



PRIVATE FLOOD INSURANCE REPORT

2019

Carrier
Management

RESEARCH & TRENDS

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Introduction

In 2016, the annual statutory financial statement filings for property casualty insurers were modified to include a private flood insurance line item. Now with three years of performance available, we can report on the progress of the private flood market with greater accuracy.

On June 16, 2016, the NAIC adopted the modification to Property/Casualty Exhibit of Premiums and Losses (Statutory Page 14) and Insurance Expense Exhibit, Parts II and III of the NAIC Annual Statement Blank which added “Line 2.5 - Private Flood” for writers of the private market coverage.

The definition of private flood insurance to be reported: Private market coverage (primary stand-alone, first dollar policies that cover the flood peril and excess flood) for flood insurance that is not offered through the National Flood Insurance Program. Exclude: Sewer/water backup coverage issued as an endorsement to a homeowner or commercial policy.

As private flood insurance is written through additional means that are not reported within this statutory line item we recognize that there remains a segment we cannot measure and the figures presented are to provide context and a benchmark based upon the best available data.

Private Flood in the U.S.

During 2018, participation in the private flood market continued to growth with 33 new companies reporting on line 2.5.¹ Figure 1 illustrates the rapid increase from 49 reporting carriers in 2016 to 124 in 2018. New participation came predominately from the Liberty Mutual Group (12 companies), CNA Insurance Group (6 companies), Nationwide Group (4 companies) and Sompo American Insurance Company.

In total, insurers reported private flood insurance direct premiums written of \$681 million, an increase of \$51 million over 2017 (figure 2).

From figure 3 (on the next page), it is evident that the majority of the growth resulted from commercial flood insurance written by FM Global, accounting for 69% of the total increase in direct premiums written in 2018 - through Factory Mutual and Affiliated FM Insurance Company.

¹All figures reported on line 2.5 of the statutory statement have been gathered through research at the state level and may require revision upon publication by the NAIC of the finalized figures.

Figure 1: Number of Carriers Reporting Private Flood Direct Premiums Written

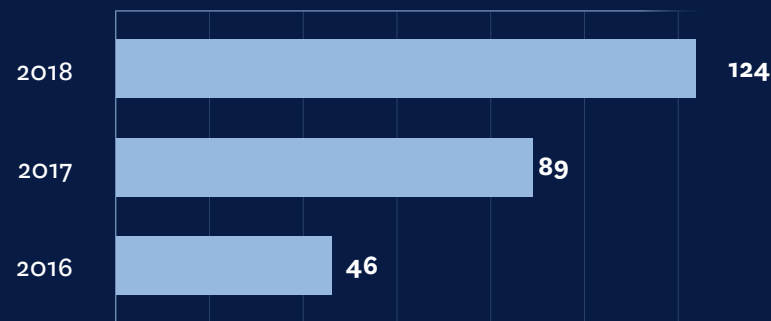


Figure 2: Private Flood Insurance Direct Premiums Written

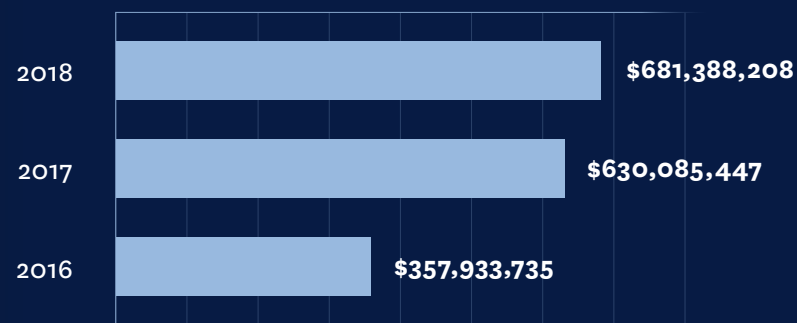


Figure 3: Top 25 Individual Companies Ranked by Total Private Flood Premiums Written

