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Private firm selling flood insurance in Florida

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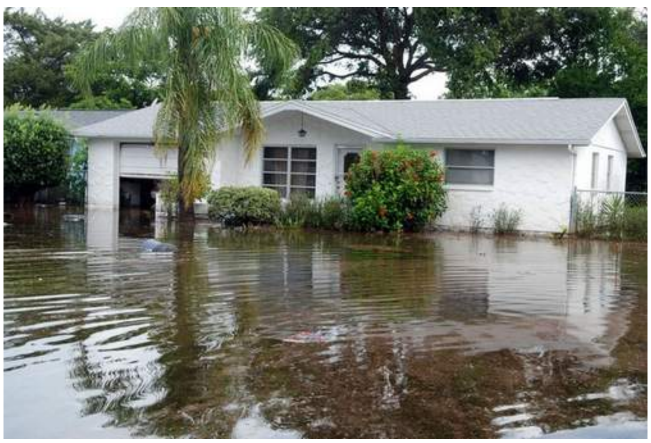

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Longtime insurance agent Evan Hecht says his company, The Flood Insurance Agency, can offer premiums at about $2,200 for homes in Gulf Coast communities, even for some low-elevation properties facing rates exceeding $20,000.

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For thousands of homeowners facing steep increases in federal flood insurance premiums, there may be a glimmer of hope from the private market.

A Gainesville-based insurance agency announced this week it will offer a lower-priced alternative to the National Flood Insurance Program for many older homes subjected to rate increases that may reach tens of thousands of dollars in some cases.

Longtime insurance agent Evan Hecht says his company, The Flood Insurance Agency, can offer premiums at about $2,200 for homes in Gulf Coast communities, even for some low-elevation properties facing rates exceeding $20,000.

He started offering policies statewide Wednesday, with plans to expand to other states.

The new option isn't risk-free, though. Known as surplus lines coverage, it's a less-regulated form of insurance that's historically been offered in high-risk situations that many companies refuse to assume.

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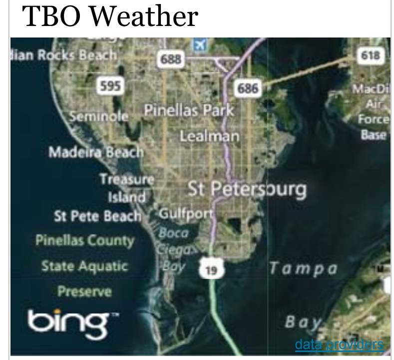

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Unlike so-called admitted insurers, whose policies are guaranteed financially by the state, if a surplus lines company goes bankrupt, claims simply don't get paid.

State regulators, though, say the new program, backed by underwriters at Lloyd's of London, is financially strong and could prove one of the only alternatives for thousands of Floridians saddled with exorbitant premiums.

“It certainly isn't going to solve the problem with the national program, but what it will do is provide relief for some homeowners who need to purchase flood [insurance]. It will give them a viable option,” said Richard Koon, deputy commissioner of the Florida Office of Insurance Regulation.

So far, The Flood Insurance Agency seems to be the only private company selling basic flood insurance in Florida. Koon said he isn't aware of any others.

“That doesn't mean there aren't some others out there in the surplus market that may be writing this,” he said.

Historically, the role of private insurance has mostly been limited to expensive policies in excess of the $250,000 limits in the federal program. The private market has also taken over policies from the federal program when homeowners let their policies lapse and their lenders sign them up for what's known as a force-placed private policy.

A few companies have expressed interest in offering basic flood coverage in competition with the National Flood Insurance Program in recent years due to advances in modeling technology that can better identify a property's true risk, said Jeffrey Czajkowski of the University of Pennsylvania's Wharton Center for Risk Management and Decision Processes.

Hecht, who has been selling flood policies for decades for the federal program, said the opportunity comes from homeowners who enjoyed artificially low rates for years but are now floored by sudden, excessive premiums, which he calls “anomalies.”

“It caused heartache for a limited number of people, and I wanted to solve the heartache for a limited number of people,” he said.

“We don't think the anomalies are a true representation [of risk].”

Lloyd's, one of four major players in the U.S. flood insurance market, identified the prospect of selling standard flood policies in 2012, noting a provision in the Biggert-Waters Act that would force lenders to accept private flood insurance, provided it's equivalent to the national program.

The Federal Reserve System and other regulators are seeking public input before they enact those rules this year.

Hecht said his company's policies offer identical coverage to the federal policies and almost all lenders accept private policies.

The private coverage won't necessarily be cheap in high-risk places, but it will be less than the alternative for many property owners.

In noncoastal flood zones along Florida's Gulf Coast, a $150,000 policy would cost $2,228 a year, though the price would be higher for homes along the water at risk of storm surge, Hecht said.

No elevation certificate is required for eligibility, though homes that have had past flood losses won't be covered, Hecht said. Coverage isn't available for condos and commercial properties.

The lack of regulation is one reason it appears financially viable for surplus line companies such as Lloyd's to offer flood coverage, said Simon Irving, a London-based insurance broker working with Hecht.

While state regulators make sure surplus lines insurers are licensed, they have no oversight over rates. The Florida Insurance Guaranty Association, which pays out claims when companies become insolvent, doesn't back these insurers' policies, meaning homeowners must independently assess the company's financial viability.

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Consumers are advised to visit the website of the Florida Surplus Lines Service Office, a state-mandated nonprofit group that oversees these insurers, to research their backgrounds and financial ratings.

As for policies backed by Lloyd's, a more than 300-year-old insurance company, customers should have confidence that the product will match the federal program, Irving said.

“At no point would our coverage deny a claim that would have otherwise been paid underneath the NFIP program,” said Irving, a director at THB Group Limited.

Hecht reached out to state regulators six months ago about the new program. Despite having fewer safeguards, surplus lines insurers such as Lloyd's often have more capital behind them than those overseen by the state, Koon said.

Koon's office is working on guidelines that will clarify requirements so that state-regulated insurers can write flood policies.

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