



# PRIVATIZATION OF FLOOD IN THE US

## A Practitioner's Perspective

*Casualty Actuarial Society Spring Meeting, 24 May 2017*



# WHAT IS NFIP

## THE ORIGINAL MISSION STATEMENT

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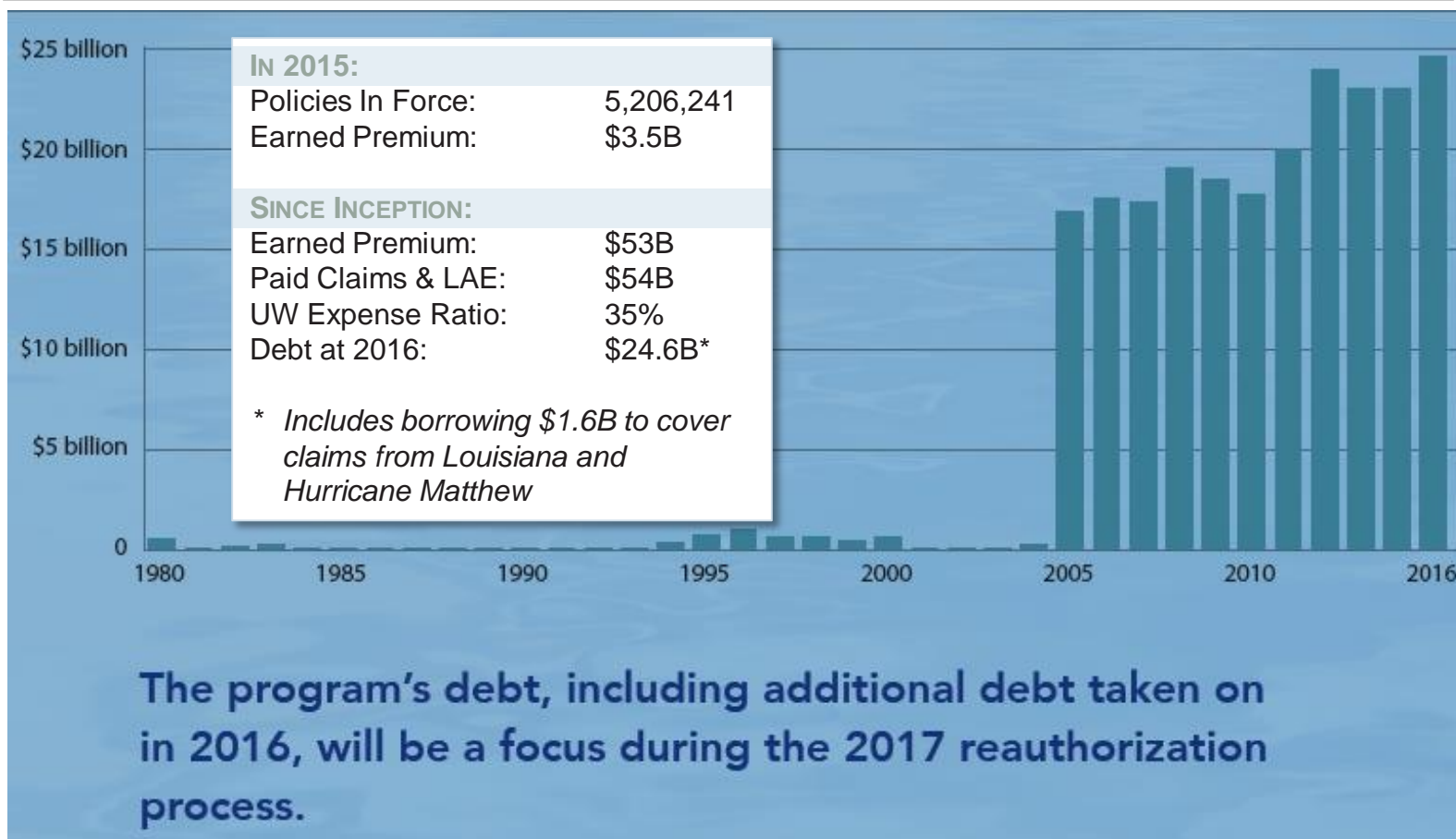
Create a unified foundation for floodplain management

