

HOMERSAPIEN

The Evolution of the Private Flood Insurance Market

WHAT FLOODPLAIN MANAGERS NEED TO KNOW ABOUT PRIVATE FLOOD INSURANCE

NCAFPM FALL 2020 VIRTUAL WORKSHOPS
OCTOBER 22, 2020

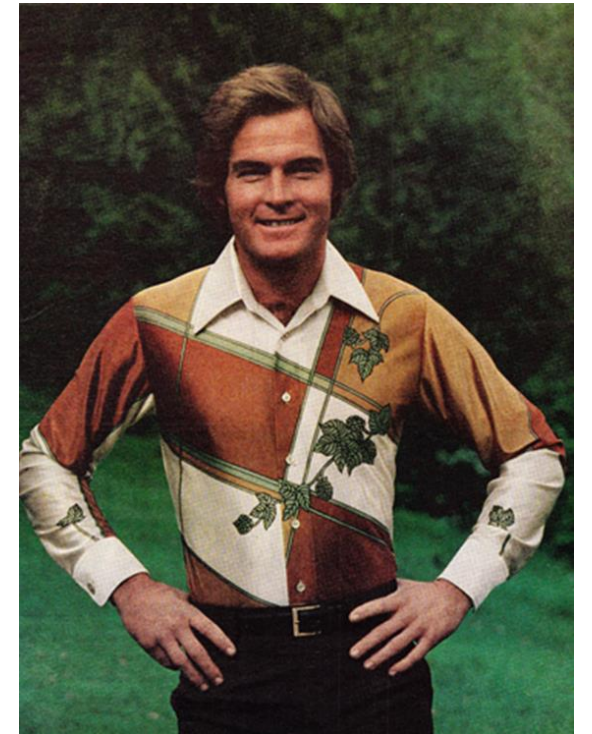
BRUCE A. BENDER, CFM
ASFPM INSURANCE COMMITTEE CO-CHAIR
BENDER CONSULTING SERVICES, INC.

Most

Homeowners insurance policies don't cover damage due to flooding. You need to buy an NFIP policy.



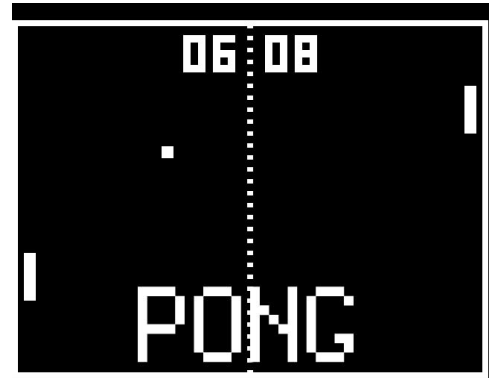
Let's Return to the 70's... trend setting fashions



