

Flood Insurance 101: What Agents Need to Know

Climate change, torrential rains, hurricanes, rising sea levels, floods. Today's weather news sounds positively biblical, and consumers are looking for answers—and reassurance. That's why insurance agents today need the latest information and technology to provide their customers with the solutions and peace of mind they need. Here's what you need to know:

What constitutes a flood, exactly?

To be classified as a flood, two or more acres of normally dry land or two or more properties must be inundated by water or mudflow. Floods are the U.S.'s most common natural disaster and just one inch of water in a home can cause more than \$25,000 in damage. The average loss in a flood is \$43,000.

Who's at risk?

Short answer: potentially everyone—some are just at a higher risk than others. Given the changing climate, floods now occur in all 50 states and every month of the year. According to Verisk, there are 62M homes in the US at moderate to extreme risk of flooding, yet only 5.5M have flood insurance.

FEMA Isn't Keeping Up

FEMA is mandated to produce maps of areas at high risk of flooding. If your home is in one of these high-risk areas, you are required to carry flood insurance. However, FEMA's flood zone maps are often outdated and inaccurate.

Even if the FEMA map says your home is in a low-risk zone, your actual risk of flooding may be significantly higher. In Hurricane Harvey in Houston in 2017, for instance, approximately 82 percent of those who suffered losses were in areas not considered at high risk of flooding, and at least 25 percent of all flooding happens outside "high hazard" areas.

Standard Homeowners Policies Don't Cover Floods

Although there are federal and private markets for flood insurance—the NFIP has 89 percent of the market—National Flood Insurance Program (NFIP) policies have low coverage limits and don't cover external structures, replacement cost, or temporary living expenses if a flood forces the homeowner from their home. Consumers also probably don't realize that when FEMA comes in after a flood and offers assistance funds, these are often not *gratis*. They are either low dollar grants that don't cover all your losses, or government loans that must be repaid.

As an agent, it's a smart move to protect your errors and omissions (E&O) insurance by offering a flood insurance quote along with every homeowner's quote.

How does Private Flood Insurance differ from NFIP insurance?

The NFIP is a government-designed insurance program administered by FEMA and sold through 50 insurance carriers known as Write Your Own (WYO) companies. The government's NFIP is, like many government programs, highly paper-based, bureaucratic, and slow, with limited coverage options for consumers. Coverage is capped at \$250K for buildings, requires a 30 day wait, has a mandatory Elevation Certificate inspection that can cost the homeowner up to \$400, and puts everyone through a quote form of 54 questions. If you have no other choice, it is a good backstop.

Private flood insurance is offered by private companies throughout the US, with a number of firms getting into the market in the past few years. Neptune Flood, in particular, is the fastest growing and already one of the largest private flood insurers in the US. Neptune's quoting platform is fast and simple, enabling quote to bind in under 2 minutes. With its patent-pending AI technology engine Triton, Neptune provides the most accurate and effective flood solution in the US, with coverages up to \$2M for buildings, and optional coverages not offered by the NFIP. Pricing for private flood is usually but not always lower than the NFIP, as Neptune determines risk at the individual home level. Private flood offers agents options, efficiency, flexibility, and price visibility as compared to the NFIP.

What can agents do?

There are some simple things agents can do to make sure consumers obtain enough coverage when getting a flood policy.

1. Don't let your customers go underinsured and misunderstand what coverages they need. FEMA's \$250K building coverage limit is below the reconstruction cost of the average home in the US. Most homeowners with NFIP policies are underinsured, which creates both a personal tragedy for the homeowner and a contentious situation for the agent when a catastrophic loss occurs.
2. Make sure consumers read their policy from top to bottom, so they know how and where claims would be processed. In the event of a loss, they need to be confident the settlement will be paid in full and on time. They should also understand the difference between replacement costs and actual cash value in regard to their insurance. The gap between costs and cash value can often be a big one.
3. Take advantage of the optional coverages such as Temporary Living Expense, and Replacement Cost on Contents. These simple options make a huge difference in the homeowner's experience if they have a flood at their property.

Most of all, agents need to be able to reassure their customers that they are in safe hands with a private flood policy. By knowing the facts, you can inform consumers about what they need and match their needs to the right product.

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