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# STATUS REPORT ON THE SOUTH CAROLINA COMMERCIAL LIABILITY INSURANCE MARKET

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## **Executive Summary**

### **Background**

The commercial liability insurance market in South Carolina remains troubled. In 2025, legislation was passed and signed into law requiring the South Carolina Department of Insurance (SCDOI) to issue a report to the General Assembly annually containing information related to the commercial liability market generally and the liquor liability sub-line of that market. Specifically, S.C. Code of Laws Section 38-73-550 was added and made effective January 1, 2026, part (B) identifying the items which the report is to address:

(1) the number of policies written in South Carolina that provide coverage by insurers for liquor liability in South Carolina, whether as a stand-alone product or as another commercial liability insurance product;

(2) the volume of earned premiums associated with the coverage provided by the insurers for liquor liability in South Carolina and written in South Carolina;

(3) the number of claims closed with payments and the volume of those payments associated with liquor liability coverage written in South Carolina;

(4) the number of claims open and the volume of actual reserves on those claims associated with liquor liability coverage written in South Carolina;

(5) the volume of reserves for incurred but not reported claims associated with liquor liability coverage;

(6) the sum of subrogation and salvage associated with liquor liability coverage written in South Carolina;

(7) the volume of combined losses as a percentage of premiums associated with liquor liability coverage written in South Carolina and the methodology of its determination;

(8) the amount of profit as a percentage of premiums associated with liquor liability coverage written in South Carolina and the methodology of its determination;

(9) the number of insurers participating in commercial general liability market and the liquor liability sub-line of that market;

(10) the director's conclusions as to the availability of commercial general liability and liquor liability coverage and the trends in changes in the rates for that coverage; and

(11) the director's recommendations to continue to improve the availability of insurance coverage as mandated in Section 61-2-145 and the rates associated with that coverage.

In response, the SCDOI issued a mandatory data call to the insurance industry in accordance with S.C. Code of Laws Section 38-13-160. That data call requested detailed information on coverage written, premiums earned and claims incurred between 2015 and 2024 sufficient to respond to the statutory report.

## **Data Limitations**

This report was compiled using data submitted by insurers authorized to write coverage in South Carolina in response to the data call. We reviewed each insurer's data submission for reasonability and agreement between the exposure-related information and the loss-related information, as well as the reasonability of the reserves and the investment-related information. The contents and conclusions in this report presume the accuracy and reliability of those data submissions.

## **Definitions**

This report contains terms common to the fields of insurance and actuarial science.

Definitions are as follows:

- ***Accident Year*** – Losses collected on an accident year basis are from accidents occurring within the same twelve-month period, regardless of when the policy was written and regardless of when the losses were reported or paid.
- ***Calendar Year*** – Policy information collected on a calendar year basis pertaining to the policies written and exposed to loss in the same twelve-month period beginning January 1.
- ***Policy Year*** – Premium and loss information pertaining to the twelve-month period in which the associated policies were written, regardless of if/when any losses occurred.
- ***Earned Premium*** – The portion of each policy’s premium that has already been exposed to loss.
- ***Paid Losses*** – The value of all claim payments made at the time of the data collection.
- ***Incurred Losses*** – The value of all claim payments plus the value of all reserves at the time of the data collection.
- ***Recoverable*** – Claim-specific amounts that offset the claim costs incurred by insurers, most typically the amounts received for the salvage value of property received by the insurer in exchange for claim payment of total property losses and the subrogation of amounts received from liable third parties for some or all of the claim costs incurred by insurers.

- ***Defense and Cost Containment Expenses*** – Amounts incurred by insurers to pay for defense attorneys, medical evaluations, medical reviews, and other activities related to defending claims.
- ***Adjusting and Other Expenses*** – Amounts incurred by insurers to investigate and settle claims, including claim department salaries and other operating expenses of the claims department.
- ***Underwriting Expenses*** – Amounts spent by insurers to acquire and service policies, excluding claim costs, defense costs, and other claim-related expenses.
- ***Combined Ratio*** – The sum of an insurance company’s loss ratio (incurred losses as a percentage of earned premiums) and its expense ratio (underwriting expenses as a percentage of earned premiums); used to communicate the profitability of the insurer, where a combined ratio below a breakeven 100% would represent underwriting profitability.
- ***Loss Development Factors*** – Factors, estimated typically by actuaries, to apply to current immature losses (paid or incurred) in order to estimate the ultimate settlement value of all claims, both reported and yet-to-be reported.

