

RESILIENCE COFFEE HOUR

April 1, 2022



How Property Insurance Rates Along the Coast Are Impacted by Climate Change

Jeff Brady, ANFI





**How Property Insurance
Rates Along the Coast are
Being Impacted by
Climate Change**



Atlanta



Albany



Augusta



Savannah



Climate Change and the Impact on Insurance

- Today's Agenda
 - Flood Insurance
 - Risk Rating 2.0
 - Private Flood Markets
 - Excess Flood Markets
 - Property Insurance
 - Impacts on Pricing
 - Available Markets
 - Future Trends

Did you know?

Over the life of a 30 Year Mortgage,
there is a greater risk of loss to flood
than fire

- Floods are the #1 Natural Disaster in the United States and the World
- In 2019, the average flood claim was nearly \$51,000
- From 2005 -2014, total flood insurance claims averaged more than \$3.5 Billion per year
- Nearly 25% of all flood claims happen outside of high-risk zones
- Locally nearly 1 in 3 claims is in the X zone

Ref: [Floodsmart.gov](https://www.floodsmart.gov)



cern coastal empire resilience network

- In 2019 AON reported 409 Natural Disasters worldwide
- Total losses of \$232,000,000,000
- Only 12.6% of consumers had comprehensive coverage
- \$82,000,000,000 in total flood losses
- \$13,800,000,000 had coverage

What is a Flood?

- **A general and Temporary condition of partial or complete inundation of 2 or more acres of normally dry land area or of 2 or more properties from**
 - **Overflow of Inland or Tidal Waters**
 - **Unusual and rapid accumulation or runoff of surface waters from any source**
 - **Mudflow**
 - **Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion by waves or currents of water that result in a flood as defined above**

National Flood Insurance Program

The National Flood Insurance Program (NFIP) is administered by the Federal Emergency Management Agency (FEMA), which works closely with more than 80 private insurance companies (WYO) to offer flood insurance to homeowners, renters, and business owners. In order to qualify for flood insurance, the home or business must be in a community that has joined the NFIP and agreed to enforce sound floodplain management standards.

Risk Rating 2.0

According to FEMA and the Congressional Research Service Risk Rating 2.0 will

- Reflect a property's individual risk
- Reflect more types of risks in rates
- Use the most up to date actuarial practices to set rates
- Make it easier to understand rating
- Reduce complexity in quoting

Risk Rating 2.0

What has not Changed?

- Maps
- Flood Zones
- Requirement for a mortgage when in a SFHA
- Building codes and other CRS requirements
- Maximum Annual Premium Increases
- CRS Discounts for Participating Communities

Risk Rating 2.0

What has Changed?

- How FEMA prices all policies
- Elevation Certificate no longer needed
- Flood zone is not used to determine premium
- Property to be rated based on its individual flood risk
- 3 Commercial Risk Models will determine loss potential of a property

Risk Rating 2.0

What factors will determine the rate?

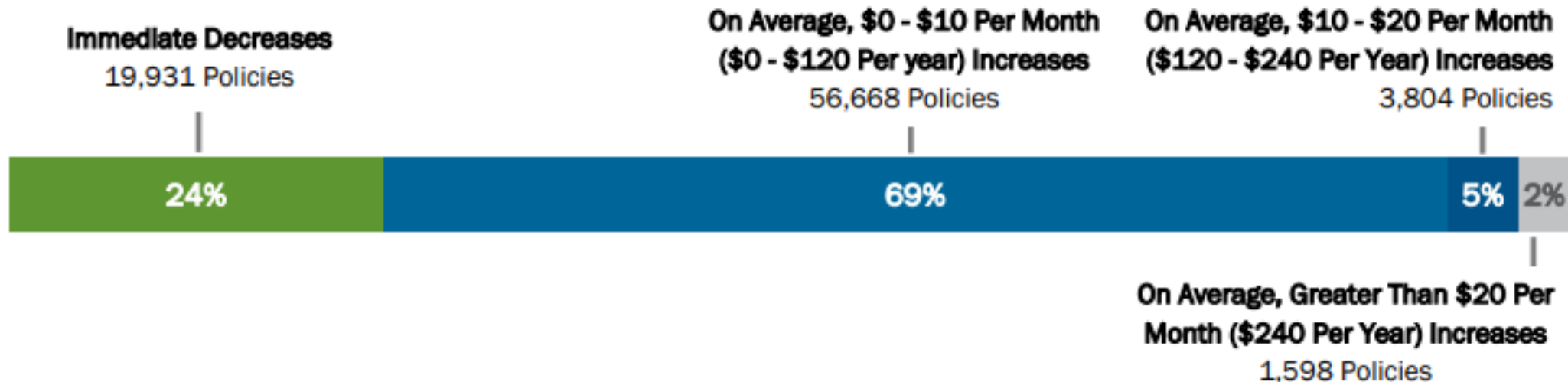
- Distance to Flood Source
- Type of Flood Source
- Replacement Value to Coverage Ratio
- Community CRS Discounts
- Prior Losses if any
- Mitigating actions such as flood vents or elevating machinery, even in X flood zones