Encourage effective land use; reduce exposure to flooding

Facilitate prefunding and sharing the challenges of disaster recovery

Deliver coverage at affordable and reasonable rates while meeting solvency goals

# NFIP RESULTS OVER TIME



Source: AAA "The National Flood Insurance Program: Challenges And Solutions"



# STRUCTURE OF THE NFIP

Sunset Provision	Last Extension: 9/30/2017
Borrowing Authority	\$30.4B (originally \$1B Cap) <i>Recent Legislative Proposals to forgive the debt</i>
Rate Structure Goals	<ul style="list-style-type: none"><li>▪ Promote the program's financial soundness</li><li>▪ Support floodplain management</li><li>▪ Encourage the widespread purchase of flood insurance.</li></ul>
Flooding Covered	<ul style="list-style-type: none"><li>▪ Inland Flooding (Riverine)</li><li>▪ Coastal Storm Surge</li></ul>
Other Coverage Commentary	<ul style="list-style-type: none"><li>▪ Grandfathered Rates</li><li>▪ Continuous Coverage Requirement</li></ul>



# THE FUTURE OF NFIP

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*A Senate Proposal In the Works:*

- 10 Year Extention
- Reinsurance Authorization
- Raised Coverage Limits



# WHAT IS PRIVATE MARKET FLOOD

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Anything Not Insured  
by the NFIP



# THE DECISION TO PRIVATIZE

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## TO PRIVATIZE

- Plenty of capital in the industry
- Advances in risk modeling
- Governmental limitations
- NFIP is in debt

## NOT TO PRIVATIZE

- Black swan flood better protected by NFIP
- Complexity of unwinding the NFIP
- Increased requirement for homeowners to purchase flood insurance
- Loss of centralized data collection to measure risk



# WHO CAN OFFER PRIVATE FLOOD?

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## Insurance Companies

- At own terms & Conditions
- As stand-alone flood policy or as endorsement

## Reinsurers

- As bolt-on solution
- As a pass-through





# WHAT INSURANCE COMPANIES OFFER PRIVATE FLOOD

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- Excess & Surplus Lines Companies
- Admitted Companies