## Summary of Findings

The purpose of the data call and subsequent aggregation and calculations is to assess the insurance industry's participation in the commercial general liability market as well as the profitability and participation in the liquor liability sub-line. Important takeaways from the responses include assessments of the availability and the affordability of liquor liability insurance for South Carolina businesses. The primary findings (discussed in more detail later in the report) are summarized here:

**Liquor Liability** – This sub-line has been extremely unprofitable for the insurance industry in South Carolina since 2015, with insurers spending about \$2.11 for every \$1.00 of premium earned over the ten years observed. In the best-performing of those ten years, the industry spent roughly \$1.05 per \$1.00 of premiums earned, while spending about \$4.26 per \$1.00 of premiums earned in the worst-performing year. In sum, the industry has not made a profit on liquor liability insurance in South Carolina in any of the last ten years. These same insurers have experienced better loss-related results in our neighboring states, where the data suggest that insurers may have realized a net profit over time. To illustrate, the average ratio of losses and defense and cost containment expenses to earned premiums over the ten years observed in the states of Florida, Georgia, and North Carolina was 64.3%, while that ratio in South Carolina averaged 189.0% over the same ten years. While premiums in South Carolina have grown significantly over the last ten years, the number of insurers writing coverage appears to have increased only slightly over that period. The data seem to confirm the anecdotal assertions, made by both insurance companies and small businesses, of a troubled and challenged marketplace.

**Commercial General Liability** – Policies written by the reporting insurers have grown regularly, from 81,423 new policies and 151,210 renewal policies in 2015 to 116,620 new policies and 213,037 renewal policies in 2024. The premiums earned over that period have risen from \$602.9 million in 2015 to \$1,145.3 million in 2024, and the number of insurers writing this business has increased from 97 in 2015 to 134 in 2024.

## Methodology

### Data

The liquor liability data collected from the insurance industry includes premium-related, loss-related and expense-related information for calendar and accident years 2015 to 2024, valued as of December 31, 2024. The SCDOI not only collected information from insurers that write policies in South Carolina but also from the insurance policies written by those same companies in Florida, Georgia, and North Carolina.<sup>1</sup>

Premium-related information for liquor liability insurance consists of the number of both new and renewal written policies in each year and the amount of earned premiums in each year. From this information, the total earned premium volume, the total number of written policies, the number of insurers participating in the markets, and the relative market shares of those insurers were determined. This information is useful in drawing conclusions as to how each of these markets is functioning and how concentrated the markets are. It is also useful in determining the perceived profitability of this sub-line, when these earned premiums are compared with the reported costs incurred (i.e. estimated losses and expenses) by the market participants.

Loss-related information includes incurred losses, incurred defense and cost containment expenses (DCCE), and recoverable amounts collected for bodily injury liability and property damage liability. The loss-related amounts from the data call represent the industry's estimated final, or ultimate, value of the claims reported, by virtue of their reporting of reserves for losses and expenses that are incurred but not reported (IBNR). The SCDOI did not perform any actuarial analysis related to the industry's reported liabilities for losses and DCCE.

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<sup>1</sup> The SCDOI contemplated obtaining data from a broader group of states. However, the SCDOI lacks jurisdiction to require insurers that do not write in this state to provide information on coverage written in other states.