Let's Return to the 70's... memorable TV shows



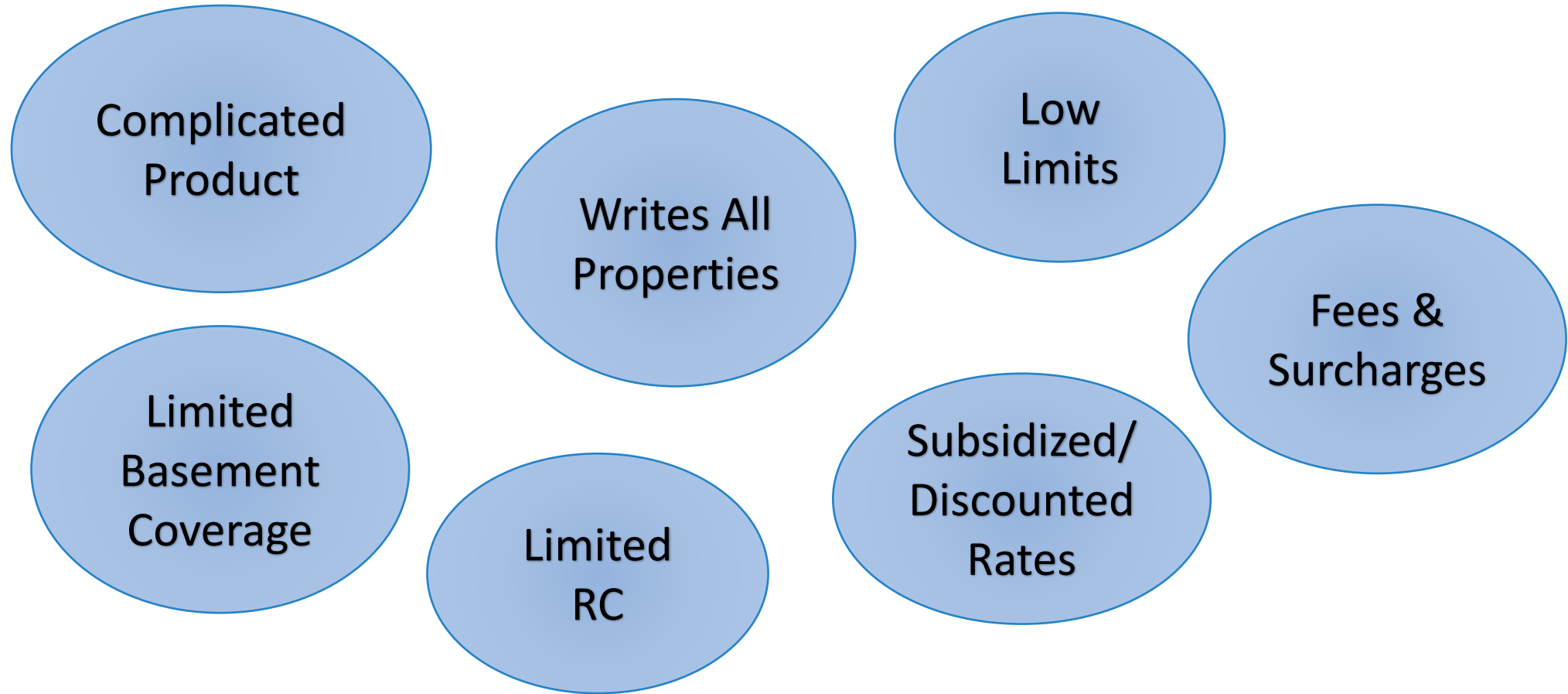
Let's Return
to the 70's...
cutting edge
technology





Let's Return
to the 70's...
The NFIP

Today's NFIP Flood Insurance




Floods → \$20 B


85%



2018 2022  **Strategic Plan**
Helping People. Together.

