 2019.

This is true despite the state's significant and growing exposure to flood risk. At the Charleston water-level station, the annual average number of days of reported flooding has risen from 68 from 1975 to 1984, to 102 from 1984 to 1994, to 175 from 1995 to 2004, to 219 from 2005 to 2014. Light Detection and Ranging (LIDAR) surveys from the National Oceanic and Atmospheric Administration show there are 104,971 residents statewide currently living less than 5 feet above sea level, with $8.5 billion of property projected to be at risk of yearly coastal flooding by 2050.

We thank the committee for considering this important legislation to bolster private insurance markets and to help close the protection gap that imperils many South Carolinians.

Sincerely,

R.J. Lehmann
Director of Finance, Insurance and Trade Policy
R Street Institute