Three Step Plan to addressing the misperceptions about flood risk and flood insurance in the US

- **Based on consumer attitudes measured in the June 2020 Neptune national survey**

The recent Neptune Consumer Survey of Flood Risk Awareness, a national survey conducted in partnership with the University of South Florida Institute for Data Analytics and Visualization, shines a light on the problem of low homeowner uptake of flood insurance, even when they are in high hazard areas. The survey responses shows major consumer underestimation of flood risk, misperception of the cost of insurance and losses due to flood damage, lack of awareness of the options available with the vibrant private flood market, and an out of sight out of mind attitude towards getting the financial protection of a flood insurance policy. These collective misjudgments result in high financial losses to unprotected homeowners, over reliance on public sector workers and programs to recover, and slower economic recovery in the affected areas.

The survey, conducted in late June this year, gathered opinions from 1,019 individuals in 36 flood prone states across the country. 63% of those surveyed believed they were at low to no risk of flooding, while a 2019 Verisk analysis indicates that over 50% of US homes are at moderate to extreme risk of flooding. Isolating on Florida, the most universally at-risk state in the US for flooding, 65% of respondents believed they were at low to no risk. 54% of those surveyed did not know what flood zone their home is in. Even more surprising, 27% were either unsure or would not buy flood insurance if it was not required as a condition of their mortgage, despite their home being in a high-risk flood zone. It's fair to say that flooding is an infrequent and random risk, and human nature discounts the risk of potential events that have not happened recently. It is true that flood insurance adoption spikes after major events, as it did in Louisiana after Katrina and in Houston after Harvey, but then ebbs in the years following the event if there is no reoccurrence. That said, the survey indicates a significant underestimation of flood risk by consumers across the country.

Respondents were generally unaware of the cost of flood insurance. 45% opted to not buy flood insurance due to perceptions or concerns about the cost. Among those that do not have insurance, 77% don't know what it would cost, and 21% believe it is too expensive. Freeform comments in the survey indicate that many "heard from friends or media that flood insurance is very expensive". In fact, the average policy premium for residential flood insurance in the US last year was $708. Consumer awareness of the expense of repairing flood damage was also underestimated. According to FEMA, one inch of flood water in your home can cause $25,000 in damage, or more. Floors, wallboard, carpets, and furniture losses quickly add up even in minor flooding. The average loss in Hurricane Harvey in Houston was $117,000, and most were uninsured.

In the US, the only flood insurance option for many years was the National Flood Insurance Program (NFIP). Since 1968, this FEMA-run program has been providing basic protection to millions of residents. The program has low coverage limits of $250,000 for buildings, which covers small losses but often is not adequate for total losses. The program is in debt and has paid out $9.4B more in claims than it has collected in premiums over the past 15 years. Recently however, a growing private market has sprung up for flood insurance. According to the National Association of Insurance Commissioners, by 2018 there were over 120 private flood insurers in the US, and at least one in every state. Most are backed by the largest reinsurers in the world, including Swiss Re, Munich Re, and Lloyd's of London. Many of the private carriers, such as insurtech Neptune Flood, make it easy to buy flood insurance with simplified online applications, better pricing then the NFIP, and higher coverage limits or additional coverage options. The survey indicated consumer confusion over their options, with many not understanding that there were providers other than the NFIP. Up to 25% of respondents thought that they have a private flood policy, when in fact it is a government NFIP policy bought through a private insurer such as USAA.

Flooding is the most common catastrophic risk in the US, far higher than fire, hail, earthquake, or wind losses from hurricanes. Although homeowners are required to get homeowners insurance, they are only required to get flood insurance if their home is in one of FEMA's high hazard flood zones and they have a federally backed mortgage. This results in a high percentage of uninsured homes. As many as 50% of the homes in the high hazard zones and 99% of homes in all other zones opt to go uninsured for flood. The resulting tragedy plays out again and again. Up to 80% of the homes with damage in Harvey were uninsured. Estimates were as high as 70% uninsured in Hurricane Florence in the Carolinas in 2018, and high percentages in the Midwest flooding of 2019. Homeowners, unaware of their risk or simply choosing to go uninsured, find themselves in a situation of large financial loss. It takes years to recover from this type of loss, many don't fully recover ever. FEMA recovery funds come in the form of grants, which averaged $4,000 after Harvey, or loans that must be repaid. The best way to prevent this financial devastation is to purchase a flood policy.

The potential solution has three parts, including consumer education, industry education, and affordability.

1. Educate consumers about the risk of flooding and how they can get a clear indication of their risk. A recently launched site floodfactor.com will give a free online assessment of flood risk for both today's and future climate scenarios. Insurance agents experienced with flood are invaluable resources for consumers to determine if they need insurance and what coverages are best for them.
2. Educate realtors, lenders, and anyone involved in residential properties that there are options other than the National Flood Insurance Program. Private flood insurers make it much easier to buy flood insurance, with streamlined applications, no need for onsite inspections, and shorter waiting periods than the NFIP. This segment of the market is rapidly growing, up from barely 1% of the residential flood market to nearly 10% today. Since COVID, an additional benefit of private flood options is that they are essentially "touchless", with no onsite inspections, and utilizing web based e-signature and payment options.
3. Make flood insurance pricing transparent and affordable. Consumers now have many options to select from, as noted above with over 120 private flood insurers in the US market, in addition to the government's National Flood Insurance Program. FEMA's Risk Rating 2.0, a major upgrade to the current program planned for late 2021, has stated goals of affordability for those in need or with limited ability to pay. Many of the private insurers use advanced analytics to be able to provide a discount the majority of the time. In addition, consumer behavior has changed, with most preferring to conduct online research before buying. Consumers should be able to go to a website and get adequate information along with a quote without enduring scores of emails, calls, and spam marketing.

The insurance industry and FEMA collectively spend millions of dollars each year in educational materials about flood risk, how to prepare and recover from floods, and steps that can be taken to mitigate damage before the flood occurs. Time will tell whether the steps outlined above result in greater awareness and protection. If not, other solutions such as broader mandates similar to homeowners and auto insurance may be necessary.

With new web tools and experienced agents, it is far simpler now for a homeowner to get an accurate estimate of their flood risk. In addition, protecting your house from a huge financial loss is a smart move. Flood insurance is more affordable than people expect, and definitely not the painful insurance buying experience of the past.   With the many options available in the private markets, you might even conclude that it’s enjoyable!