MILLIMAN CLIENT REPORT

Private Flood Insurance Survey

Commissioned by: Alabama Department of Insurance

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Nancy Watkins, FCAS, MAAA
Dave Evans, FCAS, MAAA

Milliman

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Executive Summary and Recommended Actions

At the request of the Alabama Department of Insurance (ALDOI), Milliman, Inc. (Milliman) surveyed insurers, reinsurers, managing general agents (MGAs), and other industry stakeholders to understand their concerns and perspectives around writing private flood insurance in Alabama. This report summarizes and analyzes the results from the 21 stakeholders who responded, along with illustrative quotes drawn from survey responses and exhibits containing detailed results for each of the eight survey questions.

> *"I appreciate the Alabama DOI's efforts to be a leader in closing the coverage gap and improving mitigation incentives."*

In this section, we present four recommended actions that the ALDOI should consider to promote private flood insurance and close the flood protection gap in Alabama.

Recommendation 1: Develop and communicate a long-term strategy for flexible rate and form filing requirements that reflects the unique nature of the flood peril and the underserved flood market.

The most consistently emphasized request from respondents was for flexibility in rates, forms, and exposure management. Specific changes that scored highly in the survey and/or were specified in comments as being important with respect to promoting private flood insurance are as follows:

- *Treat rate and rule pages as confidential.* This would encourage insurers to enter the market without exposing intellectual property, which may represent a significant cost investment, to their competitors. Additionally, some insurers may develop pricing and underwriting plans that have millions of rates by geography and cannot be readily compiled and filed. The ALDOI could develop procedures to ensure rates are accessible to regulators, but not necessarily physically filed with the department.
- *Exclude flood insurance from Bulletin 2010-10 or otherwise revise to allow insurers to cancel, non-renew, or surcharge prior loss properties.* Insurers have indicated that repetitive loss properties are a significant concern, and this concern is supported by National Flood Insurance Program (NFIP) experience. Insurers do not have access to the data to identify these properties prior to underwriting. To mitigate the effect on consumers, the ALDOI should ensure that a policyholder has sufficient advance notice to obtain an alternative flood insurance policy before expiration, if canceled or non-renewed.
- *Allow insurers flexibility in selecting catastrophe models for pricing flood insurance.* Catastrophe models are the best available science for measuring and managing flood risk. For inland flood in particular, the commercially available models are relatively new, rapidly evolving, and subject to greater uncertainty and dissimilarity than models for more established perils such as hurricane wind. Conducting expert reviews of the current versions of each flood catastrophe model would be a costly undertaking, requiring resources and expertise that are likely infeasible for the ALDOI. Limiting the models allowed for use will restrict the flexibility of private insurers and reinsurers to choose the models that they believe are most reliable for understanding this new risk.

  > *"... reinsurers are extremely detailed and diligent in assess the CAT models used in private flood programs. Their world class analytics and high degree of risk aversion ensures that inefficient and ineffective CAT models either don't get approved, or get terminated quickly. The state should not try to replicate this, but rather at most ask for certification from the insurer/reinsurer that they have validated the CAT model."*

- *Avoid restricting profit provisions, cost of capital, or reinsurance expenses.* These expenses are often substantial relative to other perils because flood is a nearly all catastrophe peril, with low frequency and high severity. As of right now, risks associated with writing flood are increased by the immaturity of the catastrophe models and market.
- *Allow informational only rate filings.* This would also satisfy the prior two recommendations and provide even more assurance of pricing flexibility for insurers.

- *Remove or significantly reduce any barriers to market exit; if these barriers are small or do not exist, communicate that to insurers.* Insurers noted that flood reinsurance availability, flood model uncertainty, and flood volatility are all considerable risks. While the ALDOI cannot reduce those risks for insurers, the state can mitigate the risk to a company by allowing a clear path to market exit if insurers determine that the risks become unsustainable.
- *Allow forms flexibility beyond lender acceptance requirements, subject to appropriate disclosure to consumers.* Product features such as high deductibles or low limits can allow insurers to limit unacceptable exposure and encourage market participation, while also allowing insureds to lower their premiums. Outside the Special Flood Hazard Area (SFHA), or for homeowners without mortgages, the lender acceptance requirements do not need to be a practical consideration in product requirements.
- *Communicate any actions taken to promote the private flood insurance market with a definitive, long-term time horizon to give insurers certainty when entering an emerging and risky market.* While not specifically addressed in this survey, we believe that a relatively long time horizon for any changes in legislation or regulatory approach is important. Some states have implemented changes in rate review approaches on the order of five years, which may not be sufficient to entice new private insurers. We recommend that Alabama consider a longer timeline, such as 10 years, given that the private flood insurance market has a considerable amount of room to grow and evolve before being considered competitive.

Recommendation 2: Develop a plan to increase consumer awareness of flood risk.

Survey respondents believe that requiring better flood risk disclosures at the point of property insurance purchase or renewal would be effective. These disclosures could highlight both that a policy does not cover flood, and that homes are at risk of flooding whether they are in or out of the SFHA. Multiple survey respondents indicated that a misunderstanding of these issues is a barrier to increasing consumer demand.

Additionally, one respondent recommended that no real estate sale should take place involving a residence located within a floodplain without the consumer being made aware that they may need flood coverage at the time of closing and at the time of purchasing insurance.

> *"The biggest problem is the coverage gap, where people whose homes are at risk of flooding still do not purchase flood insurance. This tragedy reoccurs in every major event. Consumer education is critical. Also critical is the role of state and local government agencies in educating people about their risk, and providing incentives to both mitigate the risk and buy flood insurance. States and localities with higher flood insurance uptake recover more quickly from severe events, as a result of the private loss payments to insureds."*

Recommendation 3: Collaborate with agents, insurance industry groups, real estate professionals, floodplain managers, and other government agencies to increase consumer flood risk and insurance awareness.

