

SURGING TIDES: PROTECTING YOUR BUSINESS FROM FLOOD RISK

Growing Flood Protection Gap and Carrier Capacity

Wildfires, hurricanes, snowstorms, earthquakes, and tornadoes – there's no shortage of natural disasters, all of which leave devastation and destruction in their wake. But of all the weather events, did you know that floods are the most common and costly natural peril in the United States?

When we consider the following, it's easy to see why:



- 90% of all natural disasters in the United States involve flooding
- 99% of U.S. counties were impacted by a flooding event from 1996 to 2019
- From 2000 through 2021, on average, at least one flooding event occurred in the U.S. on 300 days per year

Though we hear about headline-grabbing floods from large-scale events that occurred in late 2022, like Hurricane Ian, the historic floods that swept through Kentucky, or the atmospheric river storms that ran through California, the reality is that flooding is a persistent, year-round event in the U.S and globally. Besides tropical storms, common causes of flooding include heavy rain, overflowing rivers, mudslides, and fast melting snow.

With floods often inundating businesses, damaging infrastructure, and burdening local economies, it's clear that flooding is a serious natural disaster risk. Yet despite this reality, there's a huge gap in insured versus uninsured flood losses both domestically and abroad. Here's an overview of what that protection gap entails in dollars.

FLOOD PROTECTION GAP, BY THE NUMBERS

\$82 BIL.

Last year, global economic losses from floods amounted to \$82 billion, yet insured losses stood at slightly more than \$20 billion, indicating a large protection gap.

\$28 BIL.

In the U.S. alone, floods accounted for \$28 billion in total losses from 2018 through 2023, which doesn't include flooding losses related to hurricanes.

>5%

Despite the prevalence of floods, less than 5% of small to mid-size business owners in the U.S. have flood insurance.

67%

With the help of climate modeling, an analysis from First Street Foundation found that 30 years from now, losses from floods will increase by about 67%.

MIND THE GAP – CAUSES OF THE GROWING FLOOD RISK PROTECTION GAP

Several factors are to blame for the low uptake of flood insurance:

1. Business owners may think that their commercial property insurance covers flooding, when in reality, flooding is usually an excluded natural peril for this coverage.
2. There may be a misconception that the business is at a lower risk for flooding than it is.
3. Many industry experts also blame the Federal Emergency Management Agency's (FEMA) new flood rating system, Risk Rating 2.0, for decreasing the adoption of flood insurance. Risk Rating 2.0 is a pricing calculation restructure 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. Given that the NFIP currently has [\\$20.5 billion in debt](#), FEMA also hoped that the new pricing structure could translate to improved financial performance for the NFIP.



The vast majority of business owners who do purchase flood coverage get it through the National Flood Insurance Program (NFIP), which is administered by FEMA.

Unfortunately, Risk Rating 2.0 has led to pricing increases for many policyholders. With inflationary pressures and the threat of recession, more companies are struggling to meet growing operational expenses. Forgoing flood insurance might seem like a viable compromise given the circumstances. NFIP data indicates a [4% drop in policies](#) from September 2021 to September 2022.

The NFIP also has a standard limit of \$500,000 for commercial flood policies. If the flooding from a natural disaster is great enough, it's easy to see how this limit could lead to a coverage gap for your business. In the face of growing flood risk due to extreme weather events and increasing rebuilding and repair costs due to supply chain issues, labor costs, and inflation, underestimating this natural hazard can be a very costly mistake.

Though more private carriers are beginning to sell flood insurance, there's still a discrepancy between coverage options and the risk at hand.



To better understand the flood risk your business faces, your coverage options, and appropriate loss control measures, connect with one of our Commercial Risk experts today.

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