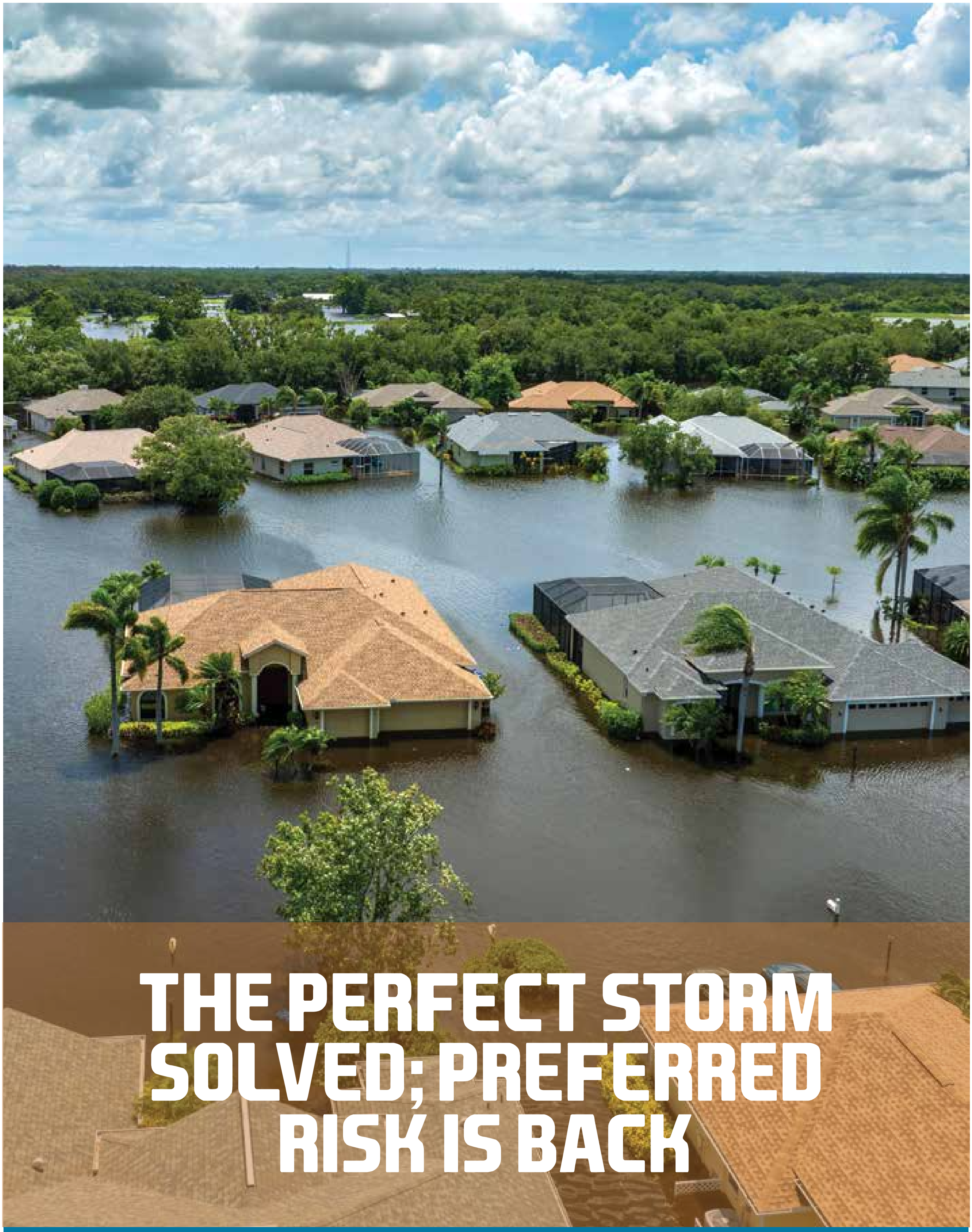

THE PERFECT STORM SOLVED; PREFERRED RISK IS BACK

Identifying the gap in flood coverage and finding a solution

By Brendan Moeller

> *[M]any households in the United States—even in flood-prone areas—do not buy flood insurance because they share the common misconception that standard homeowners insurance policies cover flood damage.*

As property insurance carriers and global reinsurers prepare for the start of the Atlantic hurricane season starting June 1, many within the flood industry continue to ponder what exactly drives the flood insurance gap that exists within the United States.