Many respondents noted that real estate professionals as well as insurance agents play a crucial role in consumers' decisions to buy or forgo flood insurance. When engaging agents, survey respondents indicated that active engagement would be more effective than additional education requirements.

> *"It is critical real estate agents receive some training in their continuing education as to the risk of flood. Most insureds are dissuaded from buying a flood policy by their real estate agent because they are not in a Special Flood Hazard Area."*

Recommendation 4: Promote mitigation and responsible building, and raise the profile of state efforts to close the flood protection gap.

The survey indicates that Alabama should play a prominent role in promoting mitigation and responsible building to reduce flood risk, as it has for other property lines of business such as homeowners. Many respondents pointed out that mitigation and adherence to building codes is important to make Alabama a long-term and sustainable flood insurance market in the face of climate change.

> *"Partner with the industry and science to recognize the increased risk of flooding, while allowing insurers the flexibility to grow flood insurance in the state without excessive or restrictive regulations in this new peril that we are all learning how to insure."*

Many respondents noted the importance of closing the flood protection gap, but none gave very high ratings to the efforts of the ALDOI to date in promoting a private flood insurance market. This illustrates an opportunity to achieve greater benefits for Alabama consumers by increasing the visibility of the ALDOI's actions in this area.

Background

Significant uninsured flood losses occur in every state across the country, and Milliman estimates that 87% of losses to single-family residential buildings are not insured by the NFIP. Alabama is exposed to both coastal flooding in the southern portion of the state and inland flooding across the entire state, but less than 2% of single-family residences in Alabama have insurance with the NFIP. Even in the Special Flood Hazard Area (SFHA), where flood insurance is mandated to obtain a federally backed mortgage, less than one in four single-family residences in Alabama have an NFIP policy.[1]

Aside from the NFIP, Alabama consumers have limited choice to purchase flood insurance, especially in the admitted market. In Alabama, as in most other states, the private flood insurance market is relatively undeveloped and does not bridge much of the flood protection gap. The total 2019 private flood insurance direct written premium as reported on insurer Annual Statements was just over $6 million in Alabama, less than one-fifth of the 2019 NFIP premium of $37 million.[2]

The private flood insurance market has grown significantly in recent years, spurred by advancements in flood risk modeling, increases in reinsurance capacity, and regulatory changes allowing write-your-own insurers to offer private flood insurance products and lenders to accept private flood insurance policies to satisfy mandatory purchase requirements. Still, the private flood insurance market is not nearly as competitive as other property lines such as homeowners, and in many states consumers may struggle to obtain flood quotes from insurers outside of the NFIP.

> *"Simply unwilling to commit capital to the flood line of business."*

One potential reason for the lack of private insurer involvement is that state level regulations for private flood insurance can be onerous, particularly for the admitted market. Rate and form regulations that apply to private flood insurance are often based on homeowners or residential property regulations. These factors are not optimal for spurring private flood insurance growth, given the major differences between flood insurance and more traditional property lines. Flood is predominately a catastrophic peril that varies significantly over a relatively short distance, so that traditional methods of pricing and managing risk for other property lines may not be appropriate for flood. Additionally, the risk and uncertainty inherent in insuring flood risk may result in the costs of capital and/or reinsurance representing a higher proportion of premium than for other property lines.

The ALDOI wishes to understand the regulatory needs and concerns of various industry stakeholders regarding the

[1] Society of Actuaries (May 2020). Residential Flood Risk in the United States: Quantifying Flood Losses, Mortgage Risk and Sea Level Rise. Retrieved September 9, 2020, from https://www.soa.org/globalassets/assets/files/resources/research-report/2020/soa-flood-report.pdf.

[2] FEMA & NFIP (January 31, 2019). Policies in Force (PIF) by Occupancy Type/Flood Zone. Retrieved September 9, 2020, from https://nfipservices.floodsmart.gov/reports/W2RPCNTA.pdf.

private flood insurance market and to prioritize actions that could be taken to close the flood protection gap in Alabama. Milliman was engaged to survey such stakeholders, understand what concerns are hindering the availability or demand for private flood insurance in Alabama, and suggest actions to address these concerns.

Approach

The ALDOI and Milliman collaborated to determine a list of key questions and survey recipients. Recipients included many of the top writers of private flood, federal flood, and homeowners lines in the state of Alabama. Reinsurers, MGAs, and other industry organizations were also invited to respond.

The survey was administered online, with the assurance that all individual responses would be anonymous. We received 21 responses, representing approximately 50% of recipients. The responses by type of organization included 13 primary insurers (62%), three reinsurers (14%), three MGAs (14%), and two industry organizations (10%).

Discussion of results

Results for each of the eight survey questions are discussed below. Complete results are shown in the attached exhibits; for the multiple-choice Questions 1 through 5, we provided numerical summaries as well as additional comments from survey respondents.

Question 1: Organizational concerns

Listed below are potential concerns organizations may have with respect to writing private flood insurance. Please rate how significant you expect each concern to be for your organization when considering whether to write or continue to write private flood insurance in Alabama.

For various reasons, insurers have long been hesitant to offer private flood insurance. We sought to understand what concerns are most important today with respect to writing or continuing to write private flood insurance in Alabama. The data strongly suggests that insurers are primarily looking for flexibility with respect to pricing and exposure management.

