NAR Issue Brief
Private Flood Insurance FAQ

Q: What is private flood insurance?
A: Private flood insurance is flood insurance that may be offered to properties (residential or commercial) by private insurance companies as an alternative to flood insurance offered by the federal National Flood Insurance Program (NFIP). Private flood insurance may be supported by state guaranty funds that provide a safety net up to a certain amount.

Q: What are some differences between private flood insurance and the NFIP?
A: There are significant differences between the NFIP and private sector flood insurance. Some of these key differences are described below:

• The focus of the NFIP is to: (1) identify flood risk across a community, 2) regulate flood plain management, 3) provide flood insurance and 4) reduce federal disaster assistance after floods. The NFIP requires coverage for a mortgage in high-risk areas and requires flood plain management and regulations for communities to participate in the NFIP.

The focus for private sector insurance companies is to provide for the insurance needs of their customers while earning a normal rate of return to ensure they have adequate reserves to pay claims. While NFIP's community-wide maps won't assess risk property-by-property, the private sector can. In fact a flood model will be released this summer by one of the only four worldwide catastrophe modeling firms. Models are used to give insurance companies the ability to assess the risk and the appropriate premium to assign to it for the level of risk.

• The types of coverage and insurance limits provided by the NFIP are set by statute and regulation, and they differ from coverage provided under a typical policy in the private sector.

• The NFIP has a maximum coverage limits for its policies; private sector insurance coverage limits are limited only by market-based supply and demand.

• Private-sector insurance rates account for costs not included in NFIP's such as a private sector insurance firm's taxes and cost of reinsurance.

• The NFIP's rates are regulated at the federal level. Private sector rates for policies offered by admitted carriers are closely monitored by state regulators and are subject to filing and approval requirements that can vary by state.

• The NFIP is required to insure any properties in a community that participates in the program, regardless of the property's loss history. Private-sector insurance will accept or reject properties based on the characteristics of the risk to ensure that a policy can be adequately priced. Of the over 5 million NFIP policies, there may be many that can be priced competitively because the accuracy of the risk assessment by private carriers is more sophisticated than the federal government. Therefore, insurance companies will more selective in accepting or rejecting particular properties based on the underwriting guidelines of each individual company.

Q: The federal government began offering flood insurance in the 1970s because there was no private market. Why are private companies interested in selling flood insurance now?

A: Due to recent advances in computer modeling and GPS technologies, some private insurance companies have specialized and become highly adept in pinpointing some low-risk properties in FEMA's community wide high risk maps. Now that the Biggert-Waters Flood Insurance Reform Act is requiring lenders to accept private insurance where there is equivalent coverage and consumer protection, more private insurance companies are seeing new opportunities to offer coverage in highly niche markets at more accurate prices below NFIP's. In addition, private insurance companies may offer faster service for policyholders; may adapt more quickly to changing market conditions and adjust their rates, premiums and policies accordingly; and may be cheaper, by using different underwriting and addressing flood risk property-by-property.

Q: What is the difference between an admitted versus non-admitted flood insurance carrier?
A: Admitted carriers must comply with all state regulations regarding insurance. If the insurance company fails financially, the state will step in to make payments on claims as necessary using a guaranty fund system. Non-admitted (also called surplus lines) carriers do not necessarily comply with state insurance regulations and if the insurance company becomes insolvent, there is no guarantee that claims will be paid, even if the case is active at the time of the bankruptcy or financial failure. In addition, non-admitted carriers do not have to get approval for their rates or the types of coverages they offer or change. Consumers need to be fully aware of the circumstances surrounding an insurance policy that is issued by a non-admitted carrier.

Q: What is surplus (or excess) flood insurance?
A: Surplus flood insurance is flood insurance over and above the limits set by the NFIP. This flood insurance can only be purchased on the private market. NFIP coverage limits are set at $250,000 for residential properties and $500,000 for business properties. Currently, a property owner would purchase surplus flood insurance for insurance above those limits. Some states are exploring allowing both surplus lines and admitted/regulated carriers to sell coverage below the NFIP policy limit.

Q: Can private insurers deny coverage to homes in high-risk flood zones or drop your property?
A: Just like in homeowners insurance, private market flood insurance carriers will actively manage the risk in their portfolio. They can be much more robust and detailed in their underwriting criteria. They will very carefully evaluate and underwrite the properties for which they will write coverage to ensure it meets certain risk criteria.
In addition, at this time, a property owner should be aware that if NFIP coverage is dropped, and replaced with a purely private market policy, NFIP will consider that a lapse in coverage that will trigger an increase to the full risk premium if the owner decides to return to the NFIP. This may change in the future if the private market grows but it is too soon to tell.

Q: Will my lender accept private flood coverage?
A: The Biggert-Waters Act requires lenders to accept private policies as long as they provide the same coverage as the federal program. This provision is being reviewed by federal financial institutions but is expected to be enacted. NAR has received a handful of anecdotal reports about lenders rejecting private policies.

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