For instance, given an event such as Hurricane Helene, which resulted in $20 billion to $30 billion in uninsured losses, why do only 1% of residents purchase flood insurance in certain communities that were heavily impacted? It's an issue the flood industry has grappled with and debated for over a decade.

Some of the questions that are commonly raised include: Is flood insurance too costly? Is the product too hard to access? Is the right product unavailable? Is there lack of understanding from the consumer standpoint? Or is it a combination of all the above?

Over the last two years, my team has been working to identify and solve this age-old question. Why is there a gap? Our company, Flood Risk Solutions, provides both private flood and FEMA-backed flood insurance solutions to the marketplace. Founded in 2017, we're a subsidiary of XPT Specialty, a niche distributor and MGU.

Identifying the problem

Our experience providing flood insurance integrations has enabled us to recognize the factors that have led up to the problem.

To start, many households in the United States—even in flood-prone areas—do not buy flood insurance because they share the common misconception that standard homeowners insurance policies cover flood damage.

While many forgo separate flood coverage because of this, those who do seek out quotes on their homes discover the annual premium cost can be prohibitive, in many cases reaching into the thousands of dollars.

Beyond misconception and cost, other factors come into play. Many existing flood insurance products are designed to meet the requirements for mortgage compliance, which primarily focus on high-risk zones and overlook the needs of those in low-to-moderate-risk areas. This leaves a significant segment of the population not adequately protected. The fact that more than 40% of National Flood Insurance Program (NFIP) flood losses occur outside of high-risk zones highlights the problem.

Let's sum things up: Homeowners mistakenly assume flood is covered; the flood product in the marketplace is designed for mortgage compliance in high-risk zones; and the low-to-moderate-risk quotes are costly to purchase; however, the losses are occurring in low-to-moderate-risk zones.

Finding a fix

But what about the solution?

New products have been coming to the market to address the flood gap. Within the last month, Vertafore's PL Rater, EZLynx, and Flood Risk Solutions have all added a small sub-limit flood product to their rating platforms. The products are priced differently from traditional flood products and are based on smaller limits, but designed to provide coverage for insureds that would never buy a traditional flood policy.

Premiums start as low as $50 and can go up to $200, with payment plans available starting at only $5 per month. The coverage limits can range up to $100,000 with enhanced features such as basement contents. The products are delivered on A.M. Best A rated and S&P AA- rated paper.

The novelty is that the re-engineered product is offered at a price point finally affordable to those who may not require extensive protection, but who still wish to safeguard against potential flood-related damages, considering the average flood loss is under $50,000.

The sub-limit Preferred Risk Policy impact can be immense. Besides empowering individual policyholders, communities can become more resilient to flood events. The financial burden on government disaster relief programs and taxpayers can then also be reduced. In addition, the overall risk pool can diversify, as more home owners in low-to-moderate-risk areas obtain coverage. This could lead to more stable and reduced premiums. Essentially, sharing the risks across the board aligns with the foundational principles of insurance and nurtures a more prepared society when facing natural disasters. ■

The author

Brendan Moeller is a co-founder and managing director of Flood Risk Solutions, a division of XPT Specialty. He is responsible for the development of the MGA and wholesale technology platform, carrier partnerships, and product implementation. He started his career in 2003 at The Hartford in New York City in the middle market underwriting group and subsequently moved into the surplus lines segment, working for one of the largest wholesale excess and surplus lines distributors in the country. In 2017, he co-founded Flood Risk to help bring more flood capacity to the marketplace and help bridge the flood gap. Brendan holds a CPCU designation and earned a bachelor's degree in economics from St. Lawrence University. To learn more, visit www.floodsol.com or reach Brendan at BM@floodsol.com.