To evaluate the reported profitability of the industry in the liquor liability market, it is necessary to compare the reported losses and expenses with the premiums earned as well as to reflect the investment income insurers earned on their related investments. In order for the SCDOI to determine aggregated industry expense levels for liquor liability, insurers reported their expense amounts by year and expense category, loss adjustment expenses and commission expenses being two of those categories. To reflect the industry's related investment income, insurers reported the investment income earned on both the premiums being held for future loss payments (primarily loss and expense reserves) and the capital that backs those policies (surplus specific to liquor liability). These expenses were combined with the reported loss and DCCE for liquor liability, and compared to the premiums earned, to develop South Carolina combined ratios by year. Reflecting the reported investment income as an offset to the insurers' costs is commonly referred to in the industry as the operating ratio. These combined and operating ratios were then compared to a so-called "break-even" combined ratio of 100% for South Carolina. While expense and investment information were not collected for the three neighboring states mentioned earlier, their losses and earned premiums were reported. Reviewing these loss and expense ratios for each of these states, in conjunction with the information collected regarding the market participants, allows for conclusions to be drawn regarding how well the markets have been functioning over the last several years.

## Detailed Findings

### A. Liquor Liability

The liquor liability insurance market is one of our state's most troubled markets. Different companies classify liquor liability risks differently. The data call instructed insurers to separate their data into five broad classification groupings, two of them with on-premises consumption exposure, two of them with off-premises exposure, and a fifth with exposure for events, catering, and other short-term policies. Liquor liability insurance for businesses with on-premises alcohol consumption has become harder to find and more expensive over time. The exact timeframe as well as the specific reasons are unclear. That said, insurance carriers have suggested there are three general factors at play: 1. the frequency and cost of claims has been much higher in South Carolina than in surrounding states for a number of years; 2. the number of insurers willing to write in this field is dwindling, and it is difficult to recruit new carriers willing to write in this state; and 3. South Carolina's population and economic growth increases both the frequency and severity of claims.

As previously mentioned, S.C. Code of Laws Section 38-73-550 was added and made effective January 1, 2026, subsection (B) identifying items that this report is to address. The first nine items of subsection (B) request numeric information, and the following list contains the 2024 values corresponding to each of those items:

(1) the number of policies written in South Carolina that provide coverage by insurers for liquor liability in South Carolina, whether as a stand-alone product or as another commercial liability insurance product in 2024 was 9,678. Of those, 4,076 policies were new, and 5,602 were renewal policies;

(2) the volume of earned premiums associated with the coverage provided by the insurers for liquor liability in South Carolina and written in South Carolina in 2024 was \$26.4 million;

(3) the number of claims closed with payments and the volume of those payments

associated with liquor liability coverage written in South Carolina in 2024 for accident year 2024 was 29 claims, with payments of \$4.8 million (for completeness, we note that another \$3.2 million of partial payments were made on claims that remain open);

(4) the number of claims open and the volume of actual reserves on those claims associated with liquor liability coverage written in South Carolina for accident year 2024 was 62 open claims, with case reserves of \$2.2 million;

(5) the volume of reserves for incurred but not reported claims associated with liquor liability coverage at the end of 2024 for accident year 2024 was \$12.4 million;

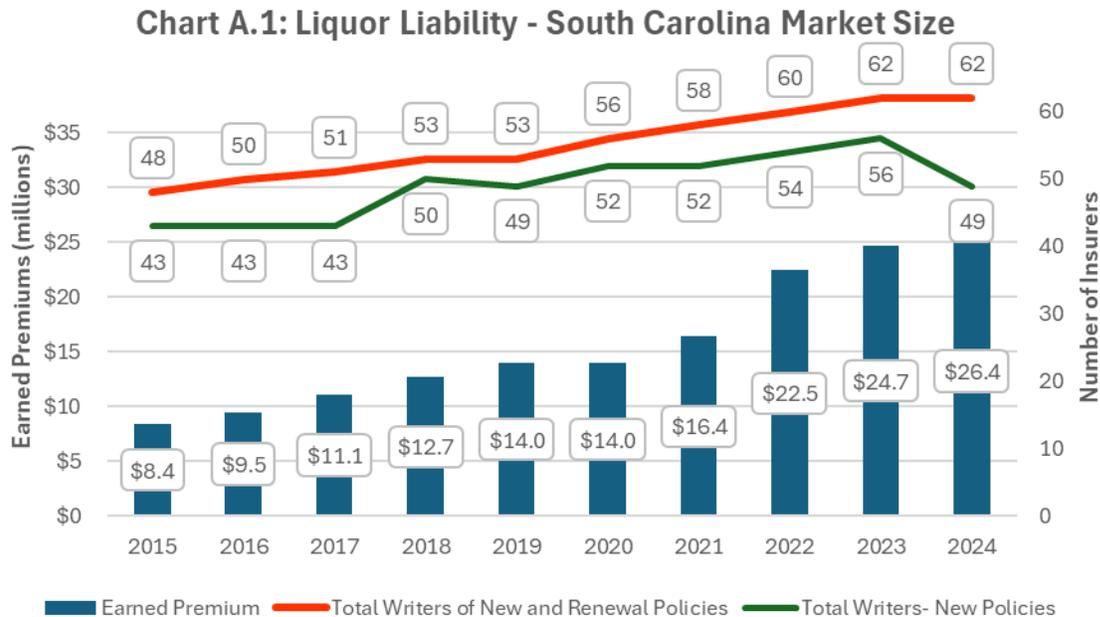
(6) the sum of subrogation and salvage associated with liquor liability coverage written in South Carolina in 2024 for accident year 2024 was \$0;

