Flood: State of the Risk

The "above-average" Atlantic hurricane seasons of the past few years have underscored the importance of flood insurance and the fact that not enough people have it.

The human and economic tolls associated with flooding can be massive. It can take families, businesses, and communities years to recover from a single event. And – until recently – insuring these risks and the cost of helping communities recover fell almost entirely on government programs.

Losses are on the rise, due to weather and demographic trends: More people are moving into areas most vulnerable to weather and climate-related risks. Since 1940, the number of housing units in the United States has increased most dramatically in hurricane- and flood-prone areas in Florida and Texas, as well as parts of California, Nevada, and Washington that are at an elevated risk of wildfire or drought — and, consequently, mudslides and flash floods.

Many people incorrectly assume homeowners insurance covers flood damage or believe they only need flood insurance if their mortgage lender requires it.

Following two storms in 2021 that submerged basements, cracked home foundations, and destroyed belongings, many residents in the U.S. Northeast suddenly realized they don't have flood insurance.

Further Reading: Triple-I Research

- Flood: Beyond Risk Transfer
- Hurricane Season: More Than Just Wind and Water
- Severe convective storms: Evolving risks call for innovation to reduce costs, drive resilience

Fast Facts

Only **1 in 6 homes** in the United States is insured against flood.

Yet 90 percent of natural catastrophes in the country involve flooding.

One inch of flood water can cause as much as **$25,000 in damage to a home.***

Between 2010 and 2018 the **annual cost of flood damage was about $17 billion** in the United States.**

This is four times the approximately $4 billion per year recorded in the 1980s.

Learn More with Triple-I's
Facts + Stats: Flood insurance

"Any home can flood, even if you're well outside a floodplain.... Get flood insurance. Whether you're a homeowner or a renter or a business — get flood insurance."

– Dan Kaniewski, *managing director for public sector innovation at Marsh & McLennan and former deputy administrator for resilience at FEMA.*

INSURANCE INFORMATION INSTITUTE

Affiliated with THE INSTITUTES

* Federal Emergency Management Agency (FEMA)

** Testimony FEMA's Michael Grimm delivered to a House subcommittee on the environment

Flood is no longer an "untouchable" risk

Flood was long considered an untouchable risk for private insurers. For decades, FEMA's National Flood Insurance Program (NFIP) was practically the only available option. Before NFIP, "mitigation" meant building more dams and providing post-event recovery assistance.

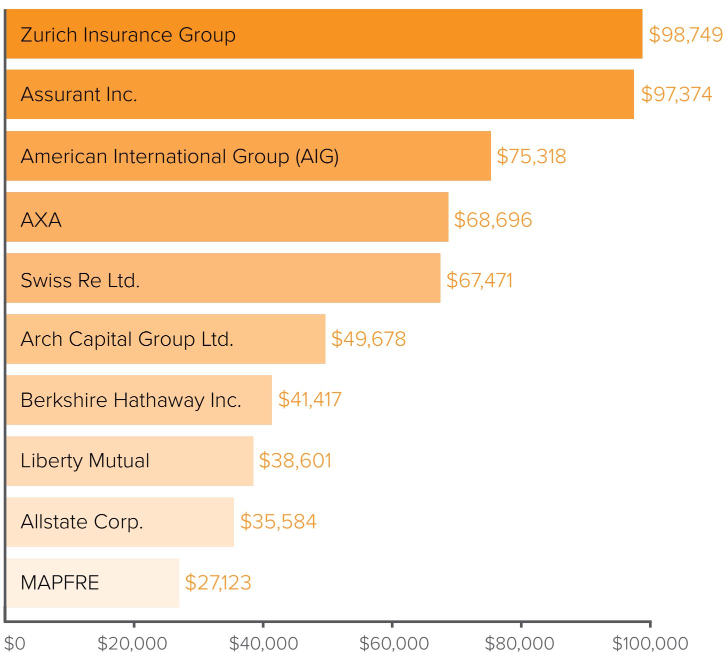
Improved data, analysis, and modeling have helped drive increased private-sector interest in flood-risk transfer and mitigation. Since 2016 NFIP has been using reinsurance protection. NFIP purchased $1.15 billion in coverage from 32 private reinsurers in 2021, up from 27 in 2020.

In 2019, federal regulators allowed mortgage lenders to accept private homeowners flood insurance if the policies abide by regulatory definitions. Also allowed are private insurance policies that do not meet regulations if insurers provide adequate protection according to general safety and soundness requirements. The effect is likely to impact homeowners in states where most of the nation's flood insurance policies are held.

The increase in private coverage helps spread the economic risk related to flooding. Private carriers can also offer higher coverage than NFIP.

Top 10 Writers of Private Flood Insurance

(Direct premiums written, 2020, $000)



Source: **S&P Global Market Intelligence.** Private flood includes both commercial and private residential coverage, primarily first-dollar standalone policies that cover the flood peril and excess flood. Excludes sewer/water backup and the crop flood peril. Does not include FM Global, which reclassified private flood insurance as part of allied lines in 2019. FM Global had $300 million in direct premiums written for private flood insurance in 2018. Direct premiums written are before reinsurance transactions.

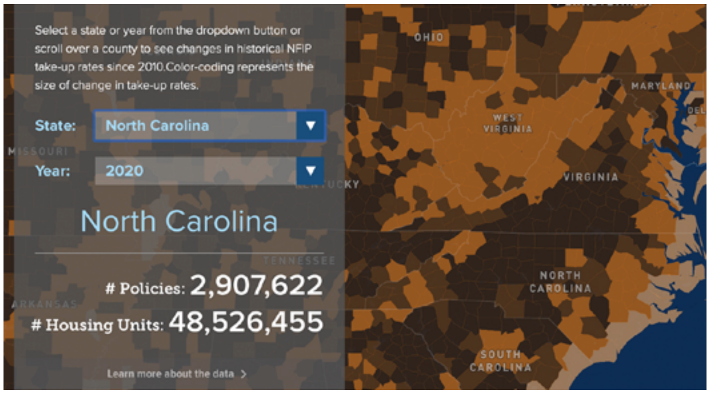
Risk transfer not enough

Despite growing private involvement, many experts consider the current system unsustainable. A resilience mindset is required, and that demands more than insurance products. Insurers' command of loss trends and expertise in quantifying risk must be married to technology, public policy, finance, and science.

In 2021, FEMA unveiled details of Risk Rating 2.0 – its plan to modernize NFIP to make it fairer and more sustainable. The changes measure flood danger differently – gauging properties' specific risks and replacement costs, rather than simply whether they sit in a FEMA-designated "flood zone." FEMA officials said this would end a system in which low-value homes effectively subsidize insurance for high-value homes.

FEMA also launched its National Risk Index for natural hazards. The online mapping application identifies communities most at risk for 18 types of events. It visualizes the risk metrics and includes data about expected annual losses, social vulnerabilities, and community resilience.

Triple-I collaborates with its insurer members, other nonprofits, insurtechs, and other partners to promote pre-emptive mitigation and rapid recovery to benefit policyholders, insurers, communities, and businesses. Its Resilience Accelerator provides access to numerous tools and resources, including flood peril maps and webinars featuring leaders in risk and insurance innovation.



Triple-I Resilience Accelerator flood peril map

The Triple-I Blog

- Flood: An Insurable Peril That's Underinsured
- Flood Pictures Worth More Than 1,000 Words
- Partnering to Improve Flood Resilience
- FEMA's New Approach to Flood Risk Will Make Insurance Program Fairer
- Severe Weather Preparedness Week: Flood