

Commissioner's Column

May 2017

The Impact and Future of Flood Insurance in Louisiana

As we move into hurricane season and start preparations to safeguard our homes, businesses and communities, it's a good time to look at the impact of the National Flood Insurance Program (NFIP) and what the future could hold. Floods are the most common natural disaster in the United States and in 2016 there were 19 separate major floods across the country, the most since the recording of floods began in 1980. All 50 states have experienced floods in the past five years and the damage isn't contained to areas that would normally be considered high-risk. In fact, according to FEMA, NFIP policyholders outside of mapped high-risk flood areas file a quarter of all flood claims.

In the past two years Louisiana has endured multiple large-scale flood events including in August 2016 resulting in 26 parishes being declared disaster areas, major flooding in March 2016 with 36 parishes being declared disaster areas and flooding in spring of 2015 with several parishes in north Louisiana being declared disaster areas. The August flood caused billions of dollars of damage to homes and businesses across South Louisiana. Just for that event, the NFIP has paid more than \$2.4 billion resulting from 30,000 claims. That makes it the fourth largest NFIP payout event behind Hurricane Katrina, Superstorm Sandy and Hurricane Ike.

FEMA statistics show that Louisiana property owners have filed about 450,000 claims since 1978 for more than \$19 billion in damages - with claims coming from all 64 of the state's parishes. The next closest states in terms of payouts are Texas, New York and New Jersey - that have each received between \$5-\$7 billion from the NFIP. Following Hurricane Katrina, FEMA's National Flood Insurance Program saw a significant increase in the number of flood insurance policies in Louisiana - from about 380,000 policies in 2003 to nearly 500,000 policies by 2006, an increase of about 30 percent.

But memories are short - and the number of NFIP policyholders had been on the decline in recent years. That is, until the August flood event. The number of policies had dipped back down to about 450,000 policies - but it's increased again to over 490,000. While we have higher participation than the vast majority of other states, the level of NFIP penetration in Louisiana has been disappointing. Statewide, the residential take-up in the NFIP was 23.4 percent as of December 2016. For most parishes, it is far below that. Parishes in southeast Louisiana are leading the pack with residential take-up in New Orleans and the surrounding parishes topping 40 percent.

Even still, think about what that means in black and white terms. Ten years after Hurricane Katrina, half of those residents don't have flood insurance. A solution to this problem could lie in a federal mandate that all federally backed mortgages secured by real estate be protected by

mandatory earthquake and flood coverage. Such a mandate would spread the risk of both perils over the entire country with minimal costs for those in lower risk areas.

Even as the NFIP is up for reauthorization by Congress this year, some states are questioning the value of the program. Researchers at UC Davis recently concluded California should consider leaving the NFIP after decades of being a net payer into the system. The researchers audited data back to 1994 and found that NFIP policyholders pay significantly more in insurance premiums than they receive in damage payouts, despite the fact that several of the state's most damaging floods occurred during the time period under review. Supporters of the NFIP point out that it only takes one big event, such as Superstorm Sandy, to turn a net payer state into a net receiver.

We are also seeing states working to promote the private flood insurance market. Our department recently received annual statements from insurers that for the first time provide us with information on the amount of private flood written in Louisiana. Previously, insurers reported the total of federal and private flood combined. The statements show 18 companies wrote \$11.5 million in direct written premium for private flood in 2016. That includes first dollar and excess flood coverage written by both admitted and surplus lines companies. The statements show more than \$250 million in direct premium for federal flood in 2016.

We do have a number of challenges to the private flood market. A major concern for the emergence of private flood insurance is the possibility of such coverage disappearing and policyholders having to "bounce back" to the NFIP. Enactment of legislation such as the Flood Insurance Market Parity and Modernization Act (H.R. 2901) that passed the House late in the 114th Congress would lay the foundation for a competitive flood insurance market.

A second obstacle of particular importance to Louisiana is the development of a reasonably priced market for those areas not insurable in a competitive market. Much of south Louisiana is a "working coast," with people living on or near the water because that is where they earn their livings supporting the ports, fisheries and oil and gas industries. A substantial portion of the state and its economy would fall into that category, and a dwindling NFIP would soon be in a death spiral without prohibitive rate increases. No depopulation of the NFIP is acceptable unless it includes a market to provide coverage for areas tied to the coastal economy of Louisiana and other coastal states.

The third obstacle to the emergence and growth of private flood coverage is the preference for admitted insurance over surplus lines insurance. Surplus lines insurance often leads the way into new markets for high or unknown risk insurance as they recently did with transportation network companies (TNCs). Once the market matures and the risk is better understood, admitted insurers will begin to write more of the coverage. After Hurricanes Katrina and Rita, the surplus lines market was an important source of insurance coverage for the small commercial property market. Any program to develop the private market will have to allow for participation by surplus lines insurers. Passage of a provision such as that in the Flood Insurance

Market Parity and Modernization Act, which requires the acceptance of flood insurance from eligible surplus lines insurers, would remove this obstacle to the emergence of a private flood insurance market.

Even as we hope the coming years will give us kinder weather, we must safeguard the people and communities that are vital to our state's economy. I have joined with advocates not only from Louisiana but also from other coastal states to push for reauthorization of the NFIP and to work towards a sustainable future for the program. Meanwhile, we will work towards solutions closer to home so that all of our citizens can have an insurance product that allows them to rest easy during the storms of life.