***ALL OPERATE UNDER THE AUTHORITY OF  
STATE INSURANCE DEPARTMENTS***



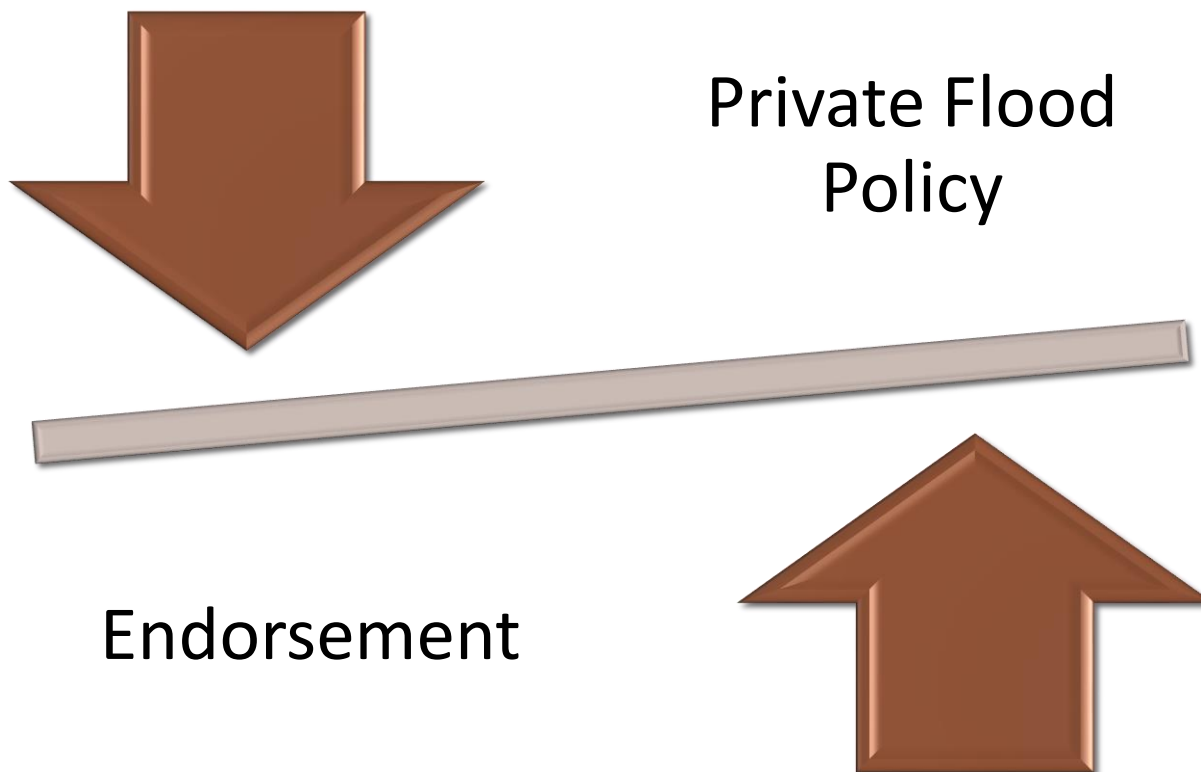
# CONSIDERATIONS

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- What is their pricing?
- How do they set rates?
- What are the pricing protections for the customer?

# KEY CHOICE FOR INSURERS

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# REQUIREMENTS FOR PRIVATE FLOOD ACCEPTANCE

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## *Biggert-Waters Flood Insurance Reform Act Proposes:*

- Private Flood Insurance Definition to Protect the Consumer
  - Licensed in the state
  - Protection at least as broad as the Standard Flood Insurance Policy (SFIP)
  - 45 day written notice of cancellation / non-renewal
  - Provide information about availability of NFIP
  - Mortgage Interest Clause
  - Notification of claims lawsuits
  - Restrictive cancellation provisions as with the SFIP
  
- Criteria for Other Types of Flood Insurance Policies

# AN INNOVATIVE WAY TO DELIVER PRIVATIZED FLOOD INSURANCE

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- Admitted Paper through endorsement to standard Homeowners Policy
  - Approved in MS and AL
- Coastal exposures but not direct water exposure – NFIP rates significantly lower for this exposure (grandfathered rates)
  - Account for Elevation and Distance to Water
- Benefits of combining Wind and Flood on one Policy
  - Claims Leakage
    - Reduction in LAE specifically from having one adjuster and not two
  - Operational Savings
  - Flood Mapping
  - Getting paid for the exposure
  - Elimination of Concurrent Causation



# WHAT'S NEXT

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**New Product**

**New Way of Doing Business**

**New Day**



# RELEVANT ARTICLES

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## Agencies issue a proposed rulemaking to implement the private flood insurance requirements of the Biggert-Waters Flood Insurance Reform Act (BWA).

On November 7, 2016, the Board of Governors of the Federal Reserve System (Board), the Farm Credit Administration (FCA), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC) (agencies) issued a rulemaking proposal to implement the private flood insurance requirements of the BWA. 81 Fed. Reg. 78063 (November 7, 2016). The BWA amended the Flood Disaster Protection Act of 1973 (FDPDA) to require lenders to accept a private flood insurance policy in satisfaction of the FDPDA's mandatory flood insurance purchase requirement if the policy meets the statutory definition of "private flood insurance." In the proposal, the agencies define "private flood insurance" as a policy that:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance by the insurance regulator of the state or jurisdiction in which the property to be insured is located; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the state insurance regulator of the state or jurisdiction in which the property to be insured is located;
- provides coverage at least as broad as the coverage under a standard flood insurance policy (SFIP), when considering deductibles, exclusions, and conditions offered by the insurer;
- requires the insurer to provide written notice 45 days before canceling or not renewing flood insurance coverage;
- provides information about the availability of flood insurance coverage under the National Flood Insurance Program (NFIP);
- includes a mortgage interest clause similar to the clause contained in an SFIP;
- notifies the insured that any lawsuit related to a claim must be filed no later than one year after the date of a written denial for all or part of a claim under a policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in an SFIP.