- Top concerns were often related to the volatility and risk around flood losses. They include reinsurance availability and price stability, flood model and data uncertainty, and the volatility of flood risk. Uncertainty of state rate and form regulation was also a top concern, likely because of concerns that regulations may impair an insurer's ability to react to react to changes in the reinsurance market, advancements in flood modeling, and catastrophic events that necessitate a change in future pricing or exposure management strategies.
- Underwriting risk of severe repetitive loss properties were designated "very significant" or "critical" by 62% of respondents, tied with reinsurance availability and price stability as the top concern. One study estimates that, while only 1% of the NFIP's policies fall under the severe repetitive loss definition, they account for about 30% of all claims paid.[3] ALDOI's Bulletin 2010-10 significantly restricts insurers' ability to non-renew or surcharge policies that would qualify as severe repetitive loss properties. This is particularly problematic as insurers are not consistently able to determine whether a

> *"Due to the lack of historical loss data, Insurers need the ability to develop flood pricing and eligibility based on projected flood model loss costs. Insurers need to factor in reinsurance costs into the pricing structure of flood products. If there are properties that continue to produce losses, Insurers need the ability to cancel or non-renew those risks to protect the balance of policyholders in a portfolio. Non-cancellation rules due to 'acts of God' (aka - Flooding), will prevent Insurers from doing business in the State of Alabama on an admitted basis."*

[3] U.S. Department of Homeland Security (March 2009). FEMA's Implementation of the Flood Insurance Reform Act of 2004. Retrieved September 9, 2020, from https://www.oig.dhs.gov/assets/Mgmt/OIG_09-45_Mar09.pdf.

property has had prior flood claims before binding a policy.

- One respondent noted that many states have onerous "diligent effort" requirements to justify using surplus lines products, but that the surplus lines market might offer lower prices, better coverages, easier workflow, and/or better ratings than may be available from the admitted insurance market. This response suggested that the diligent efforts significantly reduce the demand by scaring away consumers and agents from a competitive and often superior product and recommended that private flood insurance should be on a universal export list.
- Operational risks such as reputational risk, litigation risk, and lack of expertise were also viewed as relatively small concerns when compared to others.
- Two federal regulations not otherwise accounted for were noted in one respondent's comments. One is the prohibition of federal flood writers from using their NFIP policy data for private flood insurance product research and marketing. The other is the loss of grandfathering status if returning to the NFIP after leaving for a private flood insurance program.
- Respondents were least concerned about the ability to compete with the NFIP. This runs counter to anecdotes that the insurers cannot compete with the NFIP due to issues such as grandfathering, rate capping, and alleged inadequacy of rates in general.

Question 2: Flood insurance awareness

How important is it for Alabama to consider each of the groups below when increasing flood insurance awareness? Please rate the importance for each group.

Respondents were asked to rate how important it is to increase flood insurance awareness for consumers, agents, agencies, and insurers. Respondents clearly view increasing consumer and agent flood insurance awareness as critical to promoting the private flood insurance market.

- Consumers had the highest weighted average response, with 81% of respondents designating consumers as a "critical" or "very important" group. This is consistent with lack of consumer demand being a top five concern in the response to Question 1. As an example of how consumer awareness can be improved with respect to flood insurance, the Insurance Information Institute (III) estimated that "43% of homeowners incorrectly believe damage from heavy rain flooding is covered under their standard insurance policy."[4]
- Increased flood insurance awareness for agents was rated as "critical" or "very important" by 86% of respondents. Multiple respondents commented on the interaction between consumers and agents being particularly important. One respondent wrote that "agents are critical to illustrating the value of a flood product to an insured, most notably in areas that are outside of a high-risk flood zone where there is a misperception that flood insurance isn't needed."
- Multiple respondents also brought up that increased flood insurance awareness for realtors is crucial.

> *"A flood insurance solution requires each of these groups in a critical way as the challenge is multifaceted. Insurers need to be able to understand and evaluate the risk using the latest in technology as that is what enables them to offer a flood product. Agents are critical to illustrating the value of a flood product to an insured, most notably in areas that are outside of a high-risk flood zone where there is a misperception that flood insurance isn't needed. Consumers have to be aware of the risk they face to flooding and regulators and the insurance industry fall short in the way we currently explain this risk."*

[4] III (February 2017). 2016 Consumer Insurance Survey: Homeowners Insurance: Understanding, Attitudes, and Shopping Practices. Retrieved September 9, 2020, from https://www.iii.org/sites/default/files/docs/pdf/pulse-wp-020217-final.pdf.

Question 3: Increasing consumer demand

Please rate the following strategies Alabama could implement according to your estimate of how effective they would be in increasing consumer demand for flood insurance.

As indicated by responses to the first two questions, increasing consumer demand for flood insurance is necessary for closing the flood protection gap. Active engagement and collaboration with agents, insurance industry groups, floodplain managers and government agencies, banks, and realtors were all listed as above average in effectiveness. However, two other strategies ranked higher in perceived effectiveness.

- The highest-rated strategy selected by respondents was to improve flood risk disclosure on real estate transactions and property insurance renewals, with 62% ranking this as either "very effective" or "extremely effective." Though other property lines such as homeowners disclose that flood is not covered, the III study previously referenced under Question 2 indicates that this point is often missed.
- Only one other option had a median response of "very effective," which was to increase the diversity of coverages and pricing by the private market. This is consistent with responses to Question 1, where respondents emphasized the importance of flexibility in pricing. With respect to coverage, in many cases private flood insurance policies can offer more coverage than the NFIP (e.g., expanded coverages for basements, loss of use, etc.). Conversely, in some cases less coverage may be beneficial for closing the protection gap. One respondent noted that sub-limited coverage offerings outside the SFHA could allow insureds to purchase cheaper policies with at least some flood protection.

