Some Interest in Selling Private Flood Insurance in Florida Surfaces

By Michael Adams | November 19, 2013

With increases in federal flood insurance rates looming, two insurance providers have said they are prepared to sell private flood policies in Florida.

Their actions come as state officials are trying to provide guidelines on rates and policyholder forms for private flood coverage.

More than two million Florida residents are covered through the National Flood Insurance Program, which is about 37 percent of the NFIP's market and $1 billion in premiums.

While many NFIP customers could see increases in premiums under the reforms now being implemented as part of the Biggert-Waters Flood Insurance Reform Act of 2012, residents whose homes were built before 1974 would feel the brunt of the costs. Those 268,000 Florida homeowners would lose subsidies that have for decades lowered the cost of their flood insurance.

State lawmakers and regulators are hoping the private market can offer a solution for some homeowners facing the rate increases and relieve concerns over how the rate increases could affect property sales.

A Gainesville, Florida-based insurance agency says it is ready to offer a stand-alone flood policy from a surplus lines carrier at rates competitive with the NFIP's.

The Flood Insurance Agency, which says it has been marketing flood insurance around the country through the NFIP since 2004, said it can offers policies underwritten by Lloyd's Private Flood.

Flood Insurance Agency President Evan Hecht said that after four years of retirement he has rejoined the agency to address problems coming out of the NFIP reforms. He said that while Biggert-Waters is needed, he believes that some of the proposed changes are not justified.

"We are a strong advocate of the Federal Emergency Management Agency and the NFIP, and to solve their problems Biggert-Waters is needed," said Hecht. "And we are in favor of 98 percent of the changes, but they didn't use the right reasons for two percent."

Hecht's agency is offering policies providing similar coverage to that of the NFIP, which is capped at $250,000 for property damage and $100,000 for contents coverage. Although the homeowners would still face higher premiums, they would be less than the NFIP's projections.

For example, a home in a coastal region in the state that is valued at $200,000 would pay a premium of $2,970, with a $5,000 deductible. By comparison, that same home's premium under Biggert-Waters could be in the $20,000 to $30,000 range, according to Hecht.

Hecht said the agency decided to post its rates and forms on its website to help temper homeowners concerns.

"We're trying to give them some piece of mind," said Hecht. "You don't have to worry about paying $35,000 for insurance and while $3,500 is not great, you are not going to lose your house."

Hecht said his agency had more than 1,200 individuals access the website within weeks after it was launched. Additionally, he said the agency has been contacted by dozens of independent agents in South Florida.

The Flood Agency is also preparing a second program that will offer select homeowners in coastal regions 10 percent off their NFIP rate and in non-coastal regions, 20 percent off.

Meanwhile, Homeowners Choice Property and Casualty Insurance Co. has also stepped forward with a flood insurance endorsement for its existing 140,000 homeowners policies that the company says will cost the same as what homeowners were paying before the advent of Biggert-Waters.

"While we cannot provide a solution to all of Florida, we can try to help our policyholders hit hardest by hefty rate increases under the NFIP," said Homeowners Choice President Paresh Patel. "We plan to enter the market cautiously and focus on our strict underwriting guidelines and calculated risk management."

With Flood Insurance Agency and Homeowners Choice both showing a willingness to provide some form of flood insurance, state regulators and lawmakers are seeking to hammer-out a statutory framework for insurers selling the coverage.

The state Office of Insurance Regulation recently issued a memo giving insurers a picture of some standards insurers must meet to market these policies.

For example, regulators indicated the easiest means for an insurer to obtain approval to market flood coverage is to develop rates using NFIP's loss and lost adjustment experience from 1978 to 2012.

When it comes to forms, insurers have the option to follow the NFIP requirements that include coverage provided under a NFIP policy. The memo also outlines the contours for endorsements that include such provisions as a mandatory $500 deductible, law and order coverage and replacement costs.

As for stand-alone flood policies, they would have to meet many of the same requirements of standard homeowners' policies.

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Security First Insurance President Locke Burt said he is pleased that the OIR released the memo. However, he noted, it merely sets out the current requirements under state law.

“We are delighted they wrote it up, but it doesn’t answer all the questions,” said Burt. “It really highlights a need for a state statute.”

Burt said that the industry would need more leeway to set deductibles, exclusions and coverage limits and the state must answer questions such as whether homeowners would have the option to base contents coverage on replacement cost or actual cash value.

Burt, a former state senator, acknowledged that enacting a statute could be tough given the dynamics of the legislative process.

“I believe a product could be written in the private sector,” said Burt. “But it is going to take a lot of hard work to figure it out.”

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