



Flood Insurance: Government Backed vs. Private Market Alternatives

National Hurricane Conference

Austin, Texas

April 2, 2015

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Flood Insurance – Historical Data

THE TEN MOST SIGNIFICANT FLOOD EVENTS BY NATIONAL FLOOD INSURANCE PROGRAM PAYOUTS (1)

Rank	Date	Event	Location	Number of paid losses	Amount paid (\$ millions)	Average paid loss
1	Aug. 2005	Hurricane Katrina	AL, FL, GA, LA, MS, TN	167,805	\$16,294	\$97,100
2	Oct. 2012	Superstorm Sandy	CT, DC, DE, MA, MD, ME, NC, NH, NJ, NY, OH, PA, RI, VA, VT, WV	128,186	7,753	60,484
3	Sep. 2008	Hurricane Ike	AR, IL, IN, KY, LA, MO, OH, PA, TX	46,522	2,679	57,581
4	Sep. 2004	Hurricane Ivan	AL, DE, FL, GA, LA, MD, MS, NJ, NY, NC, OH, PA, TN, VA, WV	28,264	1,608	56,897
5	Aug. 2011	Hurricane Irene	CT, DC, DE, MA, MD, ME, NC, NH, NJ, NY, PA, RI, VA, VT	44,147	1,330	30,126
6	Jun. 2001	Tropical Storm Allison	FL, LA, MS, NJ, PA, TX	30,778	1,106	35,931
7	May 1995	Louisiana Flood	LA	31,343	585	18,667
8	Aug. 2012	Tropical Storm Isaac	AL, FL, LA, MS	11,966	543	45,408
9	Sep. 2003	Hurricane Isabel	DE, MD, NJ, NY, NC, PA, VA, WV	19,868	493	24,833
10	Sep. 2005	Hurricane Rita	AL, AR, FL, LA, MS, TN, TX	9,519	474	49,765

(1) Includes events from 1978 to August 31, 2014, as of November 3, 2014. Stated in dollars when occurred.

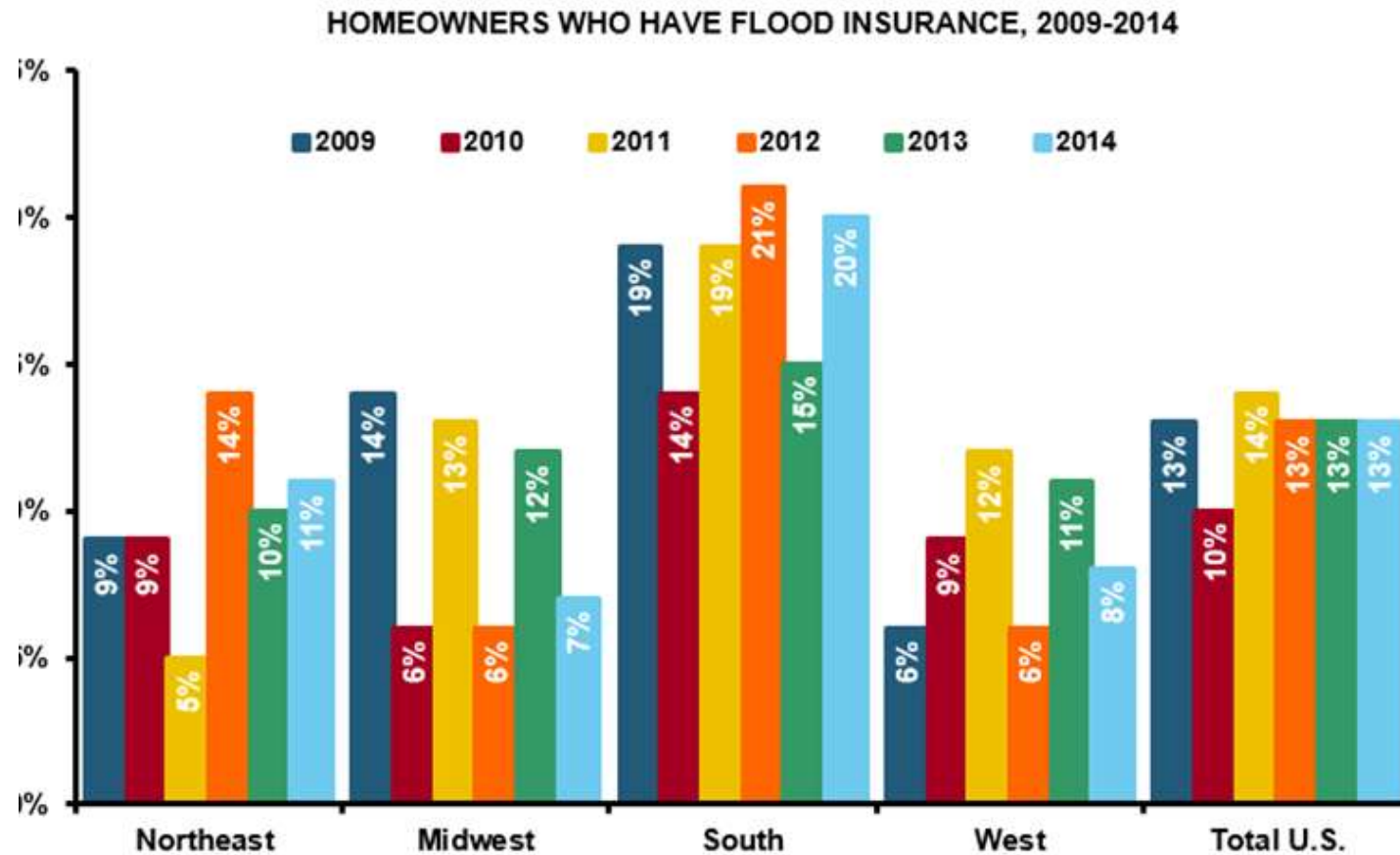
Source: U.S. Department of Homeland Security, Federal Emergency Management Agency; U.S. Department of Commerce, National Oceanic and Atmospheric Administration, National Hurricane Center.