To facilitate compliance, the proposal includes a compliance aid provision under which a policy would be deemed to be "private flood insurance" if the following conditions are satisfied: 1) the policy includes a written summary that demonstrates how the policy meets the definition of private flood insurance by identifying the provisions of the policy that meet each criterion in the definition and confirms that the insurer is regulated in accordance with that definition; 2) the lender verifies in writing that the policy includes the

provisions identified by the insurer in its summary and that these provisions satisfy the criteria included in the definition; and 3) the policy or an endorsement to the policy includes the statement: "This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation."

The proposal also provides guidance on other types of flood insurance policies issued by private insurers that lenders may accept at their discretion, provided the following criteria are met:

- The policy is issued by an insurer that is licensed, admitted, or otherwise approved to engage in the business of insurance by the insurance regulator of the state or jurisdiction in which the property to be insured is located or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is issued by a surplus lines insurer recognized, or not disapproved, by the insurance regulator of the state or jurisdiction in which the property to be insured is located;
- The policy covers both the mortgagor(s) and mortgagee(s) as loss payees;
- The policy provides for cancellation after reasonable notice to the borrower only for reasons permitted by FEMA for an SFIP, in any case of nonpayment, or when cancellation is mandated pursuant to state law, and
- The policy is either:
  - "at least as broad" as an SFIP; or
  - provides coverage that is similar to an SFIP policy, considering deductibles, exclusions, and conditions offered by the insurer; and the lender compares the private policy with an SFIP and documents its finding that the policy provides sufficient protection of the loan.

The proposal also defines the term mutual aid society and would permit a lender to accept a private policy issued through a mutual aid society, if certain conditions are satisfied.

Each regulator determines for the institutions it supervises if a policy issued by a mutual aid society meets the requirements. The proposal states that the Board, FDIC, and NCUA "expect that cases in which they approve policies issued by mutual aid societies to be rare and limited." The OCC and FCA "propose to conduct their own evaluations using the criteria that institutions are expected to consider" under the proposed mutual aid provision.

The comment period closes on January 6, 2017, 60 days after the notice was published in the *Federal Register*. ■



Wednesday, September 21, 2016 4:57 PM ET Exclusive

# Coastal American Insurance enters flood market in Mississippi, Alabama

By Elizabeth Festa

Tiny Coastal American Insurance Co. embarked on a novel way to deliver company-underwritten flood insurance at a time when the financially struggling National Flood Insurance Program is still underwriting most flood insurance.

In an interview on the 11th anniversary of Hurricane Katrina, Aug. 29, and a follow-up a few weeks later, Coastal American co-founder and President Ned Dolese described a business plan he thinks makes sense for the risk it covers, a plan he hopes the Mississippi company can expand to other states.

Flood insurance, if it is not supplied or underwritten by the NFIP as part of the Federal Emergency Management Agency, is sold through surplus lines. But Coastal American is offering flood insurance as an endorsement to a standard homeowners policy, and is offering it outside of the government's mapped flood zone.

"To my knowledge, this is the first use of a flood endorsement to be written in America on admitted paper," Dolese said. "The company wrote its first flood endorsement attached to a homeowners policy Aug. 2 in Mississippi. Admitted paper refers to the insurance carrier's approval from the state insurance department to write insurance in that state, with all of the accompanying compliance requirements.