I. BUILD A CULTURE OF PREPAREDNESS 

 1.1 Incentivize investments that reduce risk, including pre-disaster mitigation, and reduce disaster costs at all levels

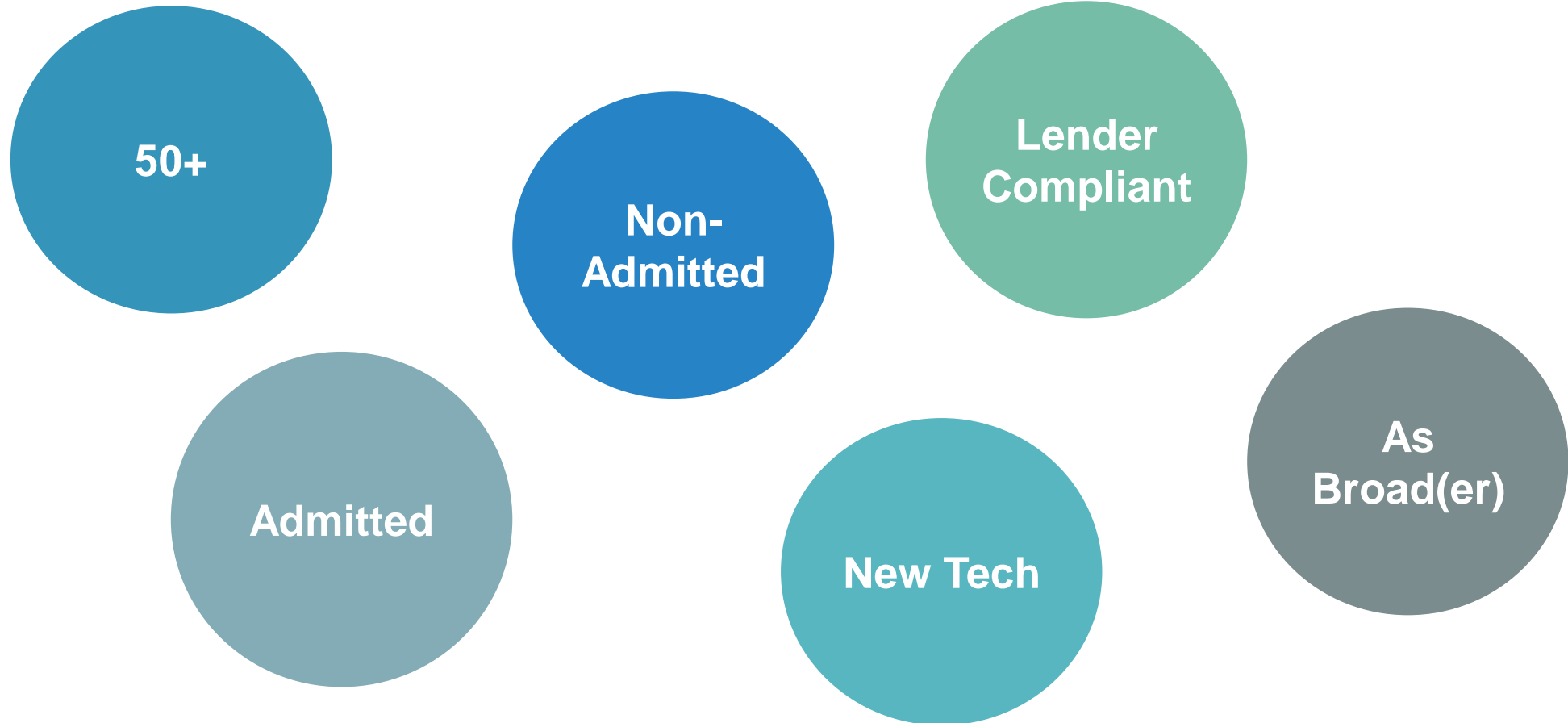
 1.2 Close the insurance gap

 1.3 Help people prepare for disasters

 1.4 Better learn from past disasters, improve continuously, and innovate

Today's Flood Insurance Gap

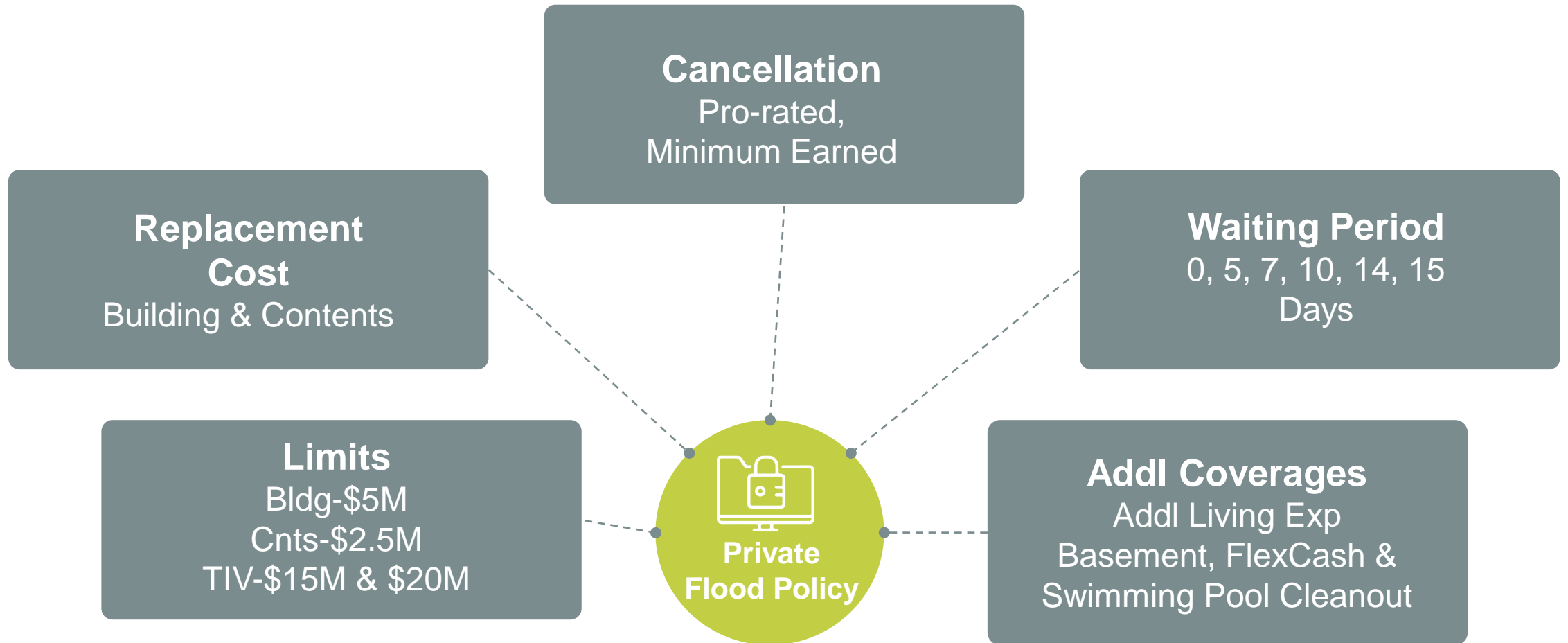
Private Flood Insurance Today



Four Basic Types of Policies



Broader Coverages



Quick Quotes

Stand-Alone Flood Coverage Quoting

Flood Zone :	A
(If you are unsure of your current flood zone, Click here to help determine your flood zone)	
Year of Home:	1975 or greater
Flood Building Limit:	\$500,000
Flood Personal Property Limit:	\$100,000
Replacement Cost on Personal Property:	No
Flood Deductible:	\$5000

Calculate

Premium displayed is an estimate and does not guarantee issuance of coverage.

Estimated Annual Flood Premium: \$3,584

[Request Additional Information](#)

We offer these upgrades, take your pick:

Please click on the yes / no switch to turn an option on or off.
If there are additional coverage options click and drag on the pink dot to update your coverage.



Replacement Cost - Personal Property ⓘ

N Y



Temporary Living Expenses ⓘ

N Y



Unattached Structures ⓘ

N Y



Pool Repair & Fill ⓘ

N Y

Your Premium

\$3,152.00 /yr

*Taxes and fees not included
Quote: #FL201872221483012

CONTINUE

Property Owner Considerations

LAP

SE



30

