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THE STATE OF THE FLOOD INSURANCE INDUSTRY

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SOLSTICE INNOVATIONS, INC.

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INTRODUCTION

The flood insurance industry, including both the National Flood Insurance Program (NFIP) and private flood insurance markets, is facing and navigating its way through several critical challenges and questions including climate, affordability, risk assessment models, mapping tools, risk mitigation, regulatory changes, market expansion, consumer awareness, claims handling, community resilience, aging infrastructure, disaster preparedness disaster response, and scrutiny.

These questions and challenges are not unique to flood insurance, nor are they new to the insurance industry as a whole. But, if the take-up rate for flood insurance is any indication, how they manifest themselves in flood insurance often feels different, facing more significant criticism, scrutiny, and doubt.

Flooding is the costliest natural disaster in the U.S., with damages far exceeding those from wind and fire. Yet, the percentage of single-family dwellings in the U.S. with flood insurance remains consistently in the single digits.

Why is that?

As Robert Cole, Executive Vice President at National Risk Brokerage, said on the March 2025 Solstice Innovations Podcast (The SIP ep. 5 Part 1), "Why should I buy flood insurance if it's never flooded here? Well, your house has never burned down, right? But you have homeowners' insurance."

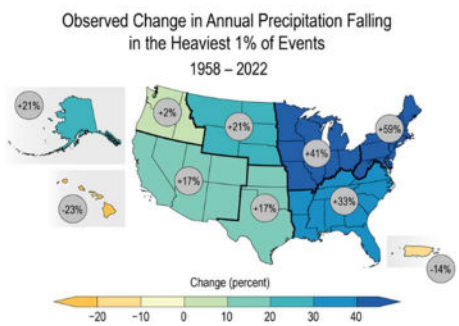
Speculation often points to the same culprits when we ask the question, "Why don't more people buy flood insurance?"

These include a lack of awareness, misconceptions about coverage, cost, access to other government assistance programs, location, and limited lender requirements.

In this article, we focus on one of those culprits – lack of awareness – and shed some light on the current state of the flood insurance industry.

MAJOR EVENTS

According to the National Oceanic and Atmospheric Administration (NOAA), "*In 2024, there were 27 individual weather and climate disasters with at least $1 billion in damages, trailing only the record-setting 28 events analyzed in 2023. These disasters caused at least* ***568 direct or indirect fatalities,*** *which is the eighth-highest for these billion-dollar disasters over the last 45 years (1980-2024). The cost was approximately $182.7 billion.*"



"This map shows the percent change in the amount of precipitation occurring as very heavy precipitation for each U.S. region. A positive value indicates that more precipitation is falling as part of heavy precipitation events. The larger the percentage shown, the greater the relative change from 1958 to 2022."

Heavy Precipitation | GlobalChange.gov

Meanwhile, the U.S. Global Change Research Program reports that from 1958 to 2022, the "relative amount of annual rainfall delivered by large, single-day precipitation events," have increased all across the country, from a low of +2% in the Pacific Northwest to +59% in the New England states, with Hawaii being the exception, showing a negative 23%.

In layman's terms, this means that since 1958, when it rains hard, it has been raining harder, except in Hawaii, where hard rains have been falling less.

Furthermore, NASA reports that sea levels have risen by 10.1 cm (approximately 4 inches) since 1993. That may not seem like much, but it can have several significant consequences in reality, including coastal erosion, an increased risk of flooding in low-lying areas, and a higher frequency of storm surges, among others.

In short, a great deal has changed since the NFIP was established.

FLOOD INSURANCE AND THE U.S. GOVERNMENT

The NFIP was first authorized by the National Flood Insurance Act of 1968. Under the Biggert-Waters Flood Insurance Reform Act of 2012, also known as BW12 or FIRA, private flood insurance options became more accessible by declaring that when mortgages required flood insurance, lenders could accept private flood instead of NFIP as long as the coverage on the private policy was at least as broad as that of a Standard Flood Insurance Policy from the NFIP.

However, gaining a strong foothold in the flood market proved difficult for private flood insurance companies because their rates were often higher than those quoted for comparable NFIP policies. The true differentiators for private flood came in the form of higher coverage limits and more options.

