

Commissioner's Column

May 2018

The Future of Flood Insurance in Louisiana

As we move into the 2018 hurricane season, it helps to look back on last year and the costs that are still being incurred in the property and casualty markets. According to the National Oceanic and Atmospheric Administration, 2017 was the most expensive year on record for natural disasters in the United States. From Hurricanes Harvey, Irma and Maria to the wildfires in California, there were 16 major weather and climate disaster events across the country last year. The cumulative damage of all 16 weather events is estimated to top \$300 billion, more than the previous record of \$214 billion of damage in 2005 due to the impacts of Hurricanes Katrina, Rita, Dennis and Wilma.

Insurance regulators nationwide are keenly aware of the devastating effects of floods and know that it is critical that flood insurance is available and affordable. Competition is one way states can make flood insurance available to consumers. A 2017 report by actuarial consulting firm Milliman studied National Flood Insurance Program (NFIP) policies in three states – Florida, Texas & Louisiana – that account for 56 percent of NFIP policies nationwide. They found that although 69 percent of Louisianans could see cheaper flood insurance premiums with private insurance, private insurance would cost over twice the NFIP premiums for 21 percent in Louisiana.

We began receiving annual statements from insurers for the first time in 2016 that provide us with information on the amount of private flood insurance written in Louisiana. Previously, insurers reported the total of federal and private flood insurance combined. There are surplus lines companies writing private flood insurance and admitted carriers writing excess flood insurance coverage. The statements show 30 companies wrote \$17.8 million in direct written premium for private flood insurance in 2017. That includes first dollar and excess flood coverage written by both admitted and surplus lines companies. There was an increase of 12 companies in the private flood insurance market in Louisiana from 2016 to 2017. The direct written premium increased by \$6.3 million year over year. This is an increase of 55%. The statements also show more than \$250 million in direct premium for federal flood insurance in 2017.

And that increase couldn't have come at a better time with the severity and frequency of major weather events on the rise. Our state has been repeatedly struck by severe rain and flooding events that have caused property damage and loss of life. Over the last 2 years, federal Major Disaster Declarations have been issued for 59 of our 64 parishes as a result of severe storms and flooding – and 24 of those parishes were struck twice.

FEMA statistics show that Louisiana property owners have filed about 450,000 claims since 1978, for more than \$19.5 billion in damages with claims coming from each of the state's 64 parishes. The next closest state in terms of payouts is now Texas with more than \$15 billion in payments inclusive of last year's Hurricane Harvey-related flooding. Rounding out the top five are New York, New Jersey and Florida, which have each received between \$5 and \$7 billion from the NFIP. Florida reached the \$5 billion threshold after Hurricane Irma made landfall in September 2017.

Following Hurricane Katrina, the NFIP saw a significant increase in the number of flood insurance policies in Louisiana – from about 380,000 policies in 2003 to nearly 500,000 policies by 2006, an increase of about 30 percent. However, the number of NFIP policyholders had been on the decline in recent years. That is, until the August 2016 floods in the Baton Rouge and Lafayette areas. The number of policies had dipped back down to about 450,000 policies prior to that event – but it's increased again to just under 500,000.

In March, the NFIP received funding for four months as part of a federal spending bill. The influx of funds extended the program, but lawmakers now face a July 31 deadline to decide what to do with the program. The extension was the fourth time this Congress has enacted a short-term solution for the critical program. In addition to the uncertainties about funding, there have been important changes to the program. As announced last year by FEMA, on April 1, 2018 key changes went into effect including updated insurance policy premium increases conforming to the premium rate caps established by Congress. The average increase was approximately 6.9 percent, including surcharges and fees billed to the policyholder.

The future of the National Flood Insurance Program is uncertain. Major changes, including the possibility of dramatically increased rates for high-risk properties, are being discussed as the July 31 deadline moves closer. The worst possibility would be for the program to lapse during the peak of hurricane season. The National Flood Insurance Program is vital to Louisiana and I will work diligently with our representatives at the national level and here at home to ensure that it is available for Louisiana consumers.