> *"Government assistance in rate setting or coverage levels will not help at all. Government assistance in all the other areas of this question, focused on education, engagement of floodplain managers, and related parties such as banks and the real estate industry, are very effective. Side note: the real estate industry routinely touts homes in X zones as NO FLOOD INSURANCE REQUIRED.' This is doing a disservice to the homeowners, who interpret that as 'no flood insurance needed.' Closer coordination with the real estate industry could help fix this."*

Enhancing agent continuing education requirements and adding flood questions on the agent exam ranked relatively low, seemingly in conflict with the prior question where increasing flood insurance awareness among agents was frequently noted to be critical. One comment provided insight as to why, stating "agents are key and those that want to learn and be part of professional events are key in expanding the market. Asking the questions on an agent exam or other exam just to pass a test is likely to be less effective than engagement with insurers and motivated agents." Presentations at agent events were ranked fairly highly, which is consistent with this comment.

Question 4: Regulatory changes

How do you expect your organization would view each of the following flood-specific regulations in Alabama? Please rate each item below.

This question focused on regulatory changes and how they might promote the private flood insurance market. Once again, freedom of pricing and exposure management were critical.

- Confidentiality protections for rate and rule pages were ranked as "favorable" or "highly favorable" by 85% of respondents. Insurers entering the flood market are investing time and capital for an uncertain return, and preventing competitors from leveraging their pricing plans is viewed as a significant benefit.
- Consistent with the first question, allowing nonrenewal and premium surcharges for flood claims was viewed as the second most significant change, with 86% ranking it as "favorable" or "highly favorable."
- Pricing flexibility is reiterated as an important tool for promoting the private market. The third through sixth most favorable regulatory changes all allow for increased flexibility in pricing.

- Support for removing the diligent search rule for surplus lines was fairly significant, with 52% of respondents ranking this as "favorable" or "highly favorable."
- Multiple comments spoke to concerns of establishing a flood residual market. Respondents view the NFIP as the current residual market and do not perceive any additional benefit of developing one in Alabama.

"The NFIP is the flood residual market. There is no need for a state flood residual market."

- The filing of a financial plan of operation was graded as "unfavorable" or "highly unfavorable" almost 50% of the time. The comments did not provide insight into this, but we expect that respondents may be concerned that achieving regulatory approval of a financial plan of operation would be viewed as a burden.

Question 5: Efforts to date

To date, how would you rate Alabama's efforts with respect to facilitating the private flood insurance market?

The ALDOI included this question to evaluate the industry's view of current state efforts to date, as a starting point to benchmark responses over time and assess the success of future actions. Four respondents opted out of this question, noting that they were not familiar enough with Alabama's efforts to answer it. Their responses were not included in the final results.

Market potential and regulatory efforts ranked the highest. All other results had more "fair" or "poor" responses than them. Given the homogeneity and lack of substantial comments in many areas, we think it is likely that survey respondents are not aware of any significant efforts Alabama has taken, aside from proactive regulatory actions such as commissioning this survey.

Question 6: Additional actions

Are there any additional actions Alabama could take that would increase the likelihood of your organization offering or continuing to offer private flood insurance?

Questions 6 through 8 were presented as open-ended questions. In Question 6, several respondents took the opportunity to reiterate the need for rate and form flexibility. One response also noted that the narrative about flood risk has to change and that "The need for a flood insurance policy should not be determined solely by whether a property is located in a Federal Emergency Management Agency (FEMA)-identified Special Flood Hazard Area."

"Enact better building codes and tougher zoning standards for coastal development as well as at risk flood areas. Buy- back programs for repetitive flooded structures. Ability to require significant loss mitigation efforts by policyholders."

Question 7: Climate change resilience and mitigation

What role could the state play with respect to flood and climate change resilience and mitigation to promote Alabama as a long-term, sustainable market for private flood insurance?

Actions the state could take that were indicated by multiple respondents include:

- Increasing pricing flexibility
- Limiting building in high-risk areas
- Enforcing building codes and incentivizing mitigation
- Educating consumers
- Expand mandatory purchase outside the SFHA

Given that the state of Alabama is a leader in promoting mitigation efforts with respect to other property perils, enforcement of building codes and mitigation with respect to flood risk should be a desirable action item.

> *"Focusing on sustainable mitigation efforts is meaningful. Insuring more property owners for flood is critical, but taking a more holistic approach to managing flood risk will become even more important as we see the risk evolve with climate change."*

With respect to the expanding mandatory purchase, doing so may promote Alabama as a long-term, sustainable market for insurers, but could face consumer resistance due to premium increases.

Question 8: Additional comments

Please provide any additional comments on the survey.

Few responses were received from this section, but a couple of respondents expressed appreciation for the ALDOI's efforts to date. One respondent pointed out that the survey did not address barriers to exit for an insurer, should they want to withdraw from the flood market. Given the emphasis that respondents placed on flexibility for insurers, it is likely that allowing carriers to withdraw from the flood market relatively quickly and without penalty would be well received.

> *"One area not addressed by the survey was the issue of ease of entry and withdrawal from any flood program. Would the ALDOI impose penalties on a carrier's ability to withdraw from the program if the coverage is unprofitable? While not applicable to this type of coverage, there are states that require license surrenders for all products in the event of a product withdrawal."*

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milliman.com

CONTACT

Nancy Watkins
nancy.watkins@milliman.com

Dave Evans
david.d.evans@milliman.com

Alabama Department of Insurance
Private Flood Insurance Survey

Question 1 Results

Question 1: Listed below are potential concerns organizations may have with respect to writing private flood insurance. Please rate how significant you expect each concern to be for your organization when considering whether to write or continue to write private flood insurance in Alabama.

