



YOUR PROTECTION

Morris & Reynolds Insurance Presents:

August 2016

NATIONAL FLOOD INSURANCE PROGRAM VS. PRIVATE FLOOD INSURANCE: THE GREAT FLOOD INSURANCE EXPERIMENT?



There's a reason why the National Flood Insurance Program was created in 1968 and that reason is because private flood insurers stopped writing such coverage as a result

of the losses that they suffered. Private insurers simply got tired of paying claims on homes subject to flooding and were scared off by the catastrophic, continued nature of flood losses. And as happened following the tragic terrorism attacks of 9/11 in 2001 when the industry ceased offering terrorism coverage (a Federal program was created for that risk) private insurers ceased offering flood insurance nearly 40 years ago due to the cost of claims.

Without flood insurance in areas prone to flooding, it's nearly impossible to obtain a mortgage and, thus, when private insurers abandoned the marketplace all those years ago there was an immediate impact to property owners, realtors, lenders and others that forced the government to step in and create a subsidized solution called the National Flood Insurance Program (NFIP). Today, the NFIP operates under the Federal Emergency Management Administration (FEMA) and within the Department of Homeland Security.

In 1983, NFIP created a popular Write Your Own program that allowed private insurers to sell and process flood insurance by using NFIP's rates, rules and regulations and today the WYO encompasses nearly 20 insurers including well known firms such as The Travelers, The Hartford and Wright Flood.

Today, property insurers are hungry for business and are looking for new revenue sources. The United States has not had a hurricane land on our shores in over a decade and the lack of such losses, as well as the lingering impact of The Great Recession and a protracted "soft" marketplace that continues to cause property rates (and thus insurer revenue) to fall lower and lower, has led a few insurers to the create private flood insurance programs over the last year or two. Morris & Reynolds, of course, has access to these new private flood insurance programs and we frequently review them for our clients' use, to determine if they might make sense, but we are also well aware of the fact that they remain new and untested and have a variety of disadvantages, in addition to the advantages that the insurers offering them tout.

As with any new program in insurance the insurers offering them focus on creating and touting possible coverage advantages as well as lower prices. As with any new idea, even if it's a re-boot of an idea that was simply dormant these last four decades, there are possible disadvantages. And, as the number of private insurance companies writing flood insurance increases, so will the questions about using a flood insurance policy supported by the National Flood Insurance Program (NFIP) or buying a policy from a private insurer. As is often the case, there is no black and white answer that always works. Each policy is different, thus it's critical that you carefully read the policy as well as consider the finances of the private flood insurer, along with the law related to what happens when one leaves an NFIP supported policy.

In the event a private policy is of interest here are a few possible advantages and disadvantages to consider:

POSSIBLE ADVANTAGES OF PRIVATE FLOOD INSURANCE

Some of the features that might be found in some private policies could include:

- Limits of coverage higher than those provided by the NFIP.
- Replacement cost loss settlement on all building losses.
- Replacement cost loss settlement on personal property.
- Enhanced coverage in basements.
- Ordinance and law coverage.
- Broader Other Structures coverage.
- Coverage for other structures, besides just a detached garage.
- Additional living expenses on a policy covering homes.
- Business income and extra expenses coverage might be available on commercial policies.
- Fewer and/or more favorable deductibles.
- The "property not covered" list may be shorter than NFIP.
- Elevation certificate may or may not be required.
- No HIFAA surcharge of \$25 or \$250.
- Possibly lower rates.



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POSSIBLE DISADVANTAGES OF PRIVATE FLOOD INSURANCE

There are also, of course, possible disadvantages of a private flood policy and some of these include:

- Coverage might not be as broad as the National Flood Insurance Program (NFIP) supported policies offer.
- There is no guaranty of renewal as exists with a NFIP policy. With a NFIP policy the insurer must renew coverage as long as the premium is paid.
- The insurer may be weakly capitalized or new to writing such coverage. The idea of private flood insurance is very new and untested.
- Lenders may be reluctant to accept the policy, or may totally decline to accept it.
- The policy likely can be cancelled mid-term or non-renewed by the insurer for a variety of reasons as allowed via state statutes. That's not the case with an NFIP supported policy

- You can possibly lose a subsidized rate and/or grandfathering if they leave the NFIP for a private insurer.
- If it's a surplus lines insurer that's offering private coverage then there is no state guaranty fund to protect that insurer.
- Rates could increase drastically, especially with a surplus lines insurer.
- The insurer might leave the market and non-renew all policies.
- The policy could contain unique exclusions and conditions.
- As these policies are new, not standardized, and untested, policy language may be untested in court cases.
- There is no ability to assign policy to new purchaser.

“Modern” private flood insurance is a somewhat new phenomenon and remains untested. A bit of an experiment, if you will. Lacking any major claims, it is possible that more insurers will dip their toes into the water and, depending how long claims remain manageable, it's possible that private flood coverage could grow in popularity. That said, if insurers suffer sizable claims and losses, then we would expect the market to recede, along with the flood waters as has happened before and that forced the creation of the National Flood Insurance Program in the first place. Our suggestion is to proceed with caution, especially given NFIP's rule related to leaving and then wanting to return in the future.

The law states that unless one leaves because a flood policy is no longer required by their lender then upon returning to NFIP the policyholder is ineligible for a subsidized rate and would, instead, be required to pay the much higher non-subsidized rate.

FEMA has not yet released guidance or an effective date for this provision but it is entirely possible that policyholders who leave the NFIP for a private insurer could permanently lose subsidized rates. Even though those rates will continue to increase for the foreseeable future, they will do so predictably, as opposed to the private market where availability and affordability cannot be predicted.

MORRIS & REYNOLDS INSURANCE



The Reynolds family has been in the Insurance profession since 1910 and have operated their Independent Agency, Morris & Reynolds Insurance, since 1950. Now in its third generation of family ownership, Morris & Reynolds offers trusted choices from the world's leading insurers for all forms of coverage, as well as innovative care and service from a passionate, award-winning TEAM of professional people- the finest people in insurance.

Please contact our professional agents and underwriters at any time you have questions about your flood insurance or any other matter as we are happy to help at **305.238.1000**. For allowing us the honor of providing your protection, as always, thank you.



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