

Commissioner's Column

September 2016

A Harsh Reminder of the Importance of Flood Insurance

Over the last several years, I have addressed the topic of flood insurance nearly half a dozen times in these monthly columns – from the draconian rate increases under Biggert-Waters that came with the reauthorization of the National Flood Insurance Program (NFIP) to the changes brought about with passage of the Homeowner Flood Insurance Affordability Act of 2014. These issues, as well as affordability and the NFIP's \$23 billion debt, will be revisited during the debate surrounding the NFIP reauthorization in 2017. But the immediate issues for us as regulators and agents along the Gulf Coast are how to improve the low take-up of flood insurance as well as heighten understanding of the differences between homeowners and flood insurance.

Data recently provided to us by FEMA illustrates how widespread the lack of take-up is in the NFIP. As of July 2015, the statewide penetration among Louisiana homeowners was 20.8 percent. For the following cities the take-up was as follows: Lake Charles (16.5 percent); Lafayette (14.1 percent); Baton Rouge (11.9 percent); Monroe/West Monroe (7.0 percent); and Shreveport (4.7 percent). Only New Orleans with a take-up of 39.1 percent exceeded the statewide average.

Despite those low figures, consider the picture in Tennessee, where in 2010 a devastating flood shut down Nashville, including the Grand Ole Opry, and where officials just declared a state of emergency in July after floods prompted evacuations. According to FEMA, only 16,000 of 900,000 residential structures in Nashville - just 1.8 percent - have NFIP policies. And while we have higher participation than the vast majority of other states, the level of NFIP penetration in Louisiana is disappointing.

Despite our efforts to raise awareness, one of the top issues raised by consumers in recent weeks is the misconception that a standard homeowners' insurance policy would cover flooding. This has been the case across the country for decades, and yet, for many homeowners, renters and businesses, this is a hard lesson learned only after experiencing flood damage first-hand.

A fact that has surprised many NFIP policyholders is that contents are not automatically included under a policy and that separate coverage is available for personal property. For a one-to-four family structure, the structure coverage limit is \$250,000, while the contents coverage tops out at \$100,000. For a business, both the structure and contents limits are \$500,000. Under an NFIP policy, you can get replacement cost coverage for the structure, but only actual cash value coverage for your contents. There is also no additional living expense (ALE) or business interruption (BI) coverage in a standard NFIP policy.

There is no question that this flood event will prompt all of us to take a closer look at flood insurance – and it clearly is not just a momentous event here in the southern United States. As of

early September, the NFIP reported receiving just under 30,000 claims in Louisiana from this flood event. That puts it on track to be the fourth most significant flood in NFIP's history, following Hurricane Katrina (167,985 paid losses totaling \$16.3 billion); Superstorm Sandy (130,352 paid losses totaling \$8.3 billion) and Hurricane Ike (46,658 paid losses totaling \$2.7 billion) and just ahead of 2004's Hurricane Ivan which resulted in 28,300 paid losses totaling \$1.6 billion.

With more than \$16.9 billion in NFIP claims payments since 1978, Louisiana is the primary beneficiary of the National Flood Insurance Program and for most people in the state, it continues to be a highly subsidized means of putting a life back together after a devastating flood. Right now, with tragedy and difficulty so fresh in our minds, it is easy to recognize the importance of flood insurance. After Hurricanes Katrina and Rita, sales of flood policies spiked by 30 percent. But over time, many have let their policies lapse and some new homeowners not required to have flood insurance have decided it's a luxury they cannot afford. It is vital to our citizens, our economy and to the continued way of life we enjoy here that there is vigilance across the state for flooding disasters. I will continue to sound the alarm about the need for the National Flood Insurance Program and work at the national level to keep those policies available and affordable. Please join me by keeping flood insurance top of mind, both for yourself and your clients. Working together, our industry can be a major part of recovery after this, and future, floods.