(7) the volume of combined losses as a percentage of premiums associated with liquor liability coverage written in South Carolina for accident year 2024 was 85.7%, determined by summing all paid losses and paid DCCE (\$8.0 million), open claim reserves for losses and DCCE (\$2.2 million), bulk and IBNR reserves for loss and DCCE (\$12.4 million), the negation of recoveries (\$0), and dividing that sum by the 2024 earned premiums (\$26.4 million);

(8) the amount of profit as a percentage of premiums associated with liquor liability coverage written in South Carolina in 2024 for accident year 2024 was a loss of 5.4%, determined by summing the loss and DCCE ratio of 85.7% (item 7), the reported calendar year expense ratio (31.4%), and the negation of the reported investment income ratio (11.6%), then subtracting that sum (105.4%) from unity; and

(9) the number of insurers participating in commercial general liability market and the liquor liability sub-line of that market in 2024 were 134 insurers for commercial general liability and 62 insurers for liquor liability.

In 2015, there were 48 insurance groups participating in this market, with 43 of them writing at least one new policy. Since then, the number of participants has grown to 62, but only 49 of them have written at least one new policy in 2024 (see Chart A.1).

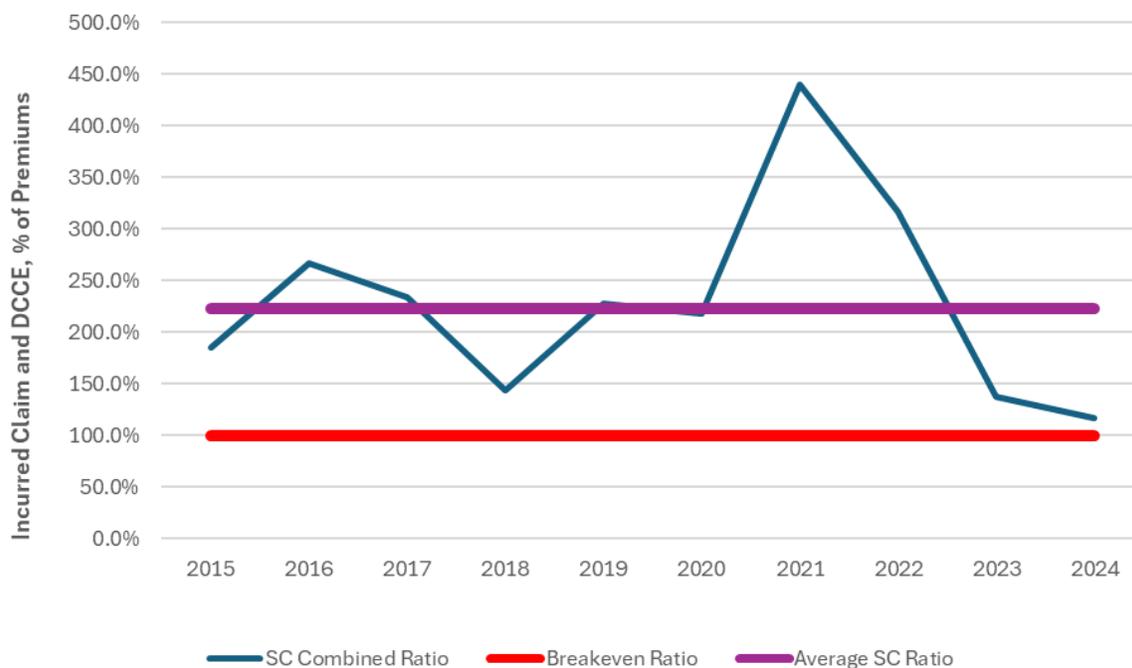


The number of policies written nearly doubled, increasing from 5,142 in 2015 to 9,678 in 2024, a rise of about 88%. The amount of premiums earned tripled over that time, from \$8.4 million in 2015 to \$26.4 million in 2024, which is an increase of about 214%. While there are other factors that can