



TO: Catastrophe Insurance (C) Working Group

FROM: NAIC Staff

DATE: Sept. 20, 2018

SUBJECT: Report on Private Flood Insurance Data

The purpose of this report is to inform the Catastrophe Insurance (C) Working Group about the information filed by insurers regarding private flood insurance within the Property and Casualty Annual Statement for 2017. Private flood insurance data was previously reported under Allied Lines (Line 2.0) within the State Page but began to be reported separately on Line 2.5 with the filing of the 2016 Annual Statement data. The report will also address some shortcomings in the data collection process and make some suggestions for future actions.

## **Overview**

Floods continue to be the most costly natural disaster in the United States. While the National Flood Insurance Program (NFIP) is the main source of flood insurance coverage, more sophisticated risk mapping and modeling have developed in recent years enabling the private market to more accurately price the risk and generating new interest among private insurers to provide such coverage.

State insurance regulators support facilitating increased private sector involvement in the sale of flood insurance as a complement to the NFIP to help provide consumers with more choices and additional coverage features potentially at more affordable prices.

As the private flood insurance market grows and more companies offer coverage, state insurance regulation will continue to evolve to meet the size and breadth of the market as well as the needs of consumers. In recognition of this growing market, state insurance regulators, through the NAIC, developed a requirement for insurers to include a line item in their Annual Statement highlighting their private flood insurance activity. This data will provide state insurance regulators with a comprehensive overview of the size of the private flood insurance market and provide insights into the market as it grows.

## **Data Filed on the Annual Statement**

The State Page requires the following information on private flood policies to be filed on a state-by-state basis:

- Direct Premiums Written
- Direct Premiums Earned
- Dividends Paid or Credited to Policyholders on Direct Business
- Direct Unearned Premium Reserves
- Direct Losses Paid (deducting salvage)
- Direct Losses Incurred
- Direct Losses Unpaid
- Direct Defense and Cost Containment Expense Paid
- Direct Defense and Cost Containment Expense Incurred
- Direct Defense and Cost Containment Expense Unpaid
- Commissions and Brokerage Expenses
- Taxes, Licenses and Fees

## **Data Findings**

The initial results of the 2017 private flood filings indicate over 90 insurers wrote private flood insurance in 2017, up from 52 insurers in 2016. The total direct premium written in states and territories was approximately \$589 million, compared to \$376 million the prior year. Direct earned premium reported was \$551 million in 2017; direct earned premium reported in 2016 was \$216 million. Having less earned premium than written premium is indicative of a growing market. For perspective, the NFIP had approximately \$3.3 billion in earned premium in 2016.

Twelve companies wrote over \$10 million in private flood insurance in 2017, up from 8 in 2016, while 28 companies wrote at least \$1 million in 2017, up from 22 in 2016. The top individual company wrote 34% of all business, down from 45% in 2016. The top ten insurers wrote over 80% of all business in 2017.

The national pure loss ratio (direct loss incurred/direct premium earned) was 178%. State loss ratios ranged from less than 1% to over 1,520%. The largest loss ratios were in jurisdictions that experienced hurricanes and large floods in 2017: Texas, Tennessee, West Virginia, Colorado and Puerto Rico.

## **Caveats**

It is important to understand a number of limitations within the Annual Statement data. The reported information is limited to only those insurers required to file a Property and Casualty Annual Statement with the NAIC. Insurers doing business as non-licensed or non-admitted insurers are known as surplus lines insurers. They serve as an alternative marketplace to provide coverage for unique exposures and often serve as a testing ground for product innovations before they are written by the admitted market. Domestic and foreign insurers are required to file the Annual Statement as they are considered an admitted insurer in at least one state. Alien insurers, which are domiciled outside the U.S., can choose to be licensed or admitted in one or more states if they wish. If they do choose to be licensed or admitted, then they too must file the Annual Statement. However, if an alien insurer decides not to become licensed in any state, the District of Columbia or U.S. territory, then no Annual Statement filing is required. The premium writings by alien surplus lines insurers are not included in the information contained in this report. Since we believe there may be a significant amount of premium written by alien surplus lines insurers, the reader should be cognizant of this potentially important missing element.

Frequently, the first submission of data is not complete or accurate. This should be considered when reviewing the inaugural 2016 as well as the 2017 filing of private flood insurance data. It is possible companies that should have filed private flood insurance data separately on the State Page failed to do so, or did so inaccurately. Based on the history of other data additions to the Annual Statement, we expect the quality of the private flood insurance data to improve in subsequent years.

It should be noted the largest provider of flood insurance writes primarily commercial coverage for businesses rather than coverage for personal dwellings. This may be true of others. The data collected does not distinguish between commercial and residential exposures.

## **Recommendations**

A major caveat contained in this report is the missing information on the amount of premium written by alien surplus lines insurers. Staff believes there are significant premium writings in this segment of the overall market. As the Catastrophe Insurance (C) Working Group continues to look at various state proposals and other suggestions to help guide efforts to develop a consistent approach to enhancing and facilitating growth of the emerging private flood insurance market, it may wish to consider a couple suggestions related to private flood data. First, the Working Group may wish to consider recommending that the Surplus Lines (C) Task Force make submission of private flood insurance data a condition for continuing to be listed on the *Quarterly Listing of Alien Insurers*. Secondly, the Working Group should explore potential revisions to the Annual Statement that would indicate differences between commercial and residential private flood coverage as well

as instructions clarifying that premiums related to endorsements are desired as well as first-dollar coverage.

## **Conclusion**

This report summarizes findings within the second submission of private flood insurance data. If information can be obtained from the alien surplus lines insurers, a more complete picture of the 56 U.S. private flood insurance markets will emerge. The quality of the data collected should also improve in subsequent years. It is expected the private flood insurance market will continue to grow, first in the surplus lines market, and then in the admitted market. Having more complete and accurate data will provide regulators with important insight into the private market as it grows.