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## Florida Private Flood Bill Now Law But Market May Take Awhile to Develop

By Michael Adams | June 17, 2014

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Florida Gov. Rick Scott has signed legislation designed to encourage private insurers to offer flood insurance, but the industry is tamping down expectations that it will result in a viable market in the near future.

The legislation creates a statutory framework allowing private insurers to offer four different types of flood coverage ranging from standard coverage, which mirrors the current National Flood Insurance Program policies, to three other enhanced coverages.

The legislation also allows private insurers to file their own rates prior to October 1, 2019, after which they must be approved by regulators. The time period is so Florida insurers can develop state flood data that is currently not available under the NFIP.

Florida Insurance Commissioner Kevin McCarty says it will ultimately benefit consumers.

"The Office of Insurance Regulation looks forward to the opportunity to work collaboratively with Florida insurers and well-capitalized reinsurers who are interested in providing a private sector alternative to the NFIP," said McCarty.

Insurer and consumer groups also expressed their support for the law but were quick to caution that it would not create a widespread market in the near future. Others noted that private insurers could already offer flood insurance under current law.

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Personal Insurance Federation of Florida Executive Director Michael Carlson said the legislation is unnecessary, however, his association backed its intent.

"Our initial reaction is there is no need for a new law," said Carlson. "But we support engaging in self-help. Florida's market is complex and perhaps it will bring new capital into the market."

Jay Beal, director of the Florida Association for Insurance Reform, similarly expressed his support. "Having a robust flood market is not going to happen overnight," said Neal. "It's going to be a long process, but this legislation was a good exercise."

### Biggert-Waters Debate

Lawmakers first pursued the flood insurance bill with a sense of urgency in response to the federal Biggert-Waters Insurance Reform act of 2012, which was designed to address a \$24 billion funding shortfall in the National Flood Insurance Program caused largely by hurricanes Katrina and Sandy.

Biggert-Waters required some flood premiums to rise, in some cases substantially, until they attained actuarial levels and for most subsidies to be phased out. It also called for new flood maps that also raised some premiums and expanded flood zone areas so that more people had to buy coverage.

Eliminating long-time premium subsidies on homes built before 1974 and keeping property owners from pass along those subsidies when they sold their homes meant that 280,000 Florida homeowners faced rate increases and other confronted difficulties selling their homes.

More than two million Florida residents are covered through the NFIP, and state's policyholders pay \$3.60 in premiums for every \$1 in claims, factors some say favor the creation of a private market.

However, after there was a public uproar over the Biggert-Waters changes, Congress amended that reform law to limit rate increases, retain premium subsidies and allow subsidies to pass through to new owners when a house is sold. As a result the urgency over the need for a private market waned.

### Surplus Lines

Only one domestic insurer has begun offering private flood insurance. Homeowners' Choice Property and Casualty Insurance Co. is doing so to its existing 140,000 policyholders.

Most expect that surplus lines insurers that are not regulated by the state are the most likely to pursue the market.

Gainesville, Florida-based Flood Insurance Agency has been aggressively marketing Private Market Flood, underwritten by Lloyd's of London.

Flood Insurance Agency CEO Evan Hecht said that he started the program that is now in 19 states to target policyholders that were losing their federal premium subsidies under Biggert-Waters. Since then, however, he said he has sensed an appetite for coverage in other properties including commercial buildings.

In April, Private Market Flood reduced it rates not only on new policies, but also for policyholders who had bought coverage in the previous three months.

"That should help some families and small businesses with their budgets at a time when rising flood insurance premiums have done just the opposite," said Hecht.

Hecht attributed the rate reduction to reinsurers looking for markets and surplus lines insurers enjoying more leeway in choosing policies to write than admitted insurers. He also said many NFIP policies are overpriced.

"In any individual state we can cherry-pick policies from the top down," Hecht said. "States are widely supporting that and asking what they can do to help."

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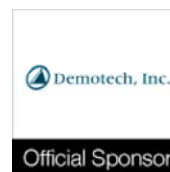
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