contribute to the rise in the average premium and total premiums, increasing premium rates contribute to this growth, and that is consistent with anecdotal information received from various interested parties. The data reported indicates that average premium rates have doubled since 2015. While that is an average increase of about 7% annually, four of the last five years have had increases exceeding 8%, and the most recent year saw an increase of 14.7%. The three insurance groups with the most earned premium from business written in South Carolina in 2024 were Berkshire Hathaway, The Hartford, and W.R. Berkley. It should be noted that the largest writer in 2024, Berkshire Hathaway, began to non-renew a portion of its risks containing liquor liability exposure in 2025 and anticipates further non-renewals in 2026. The business being non-renewed

represents about 6% of the total South Carolina policies and over 10% of the South Carolina premiums earned. Additionally, some insurers have taken action to limit their exposure in this market through targeted non-renewals of certain risks. It appears that businesses with alcohol sales representing greater than 20% of total revenue are most often being non-renewed.

Combined ratios for the industry make it clear that this sub-line of insurance is being written at massive underwriting losses in South Carolina. In comparison to a break-even combined ratio of 100%, reported combined ratios in South Carolina have been roughly 117% to 439%, with the average being 223% and the most current year being 117% (see Chart A.2).

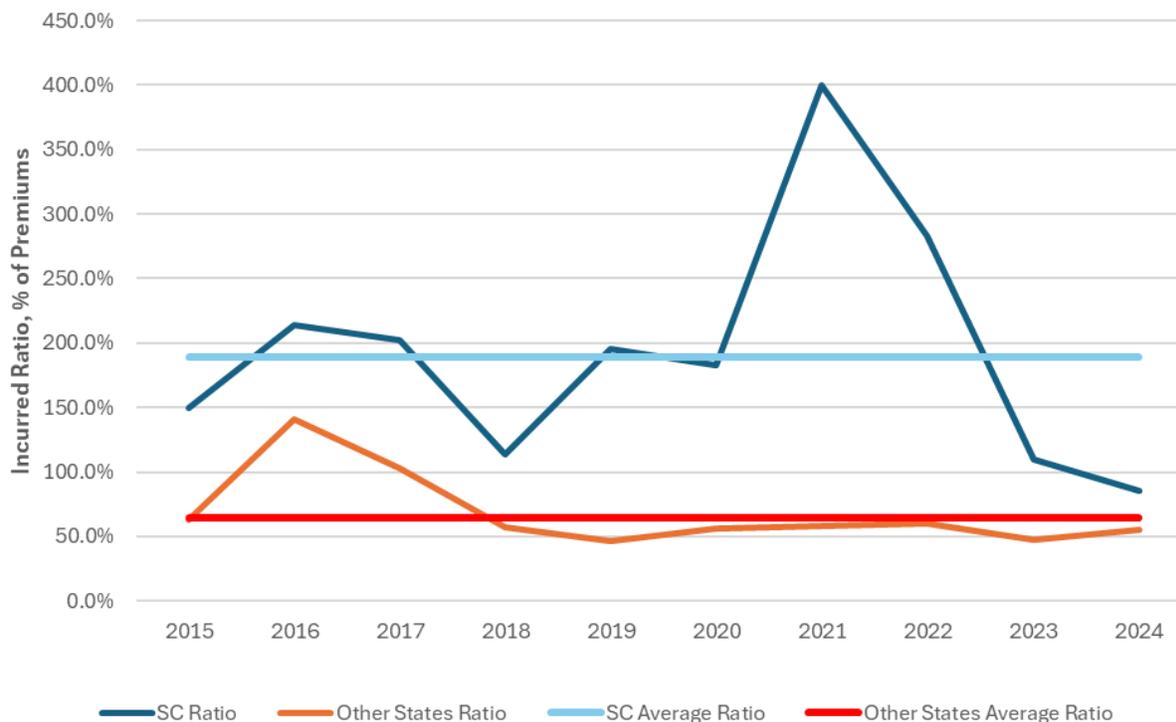
**Chart A.2: Liquor Liability - South Carolina Combined Ratios**