Risk Rating 2.0

Timelines for Rate Implementation

- New business rates effective 10/1/21
- Renewals increases start 4/1/22
- Annual increase effective 4/1 of each year in move to Full Risk Rating with glidepath increases
- Rate implementation increases capped at 18% per any individual property
- Rate decreases will be realized at first renewal after 4/1/22

Risk Rating 2.0 in Georgia



FEMA

Private Flood Insurance

- Underwritten and paid by insurers not associated with NFIP
- Variable Rates from company to company
- Broader coverage including loss of use and spoilage
- Higher Limits of coverage than NFIP maximum
- Currently less than 5% of total policies in force
- Not accepted by certain Federal Loan programs

Excess Flood Insurance

- Underwritten and paid by insurers not associated with NFIP
- Variable Rates from company to company
- Coverage purchased over and above NFIP max of \$250,000
- Not required by Federal Mortgage no matter the zone
- Separate policy from underlying base coverage

What Drives Insurance Pricing?

- Reinsurance Costs
 - Insurers Transfer their risk by purchasing reinsurance
 - Higher Pricing in Coastal/ High Risk areas
 - Expectation of more severe storms due to climate change
 - Will reduce available markets as some insurers will choose to leave
- Claim Frequency and Severity
 - Average replacement values increasing
 - Policy renewals seeing over 25% in coverage need over the last 2 years
 - Per NAHB average home build cost has increased \$63,000
 - Higher average claims

Future Impacts of Climate Change

- Reinsurance
 - Per Swiss Re: Pool of At Risk properties increase by 33-41% by 2040
 - Will Generate \$150 billion in premiums
 - Increased payouts due to severity and frequency
 - Leads to higher insurance costs
- Fewer Markets
 - Costs will push some insurers out of the market
 - Reduces options to consumers
 - Less Competition means higher pricing