In October 2021, the NFIP began rolling out the Risk Rating 2.0 initiative (RR 2.0), designed to accomplish at least three things: modernize how risk is determined; create a single, industry-wide rating engine owned and maintained by FEMA; and make NFIP rates actuarially sound (with new and some renewing policies moving to the new RR 2.0 rate immediately, and others on a "glidepath" toward the new full-risk rate, but with a rate increase capped at 18% per year).

The irony is that the NFIP program was created because it was believed that flood insurance would otherwise be unaffordable; now, it is widely believed that the only way to sustain the NFIP is through actuarially sound rates. Yet, affordability remains a significant concern for both Congress and consumers, particularly in flood-prone states or areas. Achieving both actuarial soundness and affordability can be challenging.

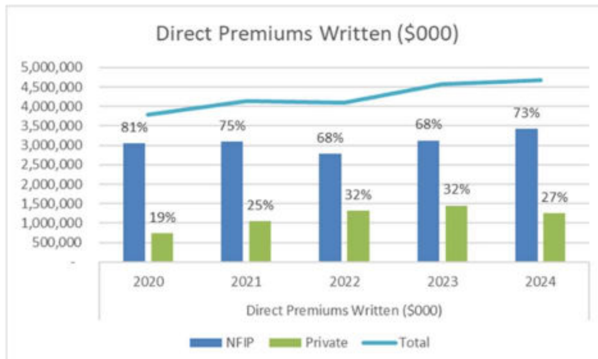
THE NFIP AND PRIVATE FLOOD INSURANCE

Between BW12 and RR 2.0, it appeared that the time had arrived for private flood insurance to take over market dominance from the NFIP, and from 2022 through 2023, it certainly seemed that way, with the private flood market increasing and the NFIP market decreasing.

It may still be the case that private flood insurance is the long-term market winner, but data from the S&P Capital IQ Insurance Statutory Market Share Report (for 2024) suggests there has at least been a cooling-off period for private flood and a resurgence in the NFIP.

While the market size, as measured in terms of Direct Written Premium (DWP), remained relatively flat from 2023 through 2024, the percentage of DWP grew by 5% in the NFIP and decreased by 5% in the private flood market. That might be surprising and even counterintuitive to some, but a look at the direct losses paid, as indicated in the same S&P report, may offer some clues as to why this is so.

In 2024, the NFIP paid 93% of direct losses, while private flood insurance paid only 7%. In 2023, the breakdown was 91% versus 9%, indicating minimal year-over-year change.

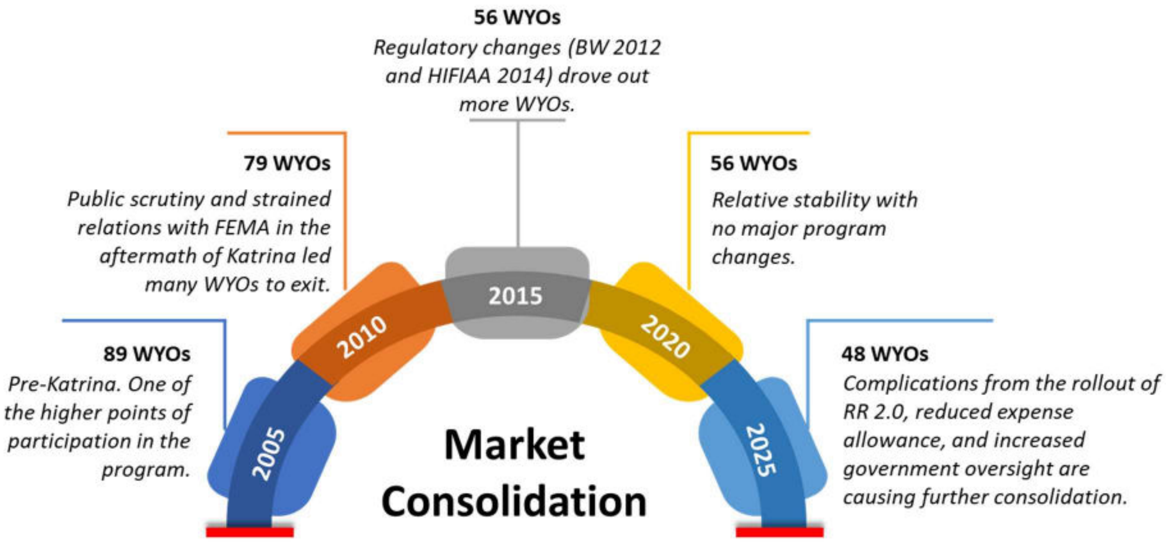


What does all of this mean? Time will tell, but it could mean multiple things, including but not limited to the following:

- Private flood insurance carriers are better able to identify and insure lower-risk properties, whereas the NFIP must write essentially all properties.
- Insureds are hesitant to switch out of the NFIP.
- In some cases, private flood insurance rates may be higher than those of the NFIP, although the price gap appears to be narrowing.
- Increasingly severe flood events are causing private flood carriers to pull back and/or raise rates.

WRITE YOUR OWN (WYO) CARRIERS AND THE NFIP

Before Hurricane Katrina in 2005, nearly 90 carriers offered flood insurance policies through the NFIP. As of the beginning of 2025, there are half as many.



Those who exited the program have cited several reasons, including that flood insurance is not a core focus, the financial viability of offering NFIP policies has diminished, and regulatory changes coupled with program complexity make it challenging to remain knowledgeable and manage the business.

While these may be valid, there are still several reasons for carriers to offer NFIP policies, including:

- The U.S. Government carries the underwriting risk.
- Federally backed mortgages require it for properties deemed at risk.
- Offering flood insurance can be a means to mitigate the loss of homeowner policyholders to a competitor.
- Mitigation against the potential for E&O claims.
- Improved customer (policyholder) experience.

REINSURANCE

Reinsurance plays an increasingly crucial role in both private flood insurance and the NFIP. For example, there are now 27 private reinsurance carriers supporting the NFIP, up from 18 in 2024, which should help alleviate some of the underwriting pressures faced by the U.S. Government.

The Insurance Journal reports that a recent Moody's Rating report concludes that while reinsurance renewal rates have been dropping, they are likely to stabilize in the U.S., with potential for price increases due to losses incurred from Hurricanes Helene and Milton, as well as the Los Angeles wildfires.

Exactly how this will play out in the 2025 and 2026 flood insurance market is yet to be seen.

TECHNOLOGY

Like all other insurance lines, flood insurance is experiencing the aches and pains that come with aging technology, attempts to mask that pain with flashy front-ends, and the growing pains associated with new technology. But technology, particularly new technology, is a requirement for increasing the take-up rate and closing the flood insurance gap. Some examples follow.

Geographic Information Systems (GIS), advanced mapping tools, big data, and predictive analytics enable insurers to assess risk more accurately, allowing them to tailor products and pricing more effectively. It also can be used to help the policyholder better understand their risk level and the need for flood insurance.

New technology platforms, such as Equinox™ from Solstice Innovations, streamline the process for insurance agents to create flood insurance quotes. This promotes straight-through processing as much as possible and minimizes the need to defer to the underwriting department for assistance. Platforms like this also enhance customer experience by streamlining the claims process and offering customer portals where policyholders can perform various self-service functions, such as paying bills, reporting claims, and tracking their status.

Online resources and tools that educate consumers about flood risks and the importance of flood insurance are becoming increasingly available. Likewise, educational and instructional content that is quick and easy for insurance agents and business operations support staff, such as the wiki-based Equinox™ Knowledge Hub from Solstice Innovations, assists not only in the quote and policy administration process but also increases an agent's ability to educate customers.

SUMMARY AND CONCLUSION

In summary, flooding events continue to occur more frequently and at a higher cost, while consumer uptake of flood insurance remains comparatively flat. The flood insurance gap in the U.S. remains in the single digits. Technology is not a "build it and they will come" solution to closing the insurance gap, but it is a significant enabler of it.

While Congress debates how to address the NFIP, despite efforts to shift more flood insurance to the private market, the NFIP experienced DWP growth in 2024, whereas the private market saw a decrease. It appears that neither has been successful in closing the flood insurance gap. So how do we?

Are there alternatives to requiring flood insurance for more properties or eliminating government assistance to those without it?

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