For perspective, the average combined ratio of 223% means that insurers have incurred \$2.23 in claims and expenses for every \$1.00 of premium they earned. The experience in our neighboring states for South Carolina insurers appears to have been much more favorable. The average ratio of incurred loss and DCCE to premiums earned in South Carolina, over the

ten-year period, was about 189%, while the average for the three surrounding states was about 64% (see Chart A.3). This comparative underwriting experience disparity is consistent with anecdotal information received from business owners and other interested parties.

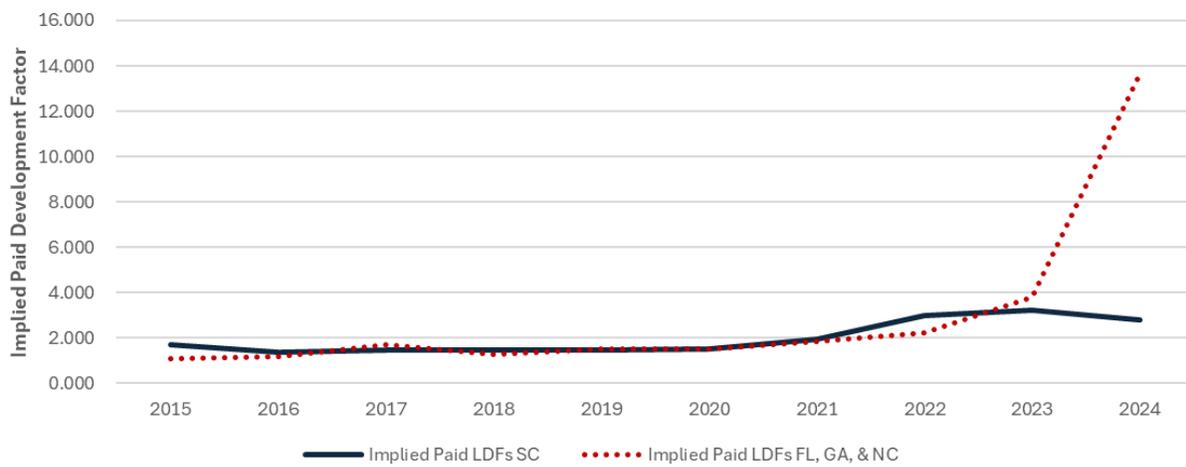
**Chart A.3: Liquor Liability - Incurred Loss & DCCE Ratios**



