## The Risks of Online Sales of NFIP Policies

The functionality of National Flood Insurance Program (NFIP) relies heavily on a structure involving Write-Your-Own (WYO) carriers, which write nearly 90 percent of all NFIP policies. WYO carriers contract with independent agents to sell and service those policies; independent agents are the salesforce of the NFIP. Agents with comprehensive NFIP expertise are rare and valuable, and their counsel is vital to consumers. The agent-WYO relationship benefits consumers in countless ways.

**Risk Rating 2.0 (RR2) has complicated the NFIP.** FEMA left agents with few of the resources they needed to make the substantial changes to their business practices that were necessary to implement RR2. Now, FEMA's proposed direct-to-consumer (D2C) model would require even more changes. This is not the time to burden FEMA or its partners with another expensive experiment.

**Consumers would benefit from plain language FEMA deliverables on rating variables, mitigation credits, Special Flood Hazard Areas (SFHAs), and Elevation Certificates (ECs).** FEMA should table D2C until it can thoroughly address the significant challenges still facing NFIP consumers. FEMA's focus should be on delivering a simple, non-binding rate estimator that could provide the public with a likely range of premium rates for an NFIP policy using parameters like the RR2 rating factors, which could be entered and adjusted by a consumer.

**Information Imbalance Works Against Consumers.** Flood risk misinformation is everywhere, and consumers sometimes mistakenly believe their homeowners' insurance covers flood losses right up until they have a loss. D2C risks cutting consumers off from agents, the people most likely to give them the facts about flood insurance. RR2 challenged consumers, even though carriers and agents shouldered most of the burden of its implementation. D2C will cause confusion among all consumers, but it will be most damaging for low-information consumers. D2C purports to be directed at improving the consumer experience, but the proposal fundamentally misunderstands the amount of information a prospective NFIP policyholder has about their own property.

**Consumers lack the data required to generate a flood policy quote.** Extensive, specific data is needed to generate a flood policy quote for a specific property. That data includes:

- Foundation type (chosen from among six possibilities)
- Presence and number of flood openings, depending on foundation type
- Date of construction
- Existence and identification of any "substantial improvements," a term of art meaning any reconstruction, rehabilitation, addition, or other improvement of a building, the cost

of which equals or exceeds 50 percent of the market value of the building before the start of construction of the improvement
- Construction type (chosen from among three possibilities)
- Floodproofing status
- Eligibility for Machinery and Equipment (M&E) elevation discount
- Square footage
- Number of floors
- Building replacement cost, including foundation

Each of these data points is accompanied by voluminous explanatory material in the NFIP Flood Insurance Manual intended to assist agents in writing these policies. D2C presumes that consumers will have somehow acquired both the data points themselves and an understanding of the complex rules that govern the determination of each.

If a consumer has an Elevation Certificate (EC), depending on the part of the EC they are relying on, the consumer may also be asked for the following additional characteristics of their property:

- First floor height (FFH) in feet
- Building Diagram Number
- Lowest Adjacent Grade (LAG)
- Lowest Floor Elevation (LFE)

The typical consumer is unlikely to have most, if not all, of this information, and FEMA has not explained how the D2C system will address missing information in a consumer application. This represents a fundamental weakness in the D2C proposal: if consumers can complete the purchasing process without supplying all the necessary information, they are likely to inadvertently buy a product that is unsuitable for their property. If, on the other hand, they are barred from completing the purchasing process because they lack some or most of the required information, they are unlikely to stop to gather the missing data and eventually return to the D2C process. On the contrary, consumers who are unable to finalize the purchase of a flood policy in a single sitting are probably going to entirely abandon the process of purchasing flood insurance.

**Flood insurance is different from other types of property/casualty insurance.** The concept of purchasing insurance online is not new; some auto insurance companies have been selling insurance online for several years. However, no one provides homeowners with an instruction manual that lays out the essential details they need to know about their homes before they purchase an NFIP policy. The D2C format will not provide a prospective policyholder with an independent agent to guide them through the process of identifying their home's foundation type or their eligibility for an elevation discount.

**Online Sales Portal Could Reduce Total Number of Policies in Force (PIF).** Details on this initiative are scarce, but the complexity of the NFIP policy purchasing process will likely prompt consumers to give up during the online process if they encounter a question they cannot answer or if the D2C system produces a rate they consider exorbitant or somehow inaccurate. This could exacerbate the rapid decrease in NFIP policy counts prompted by premium increases caused by RR2.