Coastal American was approved for flood coverage this summer in Mississippi as well as in Alabama, where it anticipates kicking off flood coverage underwriting before the end of the year. In addition, the company is actively looking at states with coastal or water frontage. Dolese is scheduled to meet with South Carolina Insurance Commissioner Ray Farmer on Sept. 27 to discuss getting a license to sell its policies there.

The company is looking to expand in any state where the geography and economics make sense, Dolese said. He is looking at areas with middle-market homes set back from the water's edge in states such as Texas, Maryland, Virginia and Louisiana.

Dolese said the sweet spot for Coastal American coverage is with standard homes that are three or four blocks from the water, not the multimillion-dollar homes that line the sea or homes in rural areas without sufficient building codes. The properties he prefers to underwrite are well-built homes valued at \$150,000 to \$450,000. Dolese said the company seeks houses where it can deliver a flood endorsement at an affordable price.

"Middle America cannot afford to live on the water's edge," Dolese said.

Coastal American cannot compete with the subsidized NFIP rate anyway, for properties grandfathered in at a lower premium rate, nor does it want to, because the cost of rebulking would outstrip the NFIP-based premiums, he said.

The government's maximum payout for a claim on a residential property is \$250,000, which is nowhere near the replacement cost for an expensive property on the coast, Dolese noted.

He has answered critics who assume his company would have taken a beating in August had it been writing flood coverage in the Baton Rouge area, where homes nowhere near the coastline flooded after heavy rainfall. Coastal American would have held up really well, Dolese said, because it would have demanded higher premiums than "the State Farms and the Allstates" with their bundled policies. Instead of a \$900 premium offered by others, Coastal might have charged \$1,500, he said.

The company has even underwritten two policies on properties in the highest flood risk zone, the V-Zone, as mapped by FEMA. The two properties were not grandfathered in to the NFIP's lower rates, Dolese noted.

The higher premium price is more realistic given the risk, according to Dolese, whose company wrote its first homeowners insurance policy in 2010.

Mississippi Insurance Commissioner Mike Chaney remarked in a chat in late August during the NAIC meeting in San Diego that Coastal American's underwriting discipline on flood insurance could have the social policy benefit of discouraging building poorly in risky areas.

As of about Sept. 15, the company had written fewer than 200 flood endorsements with policies in just six weeks of offering them, Dolese said, about half of those in an X-Zone, areas that are at moderate to low risk of flooding outside the 500-year floodplain. The other half are in the A-Zone, which is still a special flood hazard area but not as high as a V-Zone area, Dolese explained.

"The take-up rate on people in an X-Zone has been remarkable, and it is driven by price," Dolese said. Coastal American is now selling more policies with the flood endorsement than without, he added.

The company has reinsurance programs with Lloyd's of London as well as Bermuda reinsurers, Dolese said. "We want to make sure when there is a hurricane that we can pay these claims."

View this article online: <http://www.insurancejournal.com/news/southeast/2016/09/08/425723.htm>

## **Coastal American Insurance Rolls Out Private Flood Endorsement in Mississippi**

Coastal American Insurance Co. has introduced a combined wind and flood insurance policy for policyholders in Mississippi. The new private flood endorsement is designed to eliminate disputes over concurrent causation, which often arise when storms hit coastal areas coverage according to Coastal American president Ned Dolese. The policy has also been approved in Alabama and will be rolled out in additional states as it is approved.

The WaterStreet Company, which provides operational and technical support for property and casualty insurance carriers across the U.S., worked with Coastal American to bring the endorsement online and develop functionalities for automating the underwriting and policy management process.

The WaterStreet system allows Coastal American to underwrite risk on the basis of specific elevation and distance to water. These factors enable an insured party to choose a combined wind-and-flood deductible and potentially reduce the policy's cost.

Dolese said the coverage works as an alternative to the National Flood Insurance Program.

Headquartered in Gulfport, Miss., Coastal American Insurance Co. focuses on home insurance to Gulf Coast homeowners.

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