- **The National Flood Insurance Program:** Before Congress passed the National Flood Insurance Act in 1968, the national response to flood disasters had been to build dams, levees and other structures to hold back flood waters, a policy that may have encouraged building in flood zones.
- The National Flood Insurance Act created the National Flood Insurance Program (NFIP), which was designed to stem the rising cost of taxpayer funded relief for flood victims and the increasing amount of damage caused by floods. The NFIP has three components: to provide flood insurance, floodplain management and flood hazard mapping. Federal flood insurance is only available where local governments have adopted adequate floodplain management regulations for their floodplain areas as set out by NFIP. More than 20,000 communities across the country participate in the program. NFIP coverage is also available outside of the high-hazard areas.

Only 13% of American Homeowners have a flood insurance Policy

- Although there had been wide fluctuations in the past in the percentage of respondents who said they had flood insurance, this measure has remained around 13 percent in the six years since 2009.
- The proportion of those who say they have a flood insurance policy remains highest in the South and rose five percentage points in May 2014 to 20 percent, back to the levels reported in 2011 and 2012. The South was the only region to register a significant increase in this measure in 2014.
- In the Northeast, the proportion of homeowners who have flood insurance was 11 percent, basically unchanged from a year ago when it was 10 percent.
- Eight percent of homeowners in the West say have the coverage, down from 11 percent a year ago. In the Midwest, the site of river flooding in 2013, 7 percent of homeowners now say they have flood insurance, down five percentage points from 12 percent a year ago.

Percentage of People with Flood Insurance

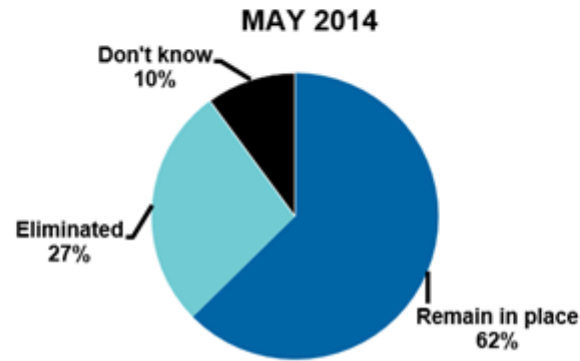


Source: Insurance Information Institute Annual Pulse Survey.

11. Q. Congress recently passed a law that will roll back some of the rate increases it put in place in 2012 for homeowners who purchase subsidized flood insurance from the government. Rates were increased in 2012 so taxpayers would not have to bear some of the costs of the federal flood insurance program.

Do you think...

- *The recent rate rollback and subsidies should remain in place for most homeowners who purchase flood insurance, or*
- *The rollbacks and subsidies should be eliminated, or*
- *Don't know*



FEMA Announces New Rate Increase



FEMA

Fact Sheet

Federal Insurance and Mitigation Administration



How April 2015 Program Changes Will Affect Flood Insurance Premiums

The National Flood Insurance Program (NFIP) is in the process of implementing Congressionally mandated reforms required by the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) that repeal and modify the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters). The new law slows some flood insurance rate increases and offers relief to some policyholders who experienced steep flood insurance premium increases in 2013 and early 2014. Flood insurance rates and other charges will be revised for new or existing policies beginning on April 1, 2015. In addition to insurance rates, other changes resulting from Biggert-Waters and HFIAA will be implemented that will affect the total amount a policyholder pays for a flood insurance policy. Highlights of some of those changes follow. For full explanations and guidance, see WYO Bulletin (W-14053) and the Flood Insurance Manual.

