

Neptune Conversations: The NFIP vs Private Flood

What's the difference between private flood insurance and the NFIP?

The National Flood Insurance Program (NFIP) is a government-run federal program established in 1968 that covers 91% of the flood policies in the United States. In the last few years, many private companies have begun offering private flood insurance as an alternative to the NFIP. The primary differences and benefits of private flood insurance include:

- Straight forward and clear application process
- Private flood insurance is often less expensive than the NFIP
- Financial strength of the insurance providers
- Higher coverage limits with more options
- Efficiency and speed of claims

The NFIP was created due to a series of high loss extreme floods and the lack of a private insurance market. At that time, there were few reliable statistics to be able to predict (and therefore insure) when and where floods would occur, and the infrequency of storms created highly condensed, seemingly random pockets of risk. For many years, the program provided safety and security to millions of homeowners with no other option. However, as with most government programs, the NFIP also mushroomed in its bureaucracy and paperwork, became mired in debt, and did not evolve with more modern technology and coverage options.

Today's NFIP has many risks that a more efficient private market for flood insurance seeks to address, including:

- a. The NFIP was created first to incent flood prevention tactics such as seawalls, retention ponds, dunes, drainage, and setbacks. It was not meant to be a highly accurate assessment of risk down to the individual house; as a result, flood maps are "broad brush" and don't reflect the actual risk of loss on your home.
- b. Older houses built before the flood maps were created were actually given LOWER rates, and grandfathered, creating a subsidized pool of risky properties, paid for by those in newer homes.
- c. Some properties have flooded up to 45 times under the NFIP, yet the NFIP still continues to price in the same way and pay the claims each year.
- d. The NFIP has low coverage limits, no coverage for basement contents, external buildings, pools, replacement cost for contents, or temporary living expense, all common in other forms of insurance.
- e. As Superstorm Sandy demonstrated, the NFIP is very slow to pay claims.
- f. The NFIP requires tons of paperwork, a 30-day delay to start a policy, an expensive home inspection, photos of your house, and allows no cancellations. All of this is readily available technology and not necessary.

Private flood insurance is simply flood insurance on your home or business provided by a private company, backed in the traditional way by insurance companies, reinsurance providers, or Lloyd's of London. Ratings agencies such as AM Best give a risk rating to these private companies. An A or A- rating is an indication of a very stable, well financed insurance business with substantial capacity to pay

claims in virtually any event. Compared with the approximately \$30B debt of the NFIP, private solutions are generally very safe and secure options to a government insurance policy.

We have been asked “Won’t the government bail me out with emergency funds if I’m uninsured or underinsured?” Few people realize that government emergency funds are loans that you must pay back, and are difficult to qualify for, with onerous paperwork requirements. It’s much safer to have an insurance policy, often covering up to \$350,000 in losses for just a few hundred dollars a year.

We created Neptune Flood to provide a solution to people who want an easy to understand, easy to purchase, safe, affordable, and flexible option to the NFIP. Where the NFIP is complicated, slow, paper-intensive, and in heavy debt, Neptune relies on advanced technology to make the process extremely easy for a consumer and takes the mystery out of deciding what coverages are best for you. Neptune is backed by Lloyd’s of London, the longest operating and most financially secure insurance organization on earth, AXA XL, the largest property and casualty insurer in the world, SwissRe, the 2nd largest reinsurer in the world, and other highly rated global reinsurers.

There are a few key reasons why a private policy is often a better solution than an NFIP policy, including:

1. The federal government has established laws requiring private flood insurers to meet this rigid standard: To qualify as a flood insurance provider with mortgage lenders including the FHA and VA as well as large banks, private flood insurance providers must meet the **same or better** policy terms and conditions as the NFIP.
2. Whereas the NFIP only covers up to \$250,000 of building loss and \$100,000 of contents, private insurers can offer higher limits, for example Neptune provides coverage up to \$2,000,000 for building and \$500,000 for contents.
3. Private insurers also offer coverages not available from the NFIP, such as for external buildings not attached to your house, pools, temporary living expenses in case you are forced out of your home due to a flood, and replacement cost on your contents.
4. To get an NFIP policy, you must answer 54 questions and submit to an inspection and photos of your home. With Neptune Flood for example, you can go online and have a policy within 2 minutes, with no inspection, no photos, and only answering a couple of questions to help us try to lower your rate even further.

In summary, private companies are willing and able to insure the risk of flood. Why rely on an inefficient and money-losing government program, when you can get better coverages, often at a lower rate, with speed and efficiency in the process of buying and using your insurance? More information on your options for private flood, including FAQs and links to more information, can be found at www.neptuneflood.com.