DAY

Waiting Period

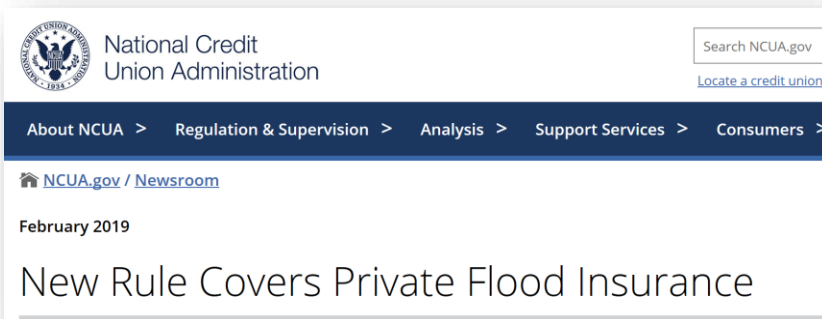
**State
Guaranty
Fund**

Federal & Local Considerations



NFIP FEE\$

A jagged black line with an arrow pointing downwards, indicating a decrease or a downward trend.



Lending Regulators Guidance on Private Flood Insurance



CONSIDERATIONS FOR STATE INSURANCE REGULATORS IN BUILDING THE PRIVATE FLOOD INSURANCE MARKET

DECEMBER 9, 2019

3

Atlantic Corporate Center
2317 Route 36, Suite 2B
Manassas, VA 20108
703.201.4133
CHIEF EXECUTIVE OFFICER: Thomas B. Canfield



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Sen. Jason Rapert, AR
Sen. Travis Holdman, IN

National Council of Insurance Legislators (NCOIL) Private Primary Residential Flood Insurance Model Act

**Sponsored by Rep. David Santiago (FL) and Sen. Vickie Sawyer (NC)*

**Adopted by the NCOIL Special Committee on Natural Disaster Recovery on September 24, 2020; Adopted by the NCOIL Executive Committee on September 26, 2020.*

Table of Contents

Section 1.	Title
Section 2.	Purpose
Section 3.	Definitions
Section 4.	Rates
Section 5.	Forms
Section 6.	Duties of Insurer to Provide Regulatory Notice of Intent to Transact Residential Primary Flood Insurance
Section 7.	Notice to Consumers
Section 8.	Cancellation and Nonrenewal Notice
Section 9.	Surplus Lines Placements
Section 10.	Other Provisions
Section 11.	Rules
Section 12.	Effective Date

Section 1. Title

This Act shall be known as the Private Primary Residential Flood Insurance Model Act.