	Response Count					Response Statistics			
	1	2	3	4	5				
Potential Concern (Note 1)	**Not Significant**	**Somewhat Significant**	**Significant**	**Very Significant**	**Critical**	**Median**	**Weighted Average**	**% Very Significant or Critical**	**Total Responses**
g. Reinsurance availability and price stability	10%	5%	24%	24%	38%	Very significant	3.76	62%	21
h. Flood model and data uncertainty	5%	5%	33%	38%	19%	Very significant	3.62	57%	21
c. Volatility of flood risk	5%	19%	19%	38%	19%	Very significant	3.48	57%	21
f. Underwriting risk of severe repetitive loss properties	19%	14%	5%	24%	38%	Very significant	3.48	62%	21
p. Lack of consumer demand	10%	14%	24%	33%	19%	Very significant	3.38	52%	21
m. Uncertainty of state rate and form regulation	5%	14%	38%	33%	10%	Significant	3.29	43%	21
e. Adverse selection	19%	10%	29%	14%	29%	Significant	3.24	43%	21
k. Inconsistency of regulations across states	5%	38%	24%	10%	24%	Significant	3.10	33%	21
i. Capital requirements	24%	19%	14%	29%	14%	Significant	2.90	43%	21
d. Correlation of flood and wind risk	19%	19%	24%	29%	10%	Significant	2.90	38%	21
l. Lender acceptance requirements	24%	14%	33%	5%	24%	Significant	2.90	29%	21
r. Specific state or federal regulations	25%	15%	30%	10%	20%	Significant	2.85	30%	20
j. Implementation costs of a flood product	14%	33%	24%	14%	14%	Significant	2.81	29%	21
a. Litigation risk	29%	10%	38%	14%	10%	Significant	2.67	24%	21
o. Lack of agent expertise	19%	29%	29%	19%	5%	Significant	2.62	24%	21
n. Lack of expertise in underwriting and claims	24%	33%	14%	24%	5%	Somewhat significant	2.52	29%	21
b. Reputational risk	29%	33%	14%	19%	5%	Somewhat significant	2.38	24%	21
q. Perceived inability to compete with the NFIP	43%	19%	14%	24%	0%	Somewhat significant	2.19	24%	21

Notes:
1. Column sorted by weighted average. Weighted average calculated using a value from 1 for the response furthest to the left (i.e. Not Significant) to 5 for the response furthest to the right (i.e. Critical)

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Question 1 Additional Comments

One thing to note -- our private flood program is fully reinsured, so we don't have as much risk as if we were on the losses ourselves.

WYO Flood Insurance was a small, non-core part of our business and exiting the program eliminated the operational complexity associated with maintaining separate underwriting and claim processes required for participation in the National Flood Program. The unit economics simply did not work. We are not a market for this volitile Line of Business. To put it simply, insurance companies don't provide flood insurance for homes because when floods strike, the amount they have to pay out in claims settlements is far greater than the amount they take in through premium payments. This essentially means that offering flood coverage puts the profitability of any company's home and business insurance at risk to lose significant amounts of their surplus.

Need to be able to charge adequate rates which the NFIP is not allowed to do for a multitude of reasons, many political.

Due to the lack of historical loss data, Insurers need the ability to develop flood pricing and eligibility based on projected flood model loss costs. Insurers need to factor in reinsurance costs into the pricing structure of flood products. If there are properties that continue to produce losses, Insurers need the ability to cancel or non-renew those risks to protect the balance of policy holders in a portfolio. Non-cancellation rules due to 'acts of God' (aka - Flooding), will prevent Insurers from doing business in the State of Alabama on an admitted basis.

In the absence of insurers writing flood insurance, the willingness of reinsurers to write flood insurance business will be for naught. f) severe repetitive loss properties are those for which the federal subsidies will prevent rational competition from private insurers r) Issues associated with NFIP continuous coverage requirements to continue NFIP subsidy/discounts/grandfathering and associated regulatory issues currently or in the future are and will be signficant for anyone in a SFHA. q) and r) Also, aside from existing NFIP subsidies and difficulties in developing a portfolio of policies with risk adequate premiums, there is uncertainty regarding ability to compete with NFIP once it release Risk Rating 2.0. These issues add uncertainty in terms of how to analyze a market, find and build an agency platform, and ultimately marketing and underwriting policies.

Understanding whether % wind deductibles that would be above NFIP maximum deductible would be in compliance with lender activity would be helpful.

Many states have onerous "diligent effort" requirements to justify using surplus lines products, where the SL product is often better price, better coverages, far easier workflow, and on AM Best "A" or better paper. The diligent efforts significantly reduce the demand by scaring away consumers and agents from a competitive and often superior product. Private flood should be on a universal export list. Rumblings in Washington to add a $75 per policy fee to private flood policies for "use of FEMA flood maps". This is nothing but a hidden barrier to private flood. No other industry has to pay a fee for government data (banking, real estate, lending). The best thing that could happen to the NFIP's book is to allow the private markets to grow rapidly, taking the aggregation risk off of the federal government and the taxpayer. State disclosure statements (usually something like "this policy is provided by an insurer not licensed in this state and not covered by the state insurance guarantee fund") confuse consumers and agents into thinking that the insurance from private flood providers is not legal and not safe.

The State of Alabama is a quality private flood insurance market. None of these issues are significant obstacles to writing this product in Alabama. Private flood insurers understand the need to educate consumers and agents about the private flood product's differentiation from the NFIP.

Regarding question r: Federal or state regulations the inhibit adequate pricing. This includes 1) the ability to update prices to reflect changing loss costs in a timely manner, 2) the ability to price for an adequate return given the risk capital required to write these policies, and 3) the ability to use the best available models as support. Federal regulations that prohibit WYO Companies from using their NFIP policy data for private flood product research and marketing. Federal regulations that result in the flood policyholder losing any NFIP premium subsidy if they return to the NFIP after leaving the program. Federal regulations that require private flood to have coverage at least equal to the NFIP flood policy to satisfy lender mandatory purchase requirements.

