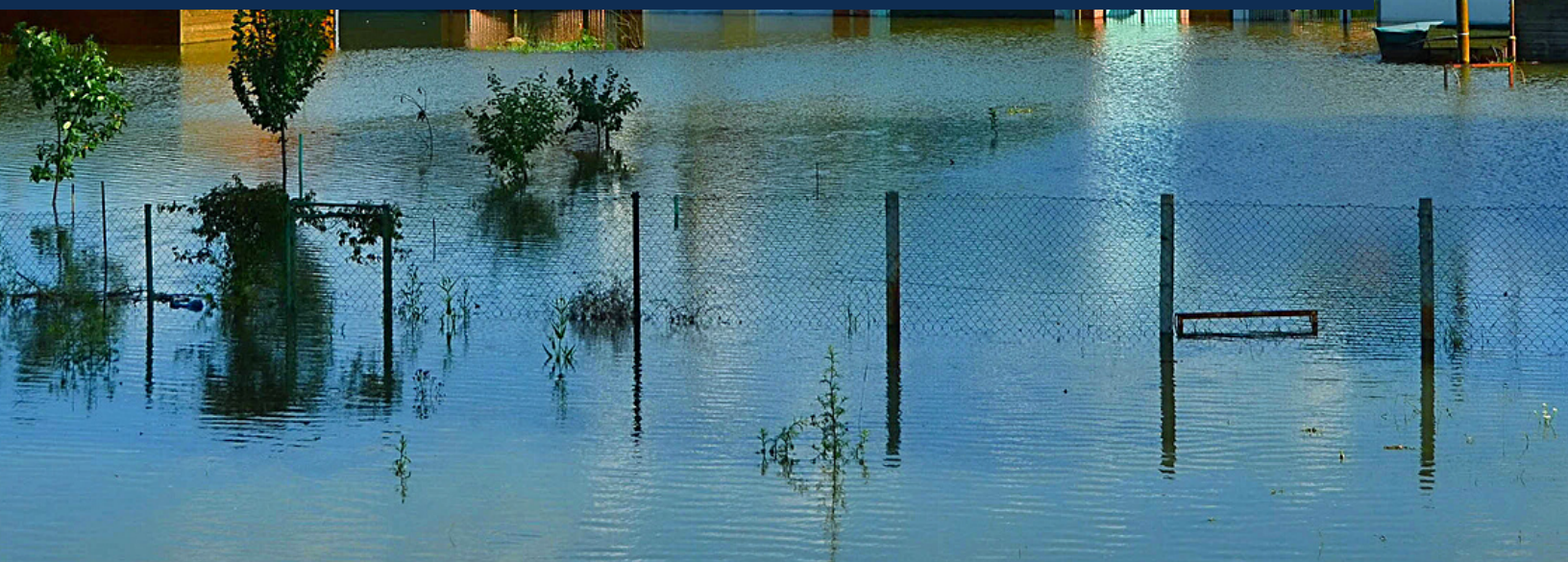



# Will Flood Prone Areas Drown in Growing Premium Costs?




Flooding is the most prevalent natural disaster in the United States, at [about 90 percent of U.S. natural disasters](#), including extreme rainfall, snowmelt, and hurricanes involving flooding. The Federal Emergency Management Agency (FEMA) estimates that one inch of flood water can cause as much as \$25,000 in damages to a home. Keeping this in mind, it's no wonder that floods cause billions of dollars of losses each year.

Flood damage is excluded under standard homeowners and renters insurance policies, and the vast majority of people who do purchase flood coverage get it through the [National Flood Insurance Program \(NFIP\)](#), which is administered by FEMA. FEMA established the NFIP in 1968 as a response to private insurers not having reliable ways to measure flood risk. To this day, the NFIP is the primary provider of flood insurance for homeowners across the country.



However, the flood insurance market in the U.S. is in a state of transition. In 2021, FEMA unveiled its new rating system. Known as Risk Rating 2.0, the highly altered structure is meant to have insurance pricing more accurately reflect each property's flood risk by factoring in climate change's impact on different regions' propensity for flooding.

FEMA states that the goal of these changes was to level out longstanding inequities in how pricing had been set until now, wherein policyholders with lower value homes have been paying more than they should have in comparison to policyholders with higher value homes. FEMA also hopes that these changes will translate to improved longevity for the program, which is [currently \\$20.5 billion in debt](#), even after several taxpayer-funded bailouts.