Section 2. Purpose

To provide protection of lives and property from the peril of flood, this legislation is designed to encourage a robust private primary residential flood insurance market to provide consumer choices and alternatives to the existing National Flood Insurance Program (NFIP).



South Carolina Department of Insurance
1201 Main Street, Suite 1000
Columbia, SC 29201

Mailing Address
P.O. Box 100105
Columbia, SC 29202



North Carolina Rate Bureau

For Immediate Release
September 30, 2020

S.C. Private Flood

Columbia, S.C. – Monday, September 30, 2020. This Act will give the ability to test product

"We are encouraged by the insurance market," said "Currently, our consumer Flood Insurance Program every property owner. The and more options to meet

The main provisions in the bill include:
• recognizing the value of discretionary acceptance
• streamlining the process
• allowing additional meets their underwriting
• requiring 45 days consumers time to purchase

"This is our chance to provide added Director Farmer.

The S.C. Private Flood Insurance Act highlights the importance of flood insurance and provides additional guidance for

March 2, 2020

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Private Flood Insurance Program for Residential Property

The Rate Bureau is introducing the rates, rules, and forms for a private flood insurance product designed for the residential market. This program was filed in September 2019 with the Department of Insurance. This new product was approved by the Commissioner of Insurance with minor changes to the filed minimum premium and inland flood loss cost multiplier on February 28, 2020. In developing this program, the Rate Bureau's Flood Subcommittee enlisted the expertise of leading industry experts, including ISO, Milliman and KatRisk.

INTRODUCTION OF PRIVATE FLOOD INSURANCE PROGRAM

Historically, the National Flood Insurance Program (NFIP) has been the primary insurer of residential flood risks in North Carolina. In the last several years, advancements in flood risk modeling and geospatial data provide better tools for the private market, allowing the industry to offer sophisticated residential flood insurance products as an alternative to the NFIP.

The Rate Bureau's private flood insurance program is intended to provide a long term, quality flood insurance solution for the state of North Carolina that is accepted by lenders and offers residential flood insurance coverage equal to or greater than the current NFIP policy. The program is designed as a stand-alone policy program, and the coverage is not eligible to be written as an endorsement to a current residential property insurance policy. The program developed by the Rate Bureau is optional for member companies that wish to offer a private flood insurance policy. However, a company choosing to offer private flood insurance in North Carolina for residential real property with not more than four housing units must use the Bureau program.

The Rate Bureau policy has several enhancements when compared to the policy offered in the federal program, as well as optional endorsements to customize coverage. A high level comparison of some notable coverages is provided in the chart below:

Program Detail	NFIP	NCRB
Coverage A: Dwelling Limits	\$250,000 maximum	No limit
Coverage C: Personal Property	\$100,000 maximum	No limit
Coverage D: Add'l Living Expense	Not Covered	Optional
Deductible	Separate deductibles for Coverages A & C	One deductible per policy
Personal Property	Covered at actual cash value	Optional replacement cost endorsement
Contents in Below Ground Areas	Not covered*	Optional coverage

2910 Sumner Blvd • Raleigh NC 27616 • (919) 783-9790 • www.ncrb.org

State Regulators look to encourage writing of private flood insurance

RESIDENTIAL COMMERCIAL RESOURCES CONTACT US SERVICE CENTER

Save 50% or more! Your alternative to FEMA!

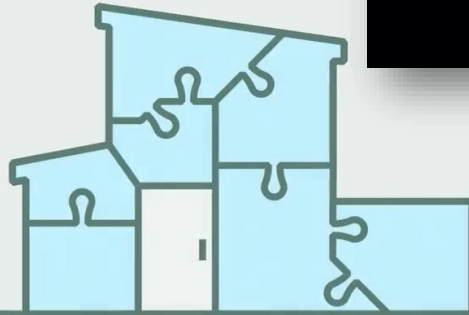
Get An Instant Quote Now!



Apply Online Today!
No Elevation Certificates Required! Lender Approved! Save \$1,000's! Click here to get started!