Alabama Department of Insurance
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Question 2 Results

Question 2: How important is it for Alabama to consider each of the groups below when increasing flood insurance awareness? Please rate the importance for each group.

	Response Count					Response Statistics			
	1	2	3	4	5				
Group (Note 1)	**Not Important**	**Somewhat Important**	**Important**	**Very Important**	**Critical**	**Median**	**Weighted Average**	**% Very Important or Critical**	**Total Responses**
c. Consumers	0%	5%	14%	10%	71%	Critical	4.48	81%	21
b. Agents	0%	5%	10%	38%	48%	Very important	4.29	86%	21
d. State and local government agencies	0%	19%	19%	29%	33%	Very important	3.76	62%	21
a. Insurers	5%	19%	43%	14%	19%	Important	3.24	33%	21

Notes:
1. Column sorted by weighted average. Weighted average calculated using a value from 1 for the response furthest to the left (i.e. Not Important) to 5 for the response furthest to the right (i.e. Critical)

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Question 2 Additional Comments

No real estate sale should take place involving a residence located within a flood plain without the consumer being made fully aware of the need for flood coverage at the time of closing and at the time of purchasing insurance.

The agents and the consumers are the parties having the conversation, deciding if it is a priority to purchase in the individual situation. so they are both key to Alabama having a successful approach to flood risks.

A flood insurance solution requires each of these groups in a critical way as the challenge is multifaceted. Insurers need to be able to understand and evaluate the risk using the latest in technology as that is what enables them to offer a flood product. Agents are critical to illustrating the value of a flood product to an insured, most notably in areas that are outside of a high risk flood zone where there is a misperception that flood insurance isn't needed. Consumers have to be aware of the risk they face to flooding and regulators and the insurance industry fall short in the way we currently explain this risk.

Agents are the key to enabling commercial and personal lines consumers to understand risk and make informed choices.

It is critical Real Estate agents receive some training in their continuing education as to the risk of flood. Most insureds are dissuaded from buying a flood policy by their Real Estate agent because they are not in a special flood hazard area.

The biggest problem is the coverage gap, where people whose homes are at risk of flooding still do not purchase flood insurance. This tragedy re-occurs in every major event. Consumer education is critical. Also critical is the role of state and local government agencies in educating people about their risk, and providing incentives to both mitigate the risk and buy flood insurance. States and localities with higher flood insurance uptake recover more quickly from severe events, as a result of the private loss payments to insureds.

I will add realtors to this list as well.

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Question 3 Results

Question 3: Please rate the following strategies Alabama could implement according to your estimate of how effective they would be in increasing consumer demand for flood insurance.

	Response Count					Response Statistics			
Strategy (Note 1)	1 Not Effective	2 Somewhat Effective	3 Effective	4 Very Effective	5 Extremely Effective	Median	Weighted Average	% Very or Extremely Effective	Total Responses
b. Better flood risk disclosure for real estate transactions and property insurance renewals	0%	14%	24%	33%	29%	Very effective	3.76	62%	21
a. Increasing the diversity of coverages and pricing provided by the private market	14%	10%	19%	29%	29%	Very effective	3.48	57%	21
h. State collaboration with trade groups such as the Big I and Surplus Lines Association	0%	10%	48%	33%	10%	Effective	3.43	43%	21
f. Presentations at agent events	0%	14%	43%	33%	10%	Effective	3.38	43%	21
i. State collaboration with other industry groups such as bank, realtor, and builder associations	0%	19%	38%	29%	14%	Effective	3.38	43%	21
j. Engagement of state floodplain managers and other relevant state agencies focused on flood issues	0%	24%	29%	33%	14%	Effective	3.38	48%	21
d. Public Information Officer and awareness campaign	0%	29%	33%	24%	14%	Effective	3.24	38%	21
g. State collaboration with the NFIP	5%	19%	48%	29%	0%	Effective	3.00	29%	21
e. Agent CE requirements and flood questions on agent exam	5%	19%	57%	14%	5%	Effective	2.95	19%	21
k. Economic incentives or financial assistance to address affordability concerns	5%	38%	29%	19%	10%	Effective	2.90	29%	21
c. Listing private flood market carriers on the DOI website	5%	48%	24%	5%	19%	Somewhat effective	2.86	24%	21

Notes:
1. Column sorted by weighted average. Weighted average calculated using a value from 1 for the response furthest to the left (i.e. Not Effective) to 5 for the response furthest to the right (i.e. Extremely Effective)

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Question 3 Additional Comments

Alabama Strategies are well intentioned. However,Congressional commitments had been part of the early NFIP but have not continued to the present. When premium funds are insufficient to cover losses, FEMA borrows from the US Treasury. Since 1978, the program has paid out more than $65 billion in claims – most of which is attributable to just a few catastrophic loss years. In a COVID-19 Environment Treasury will have other commitments and this will be the least of Congress priorities.

Collaboration with various groups is important but as long as the perception exists that only properties located in a FEMA flood zone need to purchase flood insurance, take up will not improve in a meaningful way. Making it easier for property owners to get flood insurance (increasing coverages and pricing) coupled with awareness campaigns will be essential.

a) diversity of coverage - sub-limited coverage offerings outside the SFHA, could encourage consumers to buy some coverage if they are unwilling to pay for a full limits flood insurance policy; b) disclosure of flood risk and if property ever flooded are important, not just whether it is in 1 in 100 SFHA; should include more disclosure 1 in 250 or 1 in 500 f) and h) agents are key and those that want to learn and be part of professional events are key in expanding the market. Asking the questions on an agent exam or other exam just to pass a test is likely to be less effective than engagement with insurers and motivated agents.