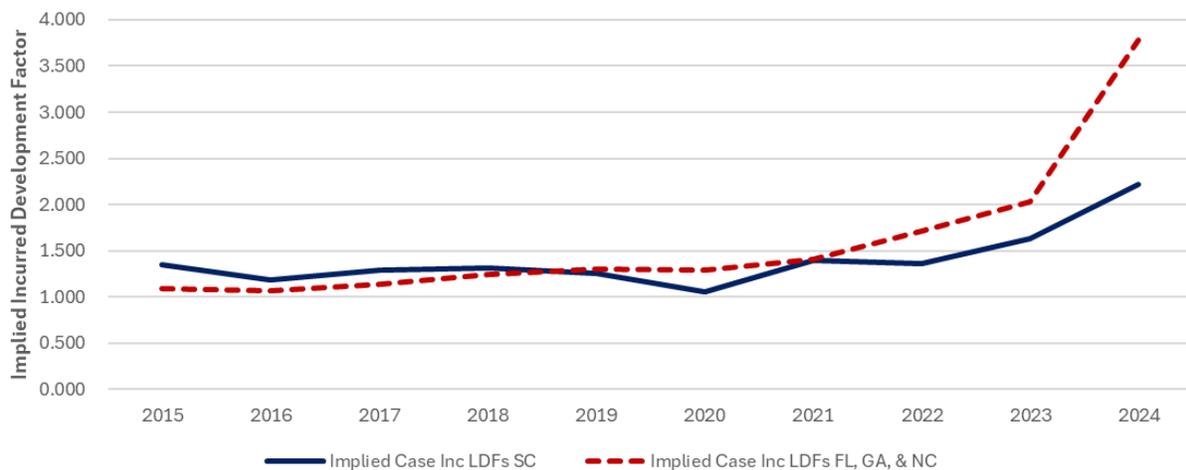
After seeing the apparent pattern in these South Carolina combined ratios in the most recent years, one might conclude that the situation is improving. However, there is good reason for caution in reaching such a conclusion. Generally, the loss development factors observed in liability lines follow an increasing pattern when reviewing them from the older (i.e., more mature) to the newer (i.e., less mature) accident years. The factors are higher for less mature accident years because fewer of the claims have been reported and settled than for the more mature accident years. While the implied paid loss development factors for the surrounding states demonstrate a clear upward pattern, the factors resulting from South Carolina data flatten and decrease in 2023 and 2024, respectively. Comparing both the implied paid and case incurred loss development factors (see Charts A.4 and A.5) between South Carolina and the surrounding states, it seems likely that the estimates for 2023 and

2024 reported by the industry are underestimated. For this reason, conclusions from this data call regarding the apparent improvement in profitability of accident years 2023 and 2024 in South Carolina should be developed with some skepticism. Furthermore, it should be noted here that the significant rate increases implemented by insurers in recent years has exerted a degree of downward pressure on loss ratios and combined ratios for those years.