	2018	2017	2016
Factory Mutual Insurance Company	\$254,329,822	\$219,385,043	\$169,152,644
American Security Insurance Company	\$69,304,862	\$83,321,030	-
Zurich American Insurance Company	\$51,622,517	\$38,257,075	-
Affiliated FM Insurance Company	\$45,419,009	\$43,896,556	\$36,453,131
Westport Insurance Corporation	\$35,041,058	\$33,146,552	\$28,918,619
AIG Property Casualty Company	\$31,158,826	\$29,960,398	\$33,138,871
American Guarantee & Liability Insurance Company	\$21,640,222	\$22,295,125	-
Allianz Global Risks Us Insurance Company	\$15,917,435	\$11,496,007	\$11,013,958
National Fire & Marine Insurance Company	\$15,796,186	\$17,037,189	\$2,399,993
Lexington Insurance Company	\$15,732,336	\$16,124,946	\$16,502,151
Voyager Indemnity Insurance Company	\$13,511,182	\$6,250,441	\$1,568,550
Landmark American Insurance Company	\$12,380,690	\$8,644,310	\$8,687,778
Employers Insurance Company of Wausau	\$10,658,702	\$5,856,459	-
American Home Assurance Company	\$9,225,339	\$10,567,018	\$12,078,821
Tokio Marine Specialty Insurance Company	\$7,854,420	\$9,388,486	-
First Specialty Insurance Corporation	\$7,768,617	\$3,911,643	\$4,317,149
Liberty Mutual Fire Insurance Company	\$7,380,755	\$8,849,770	-
North American Elite Insurance Company	\$6,877,826	\$4,513,233	-
RSUI Indemnity Company	\$5,190,415	\$4,580,195	\$4,386,534
Princeton Excess & Surplus Lines Insurance Company	\$4,058,059	\$752,925	-
ASI Preferred Insurance Corp	\$3,824,562	\$316,714	\$175,360
Illinois Union Insurance Company	\$3,793,104	\$5,123,861	\$5,393,006
Steadfast Insurance Company	\$3,558,764	\$3,086,214	-
Bankers Standard Insurance Company	\$3,130,667	\$3,492,722	\$3,596,509
Palomar Specialty Insurance Company	\$2,254,645	\$663,993	-

Figure 4: Top 10 Insurance Groups Ranked by Total Private Flood Premiums Written

	2018
FM Global Group	\$299,748,831
Assurant Insurance Group	\$83,042,125
Zurich Insurance Group	\$77,128,401
American International Group	\$59,759,482
Swiss Re Group	\$49,687,501
Berkshire Hathaway Group	\$19,836,530
Liberty Mutual Group	\$19,329,459
Alleghany Group	\$17,571,105
Allianz Insurance Group	\$15,924,495
Chubb Ltd Group	\$8,135,337

Private Flood (Line 02.5) – Direct Written Premium, 2018

Figure 5: Share of Total Premiums Written



Taking a consolidated view of coverage provided to the marketplace by insurance groups, just 10 groups provide 95% of the total private flood insurance in 2018, as illustrated in figures 4 and 5.

Best efforts to divide the total 2018 direct written premiums into commercial and residential coverage (figure 6) suggests that commercial carriers continue to comprise the majority of the private flood insurance written, with FM Global Group writing 65% of the commercial sector's coverage.

Commercial Carriers

Figure 7 illustrates the 2018 direct premiums written by the top 6 commercial carriers, representing 95% of all private commercial flood insurance reported.

Residential Carriers

Figure 8 illustrates the direct premiums written by the top 5 residential carriers in 2018. As our determination of commercial vs. residential coverage is a best estimate, the estimated \$213 million in coverage written would suggest stable, or slight decline in coverage written from 2017, estimated at \$220 million.