Opening up the private market and ensuring that barriers do not exist to private flood will ensure that there is a diversity of coverages and pricing. Government assistance in rate setting or coverage levels will not help at all. Government assistance in all the other areas of this question, focused on education, engagement of flood plain managers, and related parties such as banks and the real estate industry, are very effective. Side note: the real estate industry routinely touts homes in X zones as "NO FLOOD INSURANCE REQUIRED". This is doing a disservice to the homeowners, who interpret that as "no flood insurance needed". Closer coordination with the real estate industry could help fix this.

A bundling discount offered with the Homeowners or similar property insurance policy may incent private flood policy purchase.

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Question 4 Results

Question 4: How do you expect your organization would view each of the following flood-specific regulations in Alabama? Please rate each item below.

	Response Count					Response Statistics			
	1	2	3	4	5				
Regulatory Change (Note 1)	Highly Unfavorable	Unfavorable	Neutral	Favorable	Highly Favorable	Median	Weighted Average	% Favorable or Highly Favorable	Total Responses
c. Treating rate and rule pages as confidential and proprietary for a specific period of time	0%	0%	15%	35%	50%	Highly favorable	4.35	85%	20
i. Allow nonrenewal and premium surcharges for flood claims, currently restricted by Bulletin 2010-10	0%	0%	14%	38%	48%	Favorable	4.33	86%	21
b. Allowing information only rate filing for a specific period (no prior approval required)	0%	0%	24%	38%	38%	Favorable	4.14	76%	21
g. Removing limits on profit provisions, cost of capital, or reinsurance expenses	0%	0%	30%	40%	30%	Favorable	4.00	70%	20
d. Allowing unapproved CAT model use for a specific period of time	5%	10%	24%	29%	33%	Favorable	3.76	62%	21
a. Removing diligent search rule for surplus lines	0%	29%	19%	14%	38%	Favorable	3.62	52%	21
h. Allowing six month rate and form filing as opposed to annual	0%	0%	52%	43%	5%	Neutral	3.52	48%	21
j. Forms certification requiring a carrier to certify that private market coverage equals or exceeds NFIP, possibly only applying inside the SFHA	0%	14%	38%	43%	5%	Neutral	3.38	48%	21
k. Specific policy holder notice requirements when leaving the NFIP making it clear continuous coverage may be lost and NFIP historical rate will no longer be available	5%	5%	48%	43%	0%	Neutral	3.29	43%	21
f. Department promulgation of an approved CAT model list	10%	14%	48%	24%	5%	Neutral	3.00	29%	21
o. Defining Private Flood consistent with the Biggert-Waters Flood Insurance Reform Act	5%	19%	48%	29%	0%	Neutral	3.00	29%	21
e. Requiring completion of a CAT model questionnaire	5%	24%	43%	29%	0%	Neutral	2.95	29%	21
m. Support of a state guaranty fund for the admitted market, including a flood-specific assessment	10%	24%	48%	14%	5%	Neutral	2.81	19%	21
n. Establishment of a flood residual market	14%	29%	24%	29%	5%	Neutral	2.81	33%	21
l. Requiring carriers to file a private flood insurance financial plan of operation	10%	38%	48%	5%	0%	Neutral	2.48	5%	21

Notes:
1. Column sorted by weighted average. Weighted average calculated using a value from 1 for the response furthest to the left (i.e. Highly Unfavorable) to 5 for the response furthest to the right (i.e. Highly Favorable)

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Question 4 Additional Comments

Simply unwilling to commit capital to the Flood Line of business.

The Biggert-Waters Act was passed several years ago and was designed to ensure that risks within Special Flood Hazard Areas (Zones A & V) where federally insured lenders must require flood insurance can secure flood insurance from entities other than NFIP. The intent of the legislation was to set standards for private insurance that would offer equivalent protection to NFIP. In 2019 the departments responsible finally set those standards. They defined “Private Flood Insurance” to require not only the same or better coverage but also other provisions such as deductibles no higher than NFIP's and the same cancellation provisions as NFIP. A carrier would likely elect to offer/utilize higher deductibles than NFIP and utilize the Homeowners cancellation provisions which are often shorter than NFIP's provisions, especially when it comes to non-pay cancellations. So private carriers would not be considered "Private Flood Insurance" based on the statutory definition.

Biggert-Waters provide the Federal structure and regulation to allow for Private Flood markets to succeed on an admitted basis. There is no need to create additional state regulations that effectively do the same thing (creating redundancy in regs). Examples: Defining Private Flood consistent with the Biggert-Waters Flood Insurance Reform Act, Establishment of a flood residual market (the NFIP is the residual market), Forms certification requiring a carrier to certify that private market coverage equals or exceeds NFIP, possibly only applying inside the SFHA. Question M: Is there not a Guarantee fund for admitted P&C lines in Alabama? Would there be needed some type of separate guaranty fund for flood?

d) to i) - the NFIP is effectively the rate regulator for flood insurance. Private market insurers will have to compete on price and/or coverage, with price competitiveness being a very significant component. Until federal laws or regulation change, notice in k) makes abundant sense. It needs to have a sunset federal law/regs change. n) The NFIP is the flood residual market. There is no need for a state flood residual market. Attempting to establish one will draw insurer ire and limit the number of potential writers. o) Ensure that the definition of flood insurance is tied to the peril of flood, not to a law or regulation. If regulations regarding the offering of flood insurance to consumers in a SFHA with a federally backed mortgage are deemed necessary or appropriate, compliance with federal regulations should be limited to the instances where it is required.

two points: 1. There should be a residual flood market, however not at the state level. It should be the NFIP. The NFIP should not try to be the rate leader in the market. No efficient market was ever designed with the government product holding 90% share. 2. In my experience, having now put flood programs in place with 6 reinsurers including Lloyd's, Bermuda ILS, and US reinsurers, the reinsurers are extremely detailed and diligent in assess the CAT models used in private flood programs. Their world class analytics and high degree of risk aversion ensures that inefficient and ineffective CAT models either don't get approved, or get terminated quickly. The state should not try to replicate this, but rather at most ask for certification from the insurer/reinsurer that they have validated the CAT model.