The new plan became effective on October 1, 2021 for new policyholders, while existing policyholders saw changes beginning April 1, 2022.

[An estimated 77% of policyholders will see premiums increase](#), while 23% of policyholders can expect a decrease. Under the law, rate increases are capped at 18 percent a year.

Unfortunately, this means that policyholders in high hazard areas, such as California, Delaware, South Carolina, Florida, and Louisiana, need to brace themselves to pay more for flood insurance. **In some areas, this could be an increase of up to four times higher than rates under the previous rating system.**

In an attempt to decrease the pressure that rests on the NFIP, FEMA and state legislatures across the country are pushing for private insurers to get involved in the marketplace to increase overall capacity for flood losses. With the advent of technology, private carriers are able to leverage sophisticated models to predict flood risk and underwrite it. Though private carriers are becoming more comfortable with writing flood insurance, the brunt of the burden still lies with the NFIP.

Another factor that's impacting the pricing of flood insurance for policyholders is the growing cost of repairing homes after natural disasters. The increased cost of raw materials due to supply chain bottlenecks, labor shortages, inflation, and extreme weather events are to blame for the ballooning costs of building repairs.



Ideally, coverage limits for a home insurance policy should accomplish four tasks.

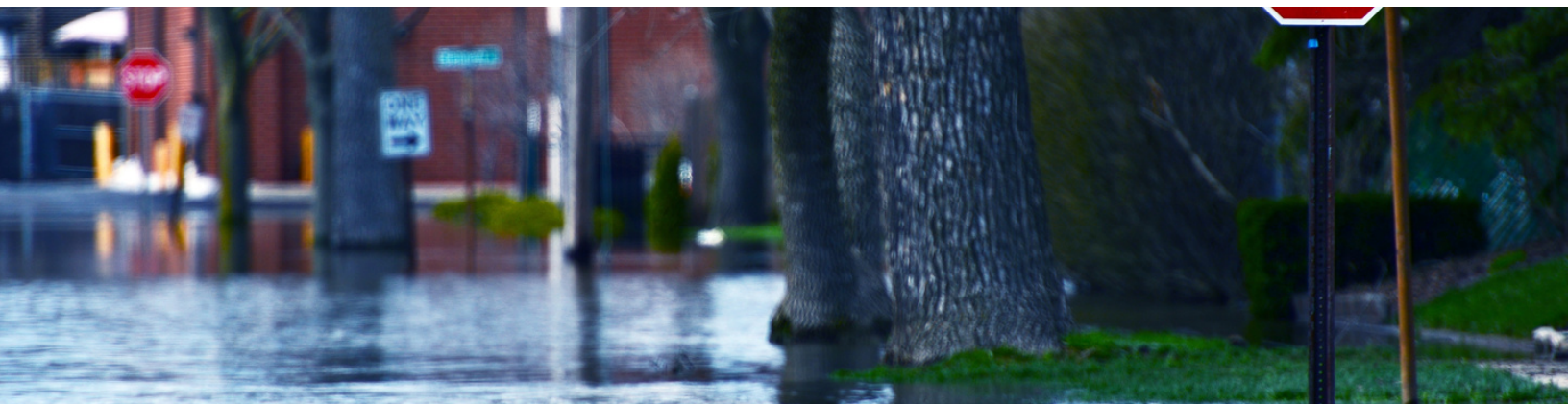
1. Following an incident, a policy should cover the cost of repairing or rebuilding the structure in which you live.
2. It should replace any belongings damaged or destroyed during an incident.
3. It should cover the cost of temporary living arrangements if your home becomes uninhabitable after an incident.
4. Finally, an effective homeowners policy should also provide adequate coverage in the event you or your family are liable for damages to another party so that it doesn't become an asset that's confiscated.

Though the adjustments process is always dynamic, it seems as though the perfect storm of variables have come together to create never before seen circumstances that make it extremely difficult to predict and justify the replacement value of homes and other personal assets. If homeowners don't revisit their policies to make adjustments for these increases, they might not have the coverage they need for losses, leaving them underinsured and paying for costly repairs out of pocket.



Determining the necessary amount of coverage requires careful consideration. Given the unprecedented historical events we've seen unfold in recent years, now more than ever before is the time to work with an experienced and trustworthy broker who can help you adequately determine coverage limits and create a risk mitigation strategy for the entirety of your risk profile.

[Contact us today to discuss your needs.](#)



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