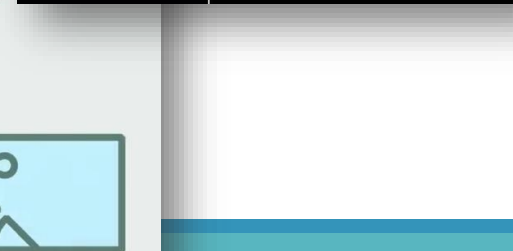
We can offer:

- Coverage for any type of flood peril
- Full multi-product offering
- Full nationwide appetite
- Pro-rata and excess coverage
- Single- and multi-year support
- Indemnity, parametric, and dual coverage triggers
- Side-by-side long term partnership



HISCOX
RE & ILS

HISCOX FLOOD SOLUTIONS



FLOOD GUARD

FLOOD GUARD ADMITTED-RESIDENTIAL FLOOD INSURANCE

An affordable homeowners companion policy for flood damage
Available in Arizona, California, Illinois, Indiana, Nevada, Oklahoma, Oregon, Pennsylvania, South Carolina, and Utah
(Additional States Coming Soon)

Private Flood Insurance
a game-changer for agents and homeowners

Read More

Aon Edge provides our insurance agent and broker partners with:

- Easy Online Quoting
Get a quote in less than one minute.
- Simplified Underwriting
No elevation certificates or photos required.
- Accepted by 3,000+ lenders
Quick coverage, no waiting period at loan closing.

Ready to learn more about our private flood insurance?
Watch these short videos to learn just how easy it is to start writing Aon Edge private flood insurance.

Overview

Aon Edge Overview

40% AVERAGE PREMIUM SAVINGS VS THE NFIP

Quoting

APPLICATION and QUOTING has never been EASIER

For instructions on how to partner with Aon Edge please visit our [How to Work With Us](#) page.

Insurance agents to program managers actively marketing private flood insurance

NFIP Risk Rating 2.0

April 2021-Rates released
October 2021-Rates effective



Redesigning risk rating system to improve policyholder experience



Provides rates that are easier to understand for agents and policyholders



Reduces complexity for agents to generate a quote



Creates an individualized picture of a property's risk



Reflects more types of flood risk in rates



Ensures that rates remain risk-based and use the latest actuarial practices

NFIP Transformation

www.fema.gov/flood-insurance/work-with-nfip/risk-rating

Parametric Insurance



Pre-Defined Event Occurs = Fixed \$ Paid



National Advisory Council
DRAFT Report to the FEMA Administrator
November 2019



Increase Offerings of Parametric Insurance;
Recommendation 2019a-05:
The Administrator should convene cross-sector industry partners to develop parametric insurance for individuals.



PARAMETRIC INSURANCE SOLUTIONS

FIRST DOLLAR HURRICANE AND EARTHQUAKE INSURANCE THAT MAKES SENSE.

LEADING PRODUCTS

Hurricane PM®
Parametric Hurricane Insurance

HURRICANE PM®

WHY IT'S A GAME CHANGER:

Zero Deductible: **NONE, NIL, NADA**

Rapid Claims Process: Measured in days

An extremely broad coverage policy that can be used for almost **ANY ECONOMIC LOSS** including but not limited to:

- Business Interruption (BI) / Contingent BI
- Property damage
- Any deductibles for traditionally insured exposures
- Loss of revenues or profits with or without property damage
- Extra and Extraordinary expenses
- Loss of value or loss of market
- Storm and tidal surge
- Water damage
- Seawalls and beach refurbishment
- Loss of tax base or revenues (public entity)
- Engineering and safety certification costs
- Equity protection

• Annual Aggregate Limit

• Term: Annual (multi-year available in limited circumstances)

• Underwritten by various insurance companies securely rated by A.M. Best

Shake and Pay®
Parametric Earthquake Insurance

SHAKE and PAY®

WHY IT'S A GAME CHANGER:

Zero Deductible: **NONE, NIL, NADA**

Rapid Claims Process: Measured in days

An extremely broad coverage policy that can be used for almost **ANY ECONOMIC LOSS** including but not limited to:

- Business Interruption (BI) / Contingent BI
- Property damage
- Any deductibles for traditionally insured exposures
- Loss of revenues or profits with or without property damage
- Extra and Extraordinary expenses
- Loss of value or loss of market
- Earthquake sprinkler leakage
- Fire following
- Hardscapes and landscapes
- Loss of tax base or revenues (public entity)
- Engineering and safety certification costs
- Equity protection

• Annual Aggregate Limit

• Term: Annual (multi-year available in limited circumstances)