M. Don’t want to contribute to a fund that supports markets focused on short term profits without long-term underwriting discipline and sound financial backing.

Questions b and d would move to highly favorable if the phrase "for a specific period" was striken from those statements.

Alabama Department of Insurance
Private Flood Insurance Survey

Question 5 Results

Question 5: To date, how would you rate Alabama's efforts with respect to facilitating the private flood market?

	Response Count					Response Statistics			
	1	2	3	4	5				
Category (Note 1)	**Poor**	**Fair**	**Good**	**Very Good**	**Excellent**	**Median**	**Weighted Average**	**% Very Good or Excellent**	**Total Responses**
d. Market potential	0%	18%	59%	24%	0%	Good	3.06	24%	17
a. Regulatory	6%	18%	65%	12%	0%	Good	2.82	12%	17
b. Legislative	12%	18%	59%	12%	0%	Good	2.71	12%	17
e. Consumer information	0%	41%	47%	12%	0%	Good	2.71	12%	17
c. Judicial	6%	35%	47%	12%	0%	Good	2.65	12%	17
f. Agent and lender actions	0%	47%	47%	6%	0%	Good	2.59	6%	17

Notes:
1. Column sorted by weighted average. Weighted average calculated using a value from 1 for the response furthest to the left (i.e. Poor) to 5 for the response furthest to the right (i.e. Excellent)

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Question 5 Additional Comments

We have not worked in Alabama, so unable to rate. The survey requires a response so putting in Good as a placeholder.

We recognize the efforts of the department in seeking to enhance private flood insurance availability for consumers. As legislative and judicial efforts are essentially not particularly applicable, I rated them as "poor" for lack of a better option.

Not familiar with AL DOI's efforts in any of the above -- survey requires a response, so the above were provided solely to advance the survey but none are reflective of DOI efforts.

No input. Was not aware of Alabama taking actions to facilitate a Private Flood market.

Alabama Department of Insurance
Private Flood Insurance Survey

Question 6 Results

Question 6: Are there any additional actions Alabama could take that would increase the likelihood of your organization offering or continuing to offer private flood?

Limit involvement in the rate setting and underwriting process. Policy form freedom. Let the market dictate fair rates. Enact better building codes and tougher zoning standards for coastal development as well as at risk flood areas. Buy- back programs for repetitive flooded structures. Ability to require significant loss mitigation efforts by policyholders.

Our goal is to help foster a robust private flood market in Alabama and across the nation. As noted in other comments, the challenge is two pronged: 1) Insurers need to understand and evaluate the associated flood risk at an individual property to be able to offer flood insurance. To do this they need to have the flexibility to incorporate the latest in technology into their underwriting and pricing. This may include catastrophe models, new hazard maps, and other risk assessment tools. 2) The industry as a whole needs to change the narrative about flood risk. The need for a flood insurance policy should not be determined solely by whether a property is located in a FEMA identified special flood hazard area.

More information required, to include accuracy of flood models.

Remove any Diligent Effort barriers to private flood. Put private flood on a universal export list.

Alabama Department of Insurance
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Question 7 Results

Question 7: What role could the state play with respect to flood and climate change resilience and mitigation to promote Alabama as a long-term, sustainable market for private flood?

Commission additional research on climate change resilience and work to ensure that insureds know flooding can happen to people who don't live in "flood zones".

Support those markets willing to venture into this space.

Remove marketplace barriers for entry and exit.

Require mitigation of properties, pricing flexibility to address climate change

Don't allow building on flood prone properties, buy up existing properties in the most flood prone areas and turn into green spaces.

Public-private partnerships

Limit involvement in the rate setting and underwriting process. Policy form freedom. Let the market dictate fair rates. Enact better building codes and tougher zoning standards for coastal development as well as at risk flood areas. Buy- back programs for repetitive flooded structures. Ability to require significant loss mitigation efforts by policyholders.

Requiring flood coverage on all HO policies, across both high and low risk areas, would provide a sufficient pool of participants to sustain the most affordable premiums.

Focusing on sustainable mitigation efforts is meaningful. Insuring more property owners for flood is critical, but taking a more holistic approach to managing flood risk will become even more important as we see the risk evolve with climate change.

Partner with the industry and science to recognize the increased risk to flooding, while allowing insurers the flexibility to grow flood insurance in the state without excessive or restrictive regulations in this new peril that we are all learning how to insure

mandating coverage for homes outside of the SFHA

Permit as much regulatory freedom as is possible, consistent with consumer fairness. Rate regulation should focus on solvency and excessiveness of rates. As noted elsewhere the NFIP price is the de facto rate regulator.

Disallow rebuilding in Flood zones subject to repetitive losses.

Consumer education

Enforcing building standards in flood exposed areas, particularly after a flood loss

More information required.

Use funding to incent mitigation such as flood vents, higher FFE/BFE standards for new construction.

Ensure enforcement of FEMA compliant building codes.

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Question 8 Results

Question 8: Please provide any additional comments on the survey

One area not addressed by the survey was the issue of ease of entry and withdrawal from any flood program. Would the DOI impose penalties on a carrier’s ability to withdraw from the program if the coverage is unprofitable? While not applicable to this type of coverage, there are states that require license surrenders for all products in the event of a product withdrawal. Obviously, this would not be in a carrier’s better interest, if such a rule were put in place for Flood Coverage.

Keep up your efforts and thank you for trying.

I appreciate the Alabama DOI's efforts to be a leader in closing the coverage gap and improving mitigation incentives.