Figure 6: Residential vs Commercial Private Flood

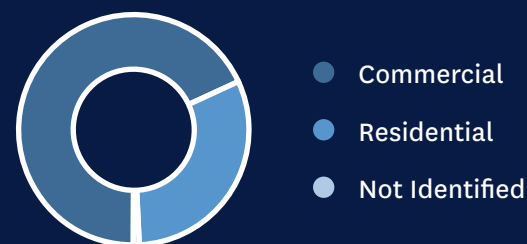


Figure 7: Top Carriers Writing Commercial Private Flood



Figure 8: Top Carriers Writing Residential Private Flood



Geographic Analysis

As the 2019 hurricane season approaches, this geographic analysis focuses on the southern states with the highest risk for storm surge flooding associated with catastrophic hurricanes. Though winds are often thought to be the largest contributor of hurricane related damage and losses, Corelogic's 2019 Storm Surge Report² indicates that often, storm surge and inland flooding can cause significant damage. Corelogic reports more than 7.3 million homes (single and multi-family), located along the Gulf and Atlantic coastline, have potential for storm surge damage, including states of Florida, Louisiana, Texas, Virginia, South Carolina, North Carolina and Georgia.

Private flood insurance written in these states represents just over 30% of all private flood direct premiums written in the US marketplace in 2018, as illustrated on figure 9.

Between 2016 and 2017, the private flood marketplace for these states expanded by nearly \$80 million in direct premiums written. Growth slowed considerably in 2018, with an increase of just under \$9 million. In most of these states, the number of single family homes identified as high risk, far exceeds the number of flood policies written in the states by the NFIP³, suggesting continued opportunity for the private flood insurance carriers to participate.

²www.corelogic.com/insights-download/storm-surge-report.aspx

³All references to NFIP policies in force by state: nfipservices.floodsmart.gov/reports/PIFHist.pdf

Figure 9: Private Flood Insurance Written in High Risk Storm Surge States



- Florida **\$79,664,174**
- Texas **\$63,221,041**
- Louisiana **\$20,541,203**
- South Carolina **\$13,709,696**
- Georgia **\$12,138,704**
- North Carolina **\$10,477,327**
- Virginia **\$8,745,950**

FLORIDA



Corelogic ranks Florida the #1 ranked high risk state for storm surge damage, with 2.8 million single family homes at risk and a total replacement cost value of \$581 billion. At year end 2018, the NFIP reported total policies in force of 1.76 million, which suggests opportunity for private insurers.

Florida’s private flood market has strong participation from personal line carriers with 5 of the top 10 carriers, listed on figure 10, writing residential flood policies, comprising 53% of the private flood insurance written in the state. Total direct premiums written declined from \$84 million in 2017 to \$79 million in 2018, largely within the residential market where American Security Insurance Company’s participation declined by \$6 million. Forty-seven carriers report writing private flood insurance in Florida in 2018, up from 39 in 2017.

Figure 10: Premiums Written Private Flood Top 10 Florida Individual Companies

	2018	
American Security Insurance Company	\$15,056,022	19%
Factory Mutual Insurance Company	\$14,278,287	18%
American Home Assurance Company	\$9,226,318	12%
Lexington Insurance Company	\$7,163,510	9%
Voyager Indemnity Insurance Company	\$6,687,298	8%
ASI Perferred Insurance Company	\$3,824,562	5%
National Fire & Marine Insurance Company	\$2,706,336	3%
Landmark Insurance Company	\$2,259,882	3%
Zurich Re Insurance Company	\$2,102,923	3%
Affiliated FM Insurance Company	\$1,817,088	2%
Other	\$14,541,948	18%
Total	\$79,664,174	

Private Flood (Line 02.5) – Direct Written Premium, 2018

VIRGINIA



Forty-eight carriers reported writing private flood insurance in Virginia in 2018. The state experienced a 50% increase in the private flood insurance in market 2017, with only 2.5% growth in 2018. In contrast to the Florida market, Virginia’s private flood market is led by commercial carriers Factory Mutual and Zurich Re, writing more than 50% of the private flood insurance in the state. Corelogic ranked Virginia #6 in the nation for storm surge risk, with 409,000 single family homes at risk along the coast, (391,365 of those homes located in the area of Virginia Beach). In total, the NFIP reported 108,000 policies in place at year end 2018, suggesting opportunity for private insurers to address this gap.

