

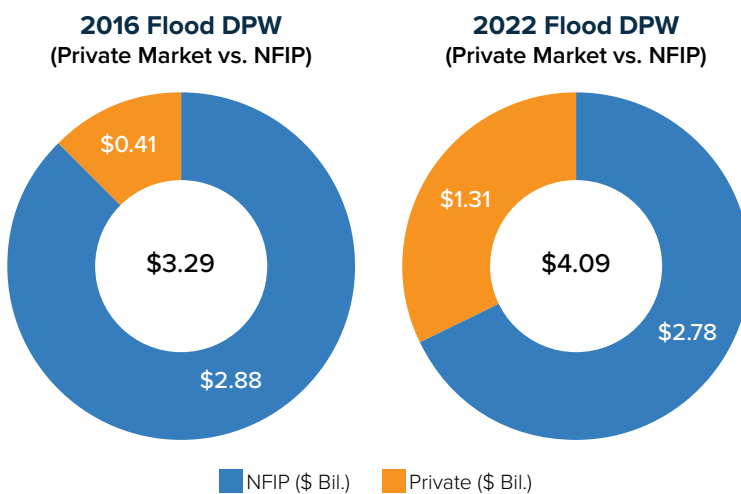
Flood: State of the Risk

Flood is no longer an “untouchable” risk for private insurers. More to the point, data suggests insurers see it as a growing area of opportunity. That’s good news for homeowners who understand the evolving nature of flood risk.

For decades, FEMA’s National Flood Insurance Program (NFIP) was practically the only available option. Improved data, analysis, and modeling have helped drive increased private-sector interest in flood-risk transfer and mitigation.

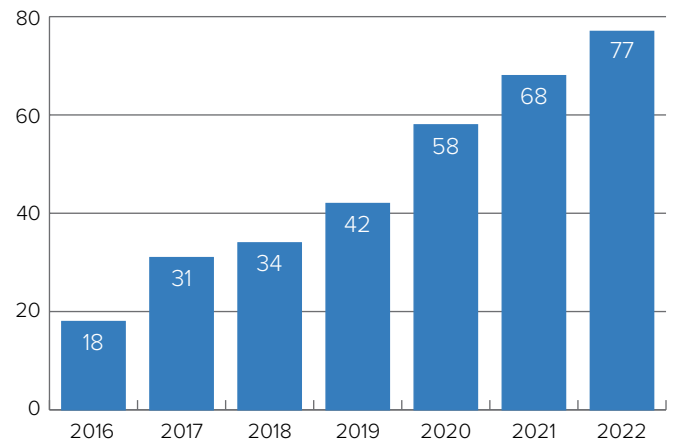
The private flood market has changed since 2016, when only 12.6 percent of coverage was written by 18 insurers. In 2019, federal regulators allowed mortgage lenders to accept private flood insurance if the policies abided by regulatory definitions. The already-growing private appetite for flood risk gained steam after that.

Between 2016 and 2022, the total flood market grew 24 percent – from \$3.29 billion in direct premiums written (DPW) to \$4.09 billion – with 77 private companies writing 32.1 percent of the business. As the charts below make clear, private insurers are accounting for a bigger piece of a growing pie.



The timing of the private market’s increasing appetite for flood risk is fortuitous, as it coincides with [Risk Rating 2.0](#), NFIP’s new pricing methodology that aims to make the government agency’s flood insurance premium rates more actuarially sound and equitable by better aligning them with individual properties’ flood risk. As NFIP rates become more aligned with principles of [risk-based pricing](#), some policyholders’ prices are expected to fall, while many are going to rise.

Number of private insurers writing flood coverage (2016-2022)



Source: S&P Global Market Intelligence, as of July 2023.