Future Impacts of Climate Change

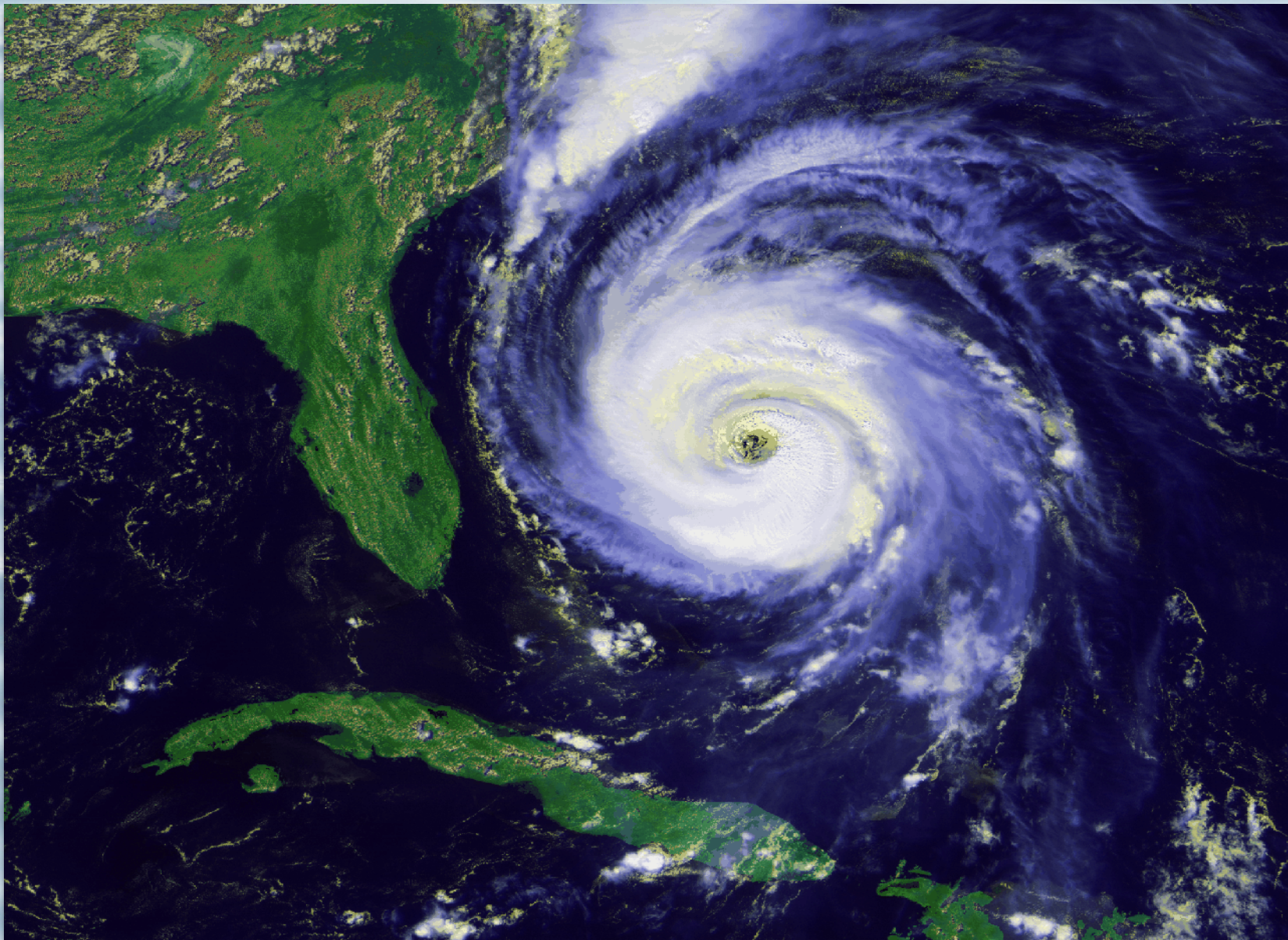
- Underwriting Changes
 - Age of Home
 - Older homes that don't meet today's codes will cost more to insure
 - Expected Losses are higher
 - Newer homes have higher resiliency due to better code
 - Emphasis on InsureTech to project Losses and Trends
 - More Individual property based pricing
 - Geolocation usage
 - Change in Investment Portfolios for General Funds

Future Impacts of Climate Change

- Will homes be affordable?
 - Rising Interest Rates
 - Higher Replacement Values
 - Higher Insurance Premiums
- Will it become a barrier to upward economic mobility?
- Will home ownership percentages drop creating more renters?
- Will there be larger wealth gaps within society?

Helpful Tools

- www.floodsmart.gov
- map.georgiadfirm.com
- Your Community Flood Plain Administrator
- www.netronline.com
- www.fema.gov
- msc.fema.gov



RESILIENCE COFFEE HOUR

Friday, May 6th

8:30 AM – 9:30 AM

bit.ly/CERN-Coffee_May

Mitigating the Impacts of Extreme Heat on Human Health

Dr. Brian Stone, Jr.



Credit: Getty Images



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Kait Morano
moranok@thempc.org

www.coastalempireresilience.org