Figure 11: Premiums Written Private Flood Top 10 Virginia Individual Companies

	2018	
Factory Mutual Insurance Company	\$3,790,364	43%
American Security Insurance Company	\$1,460,209	17%
Zurich American Insurance Company	\$899,188	10%
American Guarantee & Liability Ins. Co.	\$492,767	6%
Affiliated FM Ins. Co	\$475,311	5%
Aig Property Casualty Company	\$416,274	5%
Employers Insurance Company Of Wausau	\$236,930	3%
Allianz Global Risks Us Insurance Company	\$231,424	3%
Westport Insurance Corp	\$185,185	2%
North American Elite Insurance Company	\$139,698	2%
Other	\$418,600	5%
Total	\$8,745,950	

Private Flood (Line 02.5) – Direct Written Premium, 2018

TEXAS

The private flood market in Texas grew 18%, or \$9.4 million in 2018, a slowing from 63% growth in 2017, with 55 carriers reporting direct premiums written on line 2.5. It is estimated that nearly 70% of the private flood is provided by commercial carriers, with a \$6 million increase by Factory Mutual contributing most significantly to the growth in 2018.

Corelogic ranked Texas 3rd highest risk for storm surge flooding and damage, with over 550,000 single family dwellings at risk of flood damage and total replacement cost value of \$122 billion. While the NFIP reports having 749,629 policies in force at year end 2018, areas of storm surge risk warrant further research for possible insurance gaps. Corelogic estimates that over 294,000 homes are at risk in the city of Houston and additional 121,710 are at risk in the city of Beaumont, Texas. While the exact geographic delineation utilized by Corelogic is not available, a review of the 3 counties of Houston served by NFIP⁴ indicates in September of 2018, 106,893 policies were in place, leaving an insurance gap available to private insurance carriers.

⁴ All references to NFIP policies in force at the county level as of September 2018 are available on line at bsa.nfipstat.fema.gov/reports/1011.htm

Figure 12: Premiums Written Private Flood Top 10 Texas Individual Companies

	2018	
Factory Mutual Insurance Company	\$26,071,433	41%
American Security Insurance Company	\$5,213,145	8%
National Fire & Marine Insurance Company	\$5,076,801	8%
Affiliated FM Insurance Company	\$3,977,837	6%
Zurich Re Insurance Company	\$3,546,640	6%
Westport Insurance Corporation	\$2,240,570	4%
Landmark Insurance Company	\$2,127,934	3%
Allianz Global Risks US Insurance	\$2,035,937	3%
First Specialty Insurance Corporation	\$1,506,794	2%
American Guarantee and Liability	\$1,440,732	2%
Other	\$9,983,218	16%
Total	\$63,221,041	

Private Flood (Line 02.5) – Direct Written Premium, 2018

LOUISIANA

The private flood insurance market in Louisiana has remained stable with 33 carriers reporting direct premiums written in 2018. With the addition of just two carriers, the market expanded by less than \$2 million in direct premiums written. An estimated 64% of the private flood insurance written is attributed to commercial carriers.

Corelogic identifies Louisiana as the 2nd highest risk state for storm surge in the US, with over 830,000 homes at risk, with total replacement value of just over \$200 billion. Corelogic identifies 399,403 of those as single-family homes located in the New Orleans metropolitan area. By comparison, NFIP reported a total of 503,356 policies in force across the entire state at year end 2018.

Figure 13: Premiums Written Private Flood Top 10 Louisiana Individual Companies

	2018	
Factory Mutual Insurance Company	\$8,037,767	39%
American Security Insurance Company	\$3,359,337	16%
American Guarantee and Liability	\$1,337,935	7%
Zurich American Insurance Co	\$1,212,931	6%
Affiliated FM Insurance Company	\$1,198,603	6%
Westport Insurance Company	\$850,244	4%
National Fire & Marine Insurance Company	\$634,432	3%
Employers Insurance Company of Wausau	\$633,720	3%
Lexington Insurance Company	\$551,844	3%
Liberty Mutual Fire Insurance Company	\$544,744	3%
Other	\$2,179,646	11%
Total	\$20,541,203	

Private Flood (Line 02.5) – Direct Written Premium, 2018

NORTH CAROLINA

An estimated 35% of private flood insurance written in 2018 was from personal lines carriers within the top 10 listing on figure 14. The market experienced growth of just over \$1 million in direct premiums written, the majority attributed to growth in residential coverage through American Security Insurance Company.