• Underwritten by various insurance companies securely rated by A.M. Best

Ongoing publications



Sizing the Personal Flood Insurance Market

Owner-occupied residential locations



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RISK MANAGEMENT AND
DECISION PROCESSES CENTER

The Emerging Private Residential Flood Insurance Market in the United States

Carolyn Kousky, Howard Kunreuther, Brett Lingle, and Leonard Shabman



PRIVATE FLOOD INSURANCE REPORT

2019

Carrier
Management

RESEARCH & TRENDS



Private Flood Insurance and the National Flood Insurance Program

Updated May 7, 2019

MILLIMAN WHITE PAPER

Wading into the private flood insurance market

Considerations for new insurers

John Rollins, FCAS, MAAA



Private residential flood insurance in the U.S. represents one of the best opportunities in decades to expand the reach of the property insurance industry.

A confluence of developments has catalyzed the transformation of a formerly niche offering into a potential sustainable, large-scale business. These developments include rapid advances in technology, an abundance of risk capital, a break in longstanding legislative status quo, and the human and economic impact of recent disasters on consumer awareness of the increasing flood hazard.

From startup insurers to some of the most venerable names in global insurance, alliances are being formed, leaders are developing strategies, and financial and human resources are being deployed to establish a private flood insurance presence. We believe this is ultimately a beneficial story for U.S. insurance consumers, helping to close the protection gap and improving the resilience of households and economies against future food-related catastrophes. But as with most great undertakings, hard work and foresight are necessary for success. This article explores some questions and challenges for aspiring U.S. private flood insurers.

Business plans and feasibility

Most successful initiatives start with a good plan, but a number of factors make pro-forma projections for new private flood programs difficult. The most important is the historical presence of the federal government's National Flood Insurance Program (NFIP). It currently writes the vast majority of residential policies in most states, and has historically used a one-size-fits-all policy form, a limited set of underwriting rules, and a pricing plan that is logical but based on dated technology and notions of flood risk. NFIP pricing is further constrained by consumer protections ordered by Congress, such as caps on annual renewal rate increases and explicitly subsidized rates for older properties and longstanding customers. Flood insurance is mandatory only for properties with federally-backed mortgages in Special Flood Hazard Areas (SFHAs), shown as high-risk areas on federal maps, so many potential customers have never previously bought flood insurance (and may not know that it is beneficial and not included in standard homeowners policies). These

factors combine to create uncertainty for private insurers marketing to customers whose current flood premium may not match their risk level, and whose reactions to new coverage options may be hard to predict.

Because consumers are often unaware of new private insurance options, and those who become aware may shop primarily on price, premium growth projections are critically dependent upon an understanding of several dynamics that require advanced analytics at highly granular geographic levels, such as:

- Estimates of take-up rates (the proportion of households that maintain flood insurance) inside and outside SFHAs, which help insurers project consumer response when they do and don't face mandatory purchase requirements.
- Large databases of properties with detailed descriptions (construction and occupancy features) and precise locations. For new insurers, these often take the form of "market baskets" of hypothetical properties that represent the spectrum of potential buyers in a region.
- Risk estimates, such as annually expected flood losses (and variation around those expectations), based on modern catastrophe models that simulate thousands of years of storm activity and local hazard intensity, and apply results to properties with described attributes at specific locations.
- Premium comparisons of proposed private flood costs against NFIP (and sometimes other private insurers) for large databases of policies, showing where a program can "win" against NFIP in various cohorts. Contrasts may include areas of high versus low flood risk, where mandatory purchase does or does not apply, and larger versus smaller homes.

The process of developing a feasibility study as laid out above is often iterative, homing in on a pricing algorithm that will allow sufficient pro-forma growth to attract capital and achieve economies of scale, while keeping reinsurance costs at reasonable levels and limiting the risk of unmanageable losses to the enterprise. Metrics such as "win rates" of the proposed rating plan against NFIP premiums and median difference between private and NFIP premiums are often analyzed to set realistic market sizes for pro-forma premium projections and stress-test business plans. In addition, premium differentials across various geographic elements, such as distance to coast, distance to nearest river, and relative elevation, are used to validate the rating plan's consideration of physical hazards.

Wading into the private flood insurance market
Considerations for new insurers

1

April 2019

Questions?

Bruce A. Bender, CFM

ASFPM Insurance Committee Co-Chair

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