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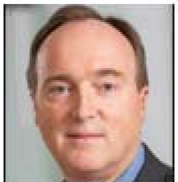
Industry Executives Say Hurricanes Could Spur Private Flood Insurance Growth

OLDWICK, N.J. - A catastrophic hurricane season could spur the growth of private flood insurance, according to industry executives.


Jeff Dailey


Evan Hecht

The goal of the private market isn't simply to take business from the National Flood Insurance Program, it's to expand the market through product and underwriting innovation, Farmers Chief Executive Officer Jeff Dailey said in a statement emailed to Best's News Service. "If Harvey and Irma have taught us anything, it's that not enough people have coverage."

Advances in data and analytics are facilitating growth but more needs to be done, said Dailey.

All eyes are now on the flood market, according to Evan Hecht, founder and chief executive officer of The Flood Insurance Agency. "There's tremendous appetite for mid-market flood right now."

Hecht said some politicians have slowed expansion, hesitant to promote surplus lines for private flood — a mistake, given flood is "much more suited to a surplus lines market. It has flexibility in rate and form and the speed you can react."

The Federal Emergency Management Agency may say it encourages the private market, but he doesn't believe it: "I don't think we're going to get cooperation" to create a competitive primary market, Hecht said.

Congress recently approved a bill to avoid a shutdown of federal aviation programs and provide hurricane tax relief, but stripped out language that would have made it easier for private carriers to compete in the flood insurance market (Best's News Service, Sept. 29, 2017).

Hecht cited estimates Hurricane Harvey may cost the NFIP $11 billion, and the bill for Hurricane Irma could hit $9 billion. With slightly more than $3 billion in annual premiums, Hecht said it would take more than six years to earn back claims paid from the two hurricanes.

His company, he added, will cover loses with about four months of premium.

"When I look at FEMA results the balance sheet is negative not because of attributional losses but catastrophic losses," Hecht said, because of steep rate reductions when property elevations increase by as little as one foot. “In a catastrophe the water doesn’t discriminate between two feet and one feet.”

That was a critical factor in the decision he made to suppress coverage his company writes in flood-prone Houston. “I watched enough storms and properties flood that no one thought were in high-risk zones,” he said. “Not that we didn’t write any. We shied away from it.”

When Hurricane Katrina slammed into New Orleans, he said his company took a one-year premium loss. “There are areas where we are equal to FEMA,” he said.

California-based Golden Bear Insurance Co. has started offering flood insurance in select states. Vice President and Property Department Manager Michael Brown said NFIP should be the flood insurer of last resort. He thinks a fair-plan approach, with insurers taking high risk in proportion to market share, could work.

Brown also wonders if policyholders nationwide should pay a few dollars each term toward flood losses to “soften the blow to the federal government.

“I pay a couple of bucks to hail and tornado, perils to which I’m not particularly exposed in California,” he said. “There’s no good answer, other than you’re going to pay for it one way or another. Something like we see today will strain the coffers if it happens every five years and you don’t know how you come up with that much money without dipping into the federal treasury fund.”

He cited multiple factors behind the low rates of flood insurance outside of what is federally mandated, including cost, erroneous assumptions about flood coverage and individual risk — beliefs that FEMA will make people whole again and faith that disasters will spark major giving campaigns.

Increasing the number of flood-insured properties will be a challenge, he said, much like the effort in California to raise the insured rate for earthquakes. The privately funded, publicly managed, not-for-profit California Earthquake Authority late in 2015 launched an $11 million campaign aimed at attacking what its chief executive officer called indifference to the problem.

In August, the CEA said insurance policies in force increased 7.4% over 18 months to 950,393. Last year’s net gain of more than 52,000 compared with a 10-year average of 7,200 (Best’s News Service, Aug. 2, 2017).

The take-up rate is “hovering just over 10%,” said Brown,” A huge chunk of Californians pretend they’re not in earthquake country.”

“I don’t know how you convince people,” he said.

CoreLogic Chief Scientist Howard Botts recently called flood the largest single untouched area in the private housing insurance market (Best’s News Service, Sept. 21, 2017).

TypTap Insurance entered the market last year, issuing direct, binding quotes for Florida residential flood coverage in March 2016, allowing shoppers to get a quote after inputting a street address and saying how many months a year they lived there and how many flood claims have been reported at the property (Best's News Service, March 4, 2016).

In June, the insurer said it had started seeking regulatory approvals to expand flood to nine more states. It has received them in Arkansas, Maryland, New Jersey, Pennsylvania, South Carolina and Texas, according to company statements. It also wants to write flood in California, North Carolina and Ohio.

The five largest writers of private flood insurance in the United States in 2016, based on direct premiums written, were: FM Global Group, with a 57.18% market share; American International Group, 17.65%; Swiss Reinsurance Group, 9.24%; Alleghany Insurance Holdings Group, 3.64%; and Allianz of America Cos., 3.13%, according to BestLink.

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