Corelogic ranks North Carolina as 8th for storm surge risk among the coastal states, with an estimated 264,000 single family homes at risk for storm surge flooding. By comparison, the NFIP reported 140,159 flood policies in force across North Carolina at year end 2018.

Figure 14: Premiums Written Private Flood Top 10 North Carolina Individual Companies

	2018	
American Security Insurance Company	\$2,498,230	24%
Factory Mutual Insurance Company	\$2,159,281	21%
Zurich American Insurance Company	\$1,373,154	13%
Affiliated FM Insurance Company	\$600,260	6%
Lexington Insurance Company	\$514,594	5%
American Guaranty & Liability Insurance	\$391,182	4%
Allianz Global Risks US Insurance Company	\$388,857	4%
AIG Property Casualty Company	\$354,136	3%
Westport Insurance Corp	\$338,868	3%
Employers Insurance Company of Wausau	\$295,373	3%
Other	\$1,563,392	15%
Total	\$10,477,327	

Private Flood (Line 02.5) – Direct Written Premium, 2018

SOUTH CAROLINA

The South Carolina market is served by 42 carriers reporting private flood insurance direct premiums written in 2018. The market grew by just \$1 million in 2018, primarily in increased commercial private flood written by Factory Mutual. Residential flood insurance represents an estimated 54% of the written coverage in 2018.

South Carolina's coastline is ranked 7th for storm surge flooding by Corelogic, with nearly 360,000 homes at risk, with replacement value of \$85 billion. A potential insurance gap exists as the NFIP reported 207,935 policies in force in all of South Carolina at year end 2018. Corelogic notes that in the metropolitan area of Myrtle Beach, 131,083 homes are at risk. In September of 2018, the month in which Hurricane Florence hit the southern coast, NFIP reported 47,480 policies in force within the Horry County, which includes Myrtle Beach and 8 other surrounding towns.

Figure 15: Premiums Written Private Flood Top 10 South Carolina Individual Companies

	2018	
Factory Mutual Insurance Company	\$4,004,204	29%
Lexington Insurance Company	\$2,728,990	20%
American Security Insurance Company	\$1,922,273	14%
AIG Property Casualty Company	\$1,778,375	13%
Zurich American Insurance Company	\$800,204	6%
Voyager Indemnity Insurance Company	\$586,553	4%
Bankers Insurance Company	\$311,056	2%
American Guaranty & Liability Insurance	\$203,567	1%
Allianz Global Risk US Insurance Company	\$147,362	1%
Westport Insurance Corp	\$133,875	1%
Other	\$1,093,237	8%
Total	\$13,709,696	

Private Flood (Line 02.5) – Direct Written Premium, 2018

GEORGIA



The private flood insurance market remained flat in 2018, with 35 carriers reporting direct premiums written on line 2.5. Nearly 70% of the business was written by commercial carriers. Risk to Georgia’s coastline from storm surge is ranked 9th in the country by Corelogic, with just over 163,000 homes identified as at risk, with combined replacement value of \$37 billion. The NFIP reported 86,874 policies in force across the state of Georgia at year end 2018, suggesting an insurance gap in the state.

Figure 16: Premiums Written Private Flood Top 10 South Carolina Individual Companies

	2018	
Factory Mutual Insurance Company	\$5,460,243	45%
American Security Insurance Company	\$1,591,111	13%
Zurich American Insurance Company	\$1,572,275	13%
Affiliated FM Insurance Company	\$588,163	5%
American Guaranty & Liability Insurance	\$579,802	5%
AIG Property Casualty Company	\$494,094	4%
Westport Insurance Corp	\$325,223	3%
Allianz Global Risk US Insurance Company	\$308,247	3%
Liberty Mutual Fire Insurance Company	\$269,403	2%
Employers Insurance Company of Wausau	\$252,329	2%
Other	\$697,814	6%
Total	\$12,138,704	

Private Flood (Line 02.5) – Direct Written Premium, 2018

What's Ahead in 2019?

