Privatization of Flood Insurance

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Obtaining Insurance – Home Owner

Department of Treasury

WYO

Reinsurance

Broker

Bankruptcy
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Differences between NFIP and HO3 Policies

- NFIP does **Not** cover basements (HO3 does)

- NFIP uses **Actual Cash Value** (HO3 uses Replacement Cost)

- NFIP does **Not** cover loss of use (HO3 does)

- Which is more expensive?

- Does a customer understand what they’re buying?
NFIP Market Penetration

Overall market penetration is low 
(Only 14% of citizens have an NFIP policy)

• NFIP policies are REQUIRED during underwriting if home is in 
  Flood Zone A or V

• Not all counties participate in NFIP

• Banks are currently placed in a position to determine if a policy 
  meets flood requirements
  (Banks ≠ Insurance Companies → ONLY NFIP policies!)

• Customers become confused with coverage when NFIP ≠ HO3

Source: [http://www.iii.org/fact-statistic/flood-insurance](http://www.iii.org/fact-statistic/flood-insurance)
Things are changing

- **H.R.2901**
  - Passed House 419-0
  - (Banks ≠ Insurance Companies $\rightarrow$ ONLY NFIP policies!)
  - Puts decision of viable flood policies into State Insurance Commissioner office
    - Different deductibles
    - Different limits
    - Different terms & conditions (like replacement cost, basements…)

- **NFIP RFP on Reinsurance**
  - Reinsurance market may act as backstop for Dept. of Treasury
  - Backstop may lower potential premium increases from Biggert-Waters
- AIR has the only event based probabilistic model for inland flood peril that covers the continental 48 states.

- AIR had the opportunity to use 35 years of NFIP detail data to calibrate the model for an RFP.

- AIR has created probabilistic flood maps for the continental US, independent of FEMA maps.

- AIR’s probabilistic model includes modeling on and off plain flooding, including all major, minor and tributaries with over 1.4 million miles of riverine systems.
Questions