



TO: Property and Casualty Insurance (C) Committee

FROM: Aaron Brandenburg, NAIC

DATE: July 18, 2017

SUBJECT: Report on Private Flood Insurance Data

The purpose of this report is to inform the Property and Casualty Insurance (C) Committee about the information filed by insurers regarding private flood insurance within the Property and Casualty Annual Statement for 2016. Private flood insurance data was previously reported under Allied Lines (Line 2.0) within the State Page but began to be reported separately on Line 2.5 with the filing of the 2016 Annual Statement data. The report will also address some shortcomings in the data collection process and make some suggestions for future actions for the Committee to consider.

## Overview

The National Flood Insurance Program (NFIP) was created by the National Flood Insurance Act of 1968. Its inception came about due to a lack of availability of private flood insurance and continued increases in federal disaster assistance due to floods. Flood was viewed as an uninsurable risk following large floods along the Mississippi River in the 1960s. Floods continue to be the most costly natural disaster in the United States.

The NFIP is a federal program managed by the Federal Emergency Management Administration. Due to several large flooding events, particularly floods resulting from the storms Katrina and Sandy, the NFIP is now approximately \$25 billion in debt. Congress has passed reforms in recent years in an attempt to make the program more financially sound. The Biggert-Waters Flood Insurance Reform Act of 2012 reauthorized the NFIP through September 30, 2017, and raised rates to reflect true flood risks. The Homeowner Flood Insurance Affordability Act of 2014 repealed and modified certain Biggert-Waters Act provisions and made additional program changes to other aspects of the NFIP.

As Congress considers reauthorization of the NFIP in 2017, stakeholders are encouraging reforms that will result in the private market taking on additional flood risk. More sophisticated modeling and mapping have allowed the private market to more accurately price flood risk and is generating new interest among private insurers to provide such coverage. The NAIC supports legislative efforts to facilitate the growth of a state-regulated private flood insurance market to help provide consumers with more choices and additional coverage features potentially at more affordable prices. Potential NFIP reforms clarifying that private flood insurance can be accepted by lenders should also assist in growing the private flood insurance market.

### **Data Filed on the Annual Statement**

State insurance regulators have a need to learn more about the private flood insurance market. This led state insurance regulators to design and implement changes to the Annual Statement which allowed for the capture of private flood insurance premiums and losses on the State Page. This data was first required to be filed on the 2016 Annual Statement, filed in March 2017.

The State Page requires the following information on private flood policies to be filed on a state-by-state basis:

- Direct Premiums Written
- Direct Premiums Earned
- Dividends Paid or Credited to Policyholders on Direct Business
- Direct Unearned Premium Reserves
- Direct Losses Paid (deducting salvage)
- Direct Losses Incurred
- Direct Losses Unpaid
- Direct Defense and Cost Containment Expense Paid
- Direct Defense and Cost Containment Expense Incurred
- Direct Defense and Cost Containment Expense Unpaid
- Commissions and Brokerage Expenses
- Taxes, Licenses and Fees

### **Data Findings**

The initial results of the 2016 private flood filings indicate over 50 insurers wrote private flood insurance in 2016. The total direct premium written in states and territories was approximately \$376 million. Direct earned premium reported was \$216 million. Having less earned premium than written premium is indicative of a growing market. For perspective, the NFIP had approximately \$3.3 billion in earned premium in 2016.

Eight companies wrote over \$10 million in private flood insurance in 2016 while 22 companies wrote at least \$1 million. The top individual company wrote 45% of all business. The top ten insurers wrote over 89% of all business.

The national pure loss ratio (direct loss incurred/direct premium earned) was 42%. State loss ratios ranged from less than 1% to over 800%. The largest loss ratios were in states that experienced large floods in 2016: North Carolina, Louisiana, Mississippi, Massachusetts and South Carolina.

### **Caveats**

It is important to understand a number of limitations within the Annual Statement data. The first limitation is the reported information is limited to only those insurers required to file a Property and Casualty Annual Statement with the NAIC. Insurers doing business as non-licensed or non-admitted insurers are known as surplus lines insurers. They serve as an alternative marketplace to provide coverage for unique exposures and often serve as a testing ground for product innovations before they are written by the admitted market. Domestic and foreign insurers are required to file the Annual Statement as they are considered an admitted insurer in at least one state. Alien insurers, which are domiciled outside the U.S., can choose to be licensed or admitted in one or more states if they wish. If they do choose to be licensed or admitted, then they too must file the Annual Statement. However, if an alien insurer decides not to become licensed in any state, the District of Columbia or U.S. territory, then no Annual Statement filing is required. The premium writings by alien surplus lines insurers are missing from the information contained in this report. Since we believe there may be a significant amount of premium written by alien surplus lines insurers, the reader should be cognizant of this potentially important missing element.

Frequently, the first submission of data is less than fully complete or accurate. This should be kept in mind when reviewing the inaugural 2016 filing of private flood insurance data. It is possible companies that should have filed private flood insurance data separately on the State Page failed to do so, or did so inaccurately. Based on the history of other data additions to the Annual Statement, we expect the quality of the private flood insurance data to improve in subsequent years.

It should be noted the largest provider of flood insurance writes primarily commercial coverage for businesses rather than coverage for personal dwellings. This may be true of others. The data collected does not distinguish between commercial and residential exposures.

## **Recommendations for the Committee**

A major caveat contained in this report is the missing information on the amount of premium written by alien surplus lines insurers. Staff believes there are significant premium writings in this segment of the overall market. Staff recommends the Committee visit with its Surplus Lines (C) Task Force to request making submission of private flood insurance data a condition for continuing to be listed on the *Quarterly Listing of Alien Insurers*. The Committee should also consider recommending revisions to the Annual Statement that would indicate differences between commercial and residential private flood coverage.

## **Conclusion**

This report summarizes some interesting findings found within the initial submission of private flood insurance data. If information can be obtained from the alien surplus lines insurers, a more complete picture of the 56 U.S. private flood insurance markets will emerge. The quality of the data collected should also improve in subsequent years. It is expected the private flood insurance market will continue to grow, first in the surplus lines market, and then in the admitted market. Having more complete and accurate data will provide regulators with important insight into the private market as it grows.