Effective July 1, 2019, the passing of the Biggert-Waters Act⁵ will require regulated lending institutions to accept private flood insurance policies that meet the Act's definition of private flood insurance, for all loans requiring flood insurance. The rule includes a streamlined compliance aid provision to assist regulated lending institutions evaluate whether a flood insurance policy meets the definition of "private flood insurance." The act also includes additional guidelines for discretionary acceptance of private flood policies that do not meet the definition.

What can this mean for the private flood insurance industry? It means lenders are given greater flexibility to accept private flood insurance. However, lending institutions still must establish processes to ensure lenders are adhering to proper evalua-

tion of all policies presented. While the American Bankers Association is publishing recommended protocol for evaluation of private flood policies, compliance consultants are very skeptical of lenders and branch personnel taking responsibility for these reviews.

Angela Lucas, founder of Sterling Compliance, strongly urges carriers to include the Compliance Aid statement on all policies that meet the definition to make it clear to the lender that the policy is acceptable, as follows:

"This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation."

⁵For a description of the Biggert-Waters Act: <https://www.federalregister.gov/documents/2019/02/20/2019-02650/loans-in-areas-having-special-flood-hazards>

This will streamline the process for lenders, as that statement should be universally accepted by regulators - unless a lender senses fraud could be in play. At such point, the policy would be reviewed as any other policy presented without the statement.

Will lenders be tasked with evaluation of private policies? Dean Stockford, President and CEO of M & M Consulting, strongly recommends a centralized process with highly trained staff to manage reviews of flood policies under this requirement and anticipates significant regulatory infractions if lenders and branch personnel are tasked with these evaluations. Jerod Moyer, lead training consultant with Bankers Compliance Consultancy, recommends that a centralized compliance person be responsible for review of those policies that do not include the Compliance Aid statement and warns that submission of these types of policies should include review lead time, so as not to delay closings. Ultimately, it is up to the bank to make

a risk-based decision based on resources and impact centralized reviews could have on customer service. Angela Lucas suggested in her recent webinar discussion with CBANC, that lenders proactively reach out to area agents to understand what policies are being offered and how to most efficiently recognize the contents of the policies. This is an opportunity to start networking with their lenders as well.

Though consultants and legal firms are addressing this issue with their lending institution clients, it seems an opportunity for carriers and agencies to become part of the process - proactively providing education and assistance to lenders so that they can easily identify acceptable policies. Regulated lending institutions that don't get this right can be fined \$2,000 per violation, with no cap, so it behooves all parties to support the approval effort to ensure this Act makes the impact intended.

Conclusion

Opportunity is defined⁶ as:

- an appropriate or favorable time or occasion
- a situation or condition favorable for attainment of a goal
- a good position, chance, or prospect, as for advancement or success

With the passage of the Biggert-Waters Act there is new opportunity to access the market demand created by requirements for financing. It is an appropriate and favorable time for agents to network with lenders to offer private insurance in place of NFIP policies upon renewal. The new Act requires the lenders to accept it, if it meets the definition.

What about opportunity among homeowners not required to have flood insurance? According to a new report out by the NAIC, conditions are more favorable among Millennials and Gen X than they were among

Baby Boomers with respect to understanding the need for and willingness to buy flood insurance. This study⁷ of 1,000 respondents reports that Millennials (57%) and Gen X (41%) are more agreeable to the idea of buying flood insurance than Baby Boomers (24%).

The opportunity to meet gaps, such as those illustrated in the storm surge states, will require continued education as the NAIC suggests “this disconnect between intention and action has been brought into sharp relief in the Midwest and South where recovery efforts will continue for years after this spring’s devastating floods” as fewer than 50% of those who agree flood insurance is important, have actually purchased it. Given this disconnect, agents and carriers face the challenge to consider whether they are in a ‘good position’ to convert the uninsured market through creative marketing and affordable product offerings.

⁶ <https://www.merriam-webster.com/dictionary/opportunity>

⁷ https://www.naic.org/Releases/2019_docs/naic_survey_flood_insurance.htm