The changes taking place in April include an increase in the Reserve Fund Assessment, the implementation of an annual surcharge on all new and renewed policies, an additional deductible option, an increase in the Federal Policy Fee, and rate increases for most policies. Key changes include:

- Implementing annual rate changes that set rates using rate-increase limitations set by HFIAA for individual premiums and rate classes:
 - Limiting increases for individual premiums to 18 percent of premium.
 - Limiting increases for average rate classes to 15 percent.
 - Mandatory increases for certain subsidized policyholders under Biggert-Waters and HFIAA.
- Increasing the Reserve Fund assessments required by Biggert-Waters.
- Implementing annual surcharges required by HFIAA.
- Guidance on substantially damaged and substantially improved structures, and additional rating guidance on buildings constructed before their communities' first Flood Insurance Rate Maps (FIRMs) became effective (known as pre-FIRM structures).
- Implementing a new procedure for properties newly mapped into the Special Flood Hazard Area (SFHA) and existing Preferred Risk Policy Eligibility Extension (PRP EE), a cost-saving flood insurance coverage option for property owners whose buildings were newly mapped into an SFHA. The premiums will be the same as the PRP, which offers low-cost flood insurance to owners and tenants of eligible residential and non-residential buildings located in moderate- to low-risk areas for the first year (calculated before fees and assessments) to comply with provisions of HFIAA.
- Reformulating expense loading on premiums, reducing the expense load on the highest-risk policies as an interim step while investigating expenses on policies as required by Biggert-Waters.

The changes will take effect on April 1, 2015.

Flood Insurance Coverage

- Flood damage is excluded under standard homeowners and renters insurance policies. Flood coverage, however, is available in the form of a separate policy both from the National Flood Insurance Program (NFIP) and from a few private insurers.
- Some insurers offer flood insurance policies for high-value properties. These policies may cover homes in noncoastal areas and/or provide enhancements to traditional flood coverage
- Private flood insurance is available for those who need additional insurance protection, known as "excess coverage," over and above the basic policy or for people whose communities do not participate in the NFIP.
- The NFIP provides coverage for up to \$250,000 for the structure of the home and \$100,000 for personal possessions.
- The comprehensive portion of an auto insurance policy includes coverage for flood damage.

Flood Insurance Coverage

- Coverage for the contents of basements is limited. The NFIP pays for systems that help make a home livable but not for personal possession
- There is no Additional Living Expenses (ALE) in standard flood policies.
- Coverage limits for commercial property are \$500,000 for the structure and another \$500,000 for its contents.
- To prevent people from putting off the purchase of coverage until waters are rising and flooding is inevitable, policyholders must wait 30 days before their policy takes effect.

- Flood insurance covers direct physical losses by flood and losses resulting from flood-related erosion caused by heavy or prolonged rain, coastal storm surge, snow melt, blocked storm drainage systems, levee dam failure or other similar causes.
- To be considered a flood, waters must cover at least two acres or affect two properties.
- Homes are covered for up to \$250,000 on a replacement cost basis and the contents for up to \$100,000 on an actual cash value basis. Replacement cost coverage pays to rebuild the structure as it was before the damage. Actual cash value is replacement cost minus the depreciation in value that occurs over time.

Water Damage – Home Insurance

- Water that comes from the top down is covered by homeowners or renters insurance. For example, if wind shatters a window or damages the roof allowing rain or snow to get into the home, this is covered. Water damage caused by burst pipes and ice dams on a roof (a situation where melting snow is unable to drain properly through gutters, resulting in water seepage that can cause damage to ceilings, walls and even furniture) is also generally covered by home insurance policies.
- However, water that comes from the bottom up, such as an overflowing stream, river or lake caused by melting snow is covered separately, by flood insurance.
- There is coverage for back-up of sewers and drains under a home insurance policy, or a rider to an insurance policy.

The iiiToolkit: Putting Insurance Tools into the Hands of Consumers

- The iiiToolkit is a free mobile app suite that can help users put together a disaster plan, learn about selecting the right insurance for their needs and budget, and create and maintain a home inventory database.

- Takes an action oriented approach: make a checklist; create an inventory; have a conversation with your insurance professional.



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***Thank you for your time
and attention!***