**Chart A.4: Liquor Liability - Implied Paid LDFs**

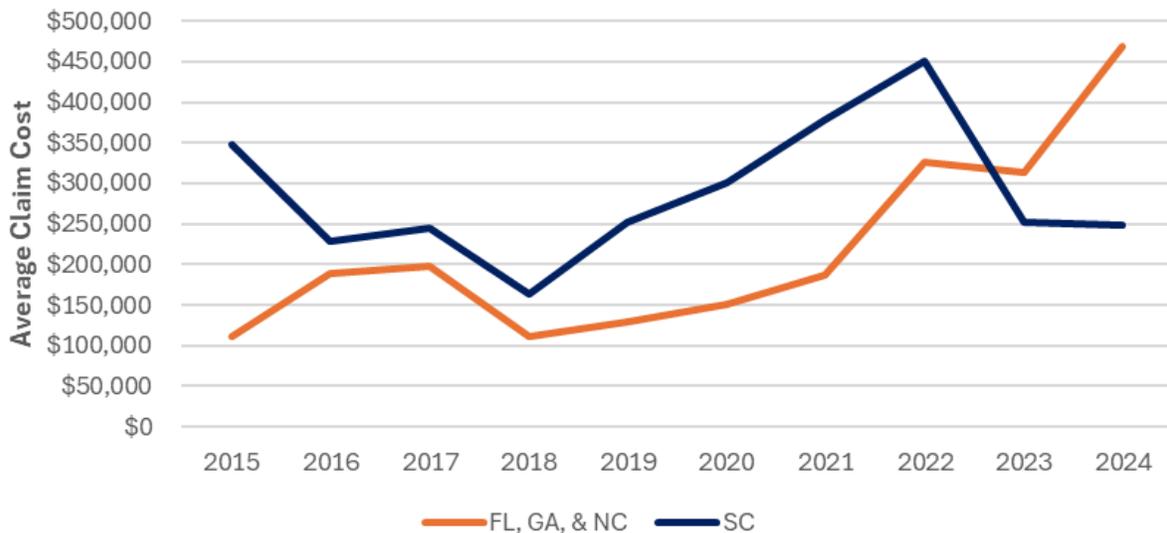


**Chart A.5: Liquor Liability - Implied Case Incurred LDFs**



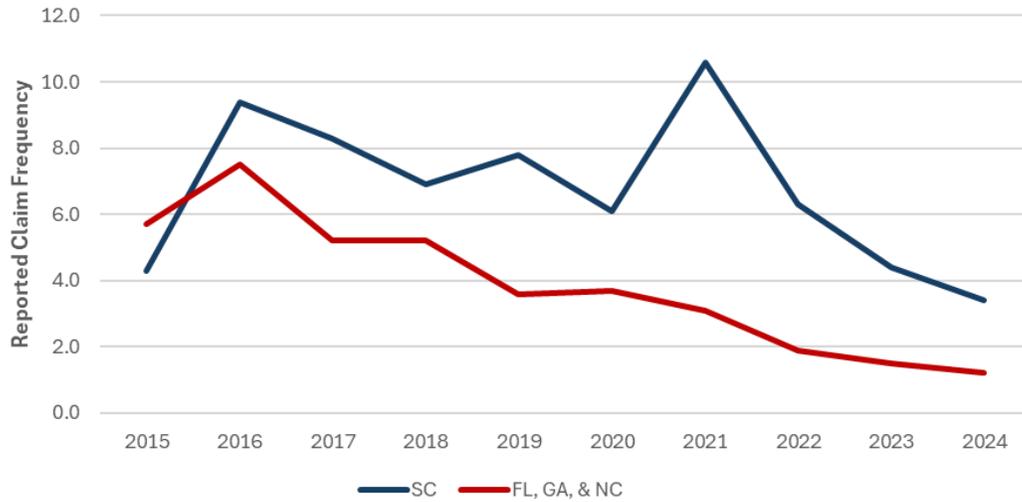
The reported ultimate average incurred dollar cost per claim is generally referred to as claim severity, and changes in this metric over time are commonly tracked within the insurance industry. Claim severity in South Carolina significantly exceeded that of the surrounding states from 2015 to 2022. While the severity appears to be more in line with that of surrounding states in the last two years (see Chart A.6), there is reason to believe that the South Carolina ultimate losses and DCCE for 2023 and 2024 may be substantially underestimated, as discussed earlier. If that turns out to be the case, the apparent reduction in severity for 2023 and 2024 will be much less favorable.

**Chart A.6: Liquor Liability - Average Claim Severity**



The number of claims reported per million dollars of earned premium is a measure of claim frequency, widely utilized in assessing insurance claim patterns. For most of the years observed, South Carolina’s claim frequency has outpaced that observed in the other states considerably, with an average of 6.3 claims per million of premium reported in South Carolina versus an average of 3.3 claims per million of premium in the surrounding states (see Chart A.7).

**Chart A.7: Liquor Liability - Reported Claims per \$1MM Premium**



## B. Commercial General Liability

The number of market participants in this line of business in South Carolina has grown from 97 in 2015 to 134 in 2024, the same as in the surrounding states. The premiums earned have nearly doubled in South Carolina, from about \$603 million in 2015 to just under \$1.2 billion in 2024 (see Chart B.1). The three insurance groups with the most earned premium from commercial general liability insurance written in South Carolina in 2024 were Chubb, Nationwide, and Travelers. We are unaware of any availability concerns where this broader market is concerned.

**Chart B.1: Commercial General Liability - South Carolina Market Size**



## **Recommendations**

In considering solutions for troubled insurance markets, for any line of insurance, measures leading to a reduction in the frequency and average cost of claims would put downward pressure on rates. Additionally, insurers are more likely to have a business appetite to write a particular type of coverage when the aggregate claims costs tend to be more predictable and therefore priced with greater accuracy. To the extent that any proposed measures would address frequency, cost, and predictability of claims, they could be helpful in increasing availability and affordability of insurance coverage. Of particular relevance are any laws that would result in fewer impaired drivers on the roads.

Moving forward, it will take time for the market to fully react to the most recent legislation. It is anticipated that any impact likely will not be seen in aggregate industry data for several years due to the relatively lengthy time for liquor liability claims to be finalized, especially those involving litigation.