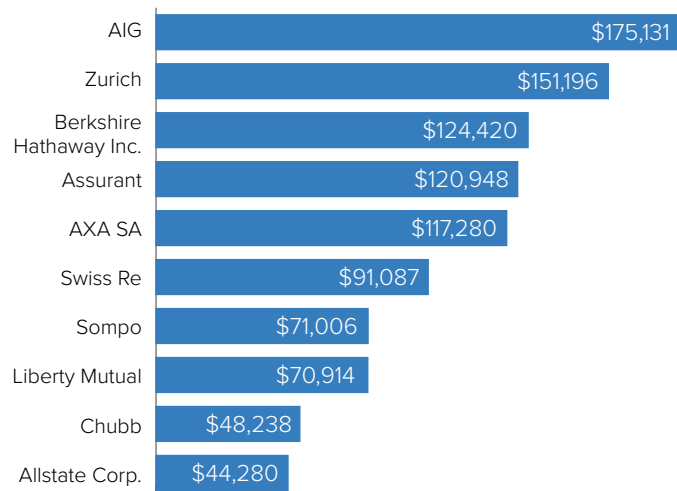
Ten states – along with 43 Louisiana parishes and more than a dozen levee districts – [are now suing](#) FEMA, the Department of Homeland Security, and the Federal Insurance and Mitigation Administration to have Risk Rating 2.0 declared unlawful. The other states participating in the lawsuit are Florida, Idaho, Kentucky, Mississippi, Montana, North Dakota, South Carolina, Texas and Virginia.

NFIP has played a critical role in filling a protection gap the private market was long unwilling or unable to address. The recent changes in its rating methodology were necessary to repair a system in which owners of low-risk homes effectively subsidized insurance for owners of higher-risk ones. The fact that more accurate pricing raises rates for previously underpriced risks is not a reason to return to a system that was inherently unfair and unsustainable.

Motivation drives innovation

It is reasonable to expect that, as the cost of participating in the government-run flood insurance program rises for some, private insurers will recognize the market opportunity and respond by applying cutting-edge data and analytics capabilities, more refined pricing techniques, and new products, such as [as parametric insurance](#), to seize those opportunities. It also is incumbent upon communities to explore innovative approaches like [community-based disaster insurance](#) programs.

2022 Top 10 Private Flood Carriers



Even within the federal flood insurance program, opportunities exist to get lower rates. FEMA's [Community Rating System](#) (CRS) is a voluntary incentive program that encourages community floodplain management practices that exceed NFIP's minimum requirements. In CRS communities, flood insurance premium rates are discounted to reflect the reduced flood risk resulting from community efforts that address the program's three goals:

- Reduce and avoid flood damage to insurable property;
- Strengthen and support the insurance aspects of NFIP; and
- Foster comprehensive floodplain management.

Over 1,500 communities participate in the program nationwide, but only [Tulsa, Okla.](#), and [Roseville, Calif.](#), have taken sufficient actions to achieve Class-1 status and have their citizens receive the greatest flood insurance premium discount. Both of these communities previously experienced disastrous flooding. Tulsa spent decades developing and implementing stormwater management improvements before [receiving its class-1 designation](#) in 2022.

Having said this, Folly Beach, S.C. – a small barrier island with 2,400 residents – was able to achieve a [30 percent reduction](#) in its NFIP flood insurance premium rates by becoming a CRS Class-4 community. And, more recently, 17 Florida jurisdictions have achieved Class 3 ratings, making their citizens eligible for reductions up to 35 percent.

Consumer understanding is key

Increasing private-sector competition can only increase the opportunities to obtain affordable coverage. Unfortunately, as risk-management firm [Milliman points out](#), "A relative lack of consumer demand compared to other property insurance offerings still gives carriers hesitation when trying to evaluate

whether they should invest in launching their own private flood programs."

[Recent consumer research](#) conducted by Triple-I, in partnership with reinsurer Munich Re, supports Milliman's observation. Sixty-four percent of homeowners and renters surveyed responded that their residences were not at risk from flood, and another 14 percent were unsure of their flood risk. Proportionally few homeowners buy flood insurance unless their mortgage lender requires it, and surveys have shown that many people incorrectly believe their standard homeowners policies cover flood damage.

The same research shows that, among the 22 percent of homeowners who understand that they are at risk, 78 percent have purchased flood insurance. Public education and awareness building around flood risk are essential to advance the goal of reducing flood risk, as is collective action among stakeholder groups – from banks and insurers to community leaders, real estate professionals, and policymakers. Reducing the threat of costly flood claims will ensure that affordable insurance protection is available to all who need it.

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.

Learn More:

[FEMA Incentive Program Helps Communities Reduce Flood Insurance Rates for Their Citizens](#)

[Stemming a Rising Tide: How Insurers Can Close the Flood Protection Gap](#)

[CAS Research Clarifies Role of "Spatial Dependence" in Flood Risk](#)

[Climate Risk Isn't All About Climate: Population, Land Use, Incentives Need to Be Addressed](#)

[Coastal Virginia Rises to Meet the Challenge of Sea-Level Rise](#)

[Hurricane Ian's Inland Impact Highlights Flood Protection Gap in Florida and Beyond](#)