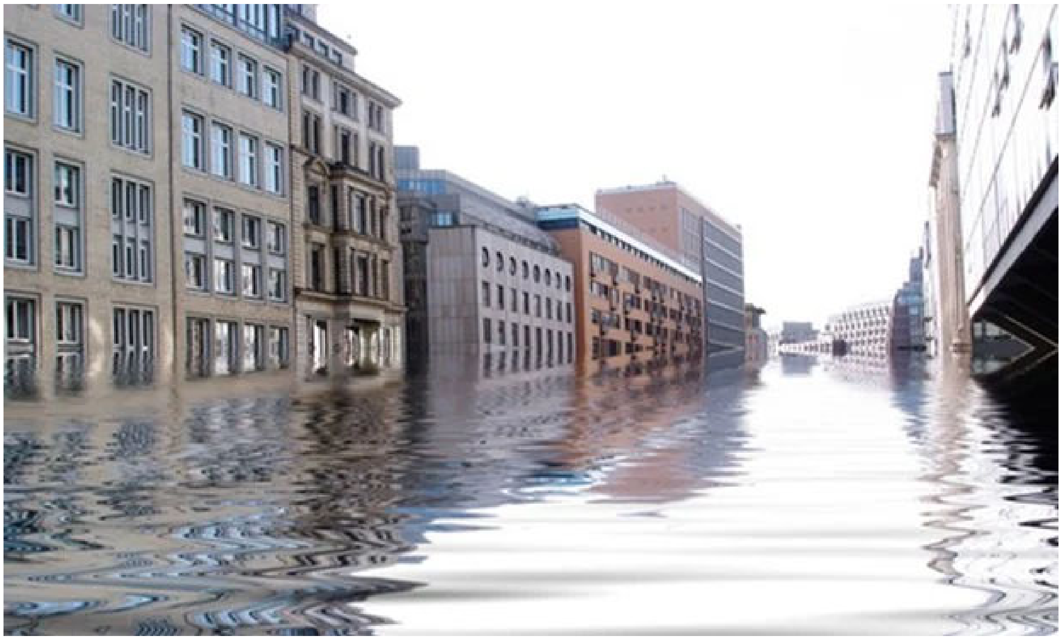
# How insurers can — and should — close the global flood protection gap | PropertyCasualty360

*Patricia L. Harman | November 28, 2022*



In the U.S., where 90% of natural disasters result in flooding and flood insurance is typically excluded from standard home insurance policies, the coverage gap for flooding is already enormous and poised to grow larger still. (Credit: Petrov Stanislav/Shutterstock.com)

In the decade since Superstorm Sandy devastated the Northeast U.S., we have had many reminders of the severe damage caused by extreme weather events.

Just this year, Hurricane Ian delivered economic losses of between $50 billion-$75 billion, according to RMS, a Moody's Analytics company. That makes it the most destructive storm to ever make landfall in the Sunshine State.

Human suffering, ranging from mortality and serious injury to unemployment and homelessness, rightfully receives the majority of the attention, but a clear assessment of the economic impact provides compelling evidence that society needs a new approach to protecting against, preparing for and responding to all kinds of natural disasters, especially floods.

Swiss Re has estimated that floods cost the global economy $82 billion in 2021 alone, only $20 billion of which was insured. In emerging markets, the proportion of covered losses is even smaller. According to the Emergency Events Database, there were more than 220 floods in 2021, well above the average of 163 for the previous 20 years. These statistics show how the frequency and severity of extreme weather events continue to increase. The First Street Foundation has predicted that the economic damage from flooding will grow 61% over the next 30 years.

Floods increasingly affect critical infrastructure. All three major airports in the New York Metropolitan area faced severe flooding after Sandy, with nearly 10,000 flights canceled. In Japan, Kansai International Airport was inundated after a 2018 typhoon.

Flooding is a truly global problem. Asia is the most vulnerable region, with the greatest economic losses historically and the largest populations likely to be displaced. According to Swiss Re, Asian countries also have the lowest rates of flood insurance; only 7% of all flood losses in the last decade were covered by insurance. In Europe, that figure was 34%.

But Europe’s flood risk is on the rise. The World Bank has predicted large increases in the annual economic damage for both Germany (25%) and France (21%). Other advanced economies also face increased risk. With more rainfall in the U.K., the millions of homes and businesses in at-risk zones will face ever-larger repair tabs.

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Climate risk once seemed like a concern for the future, but the insurance industry and society as a whole are being forced to come to terms with the realities of large-scale flooding.

## What can be done about it?

The way forward will involve a powerful combination of richer datasets, advanced technology, product innovation and new thinking. Indeed, forward-looking insurers are already exploring how data-driven insights and the principles of behavioral science can help drive better outcomes in flood insurance.

While climate events remain unpredictable, we know more about weather patterns than we ever have. That knowledge — based on the use of GPS, satellite technology and the Internet of Things — has given insurers the insights they need to more accurately assess, underwrite and price flood risks, which enables the development of badly needed new products and solutions.

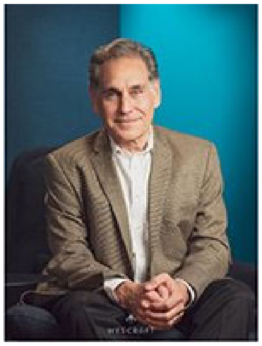
These technologies, alongside ubiquitous mobile devices and the use of drones, also make it possible for insurers to pay claims much more quickly. That can be a real advantage for low-income and minority communities, which are particularly vulnerable to hurricanes and other climate-driven events.

The U.K. government and insurance industry has developed a program that offers incentives for homeowners in areas vulnerable to flooding to install flood resilience measures. Community-based catastrophe insurance policies are being developed via public-private partnerships in the U.S. to make flood coverage more affordable for families and businesses and shorten the time to financial recovery after floods.

Parametric insurance is another promising innovation. These policies automatically trigger claims payouts when certain conditions are met, regardless of damage and with no need for a physical assessment of covered property or assets. In this sense, parametric insurance can expand access to flood coverage and get money to claimants faster. Designing the right parameters for flood insurance is complex, but the presence of sensors in covered properties is helping these policies work as intended.

New products alone won’t solve the massive flood protection gap. Insurers must also work to make all of their policyholders — personal and commercial — aware of the risks they face, the best ways to protect themselves and how they can reduce the likelihood and magnitude of claims. Zoning, land use and building requirements are areas where insurers can offer incentives and engage in public-private partnerships to make a difference.

Change on this scale requires all stakeholders to think differently. Some may think of insurance companies as slow-moving and risk-averse. But no other industry has the combination of risk expertise and analytical capabilities to deliver advance notifications, real-time risk insights and preventive services that can minimize the impact of superstorms. Insurers can — and must — help people and communities understand their exposures and take action to protect themselves.

 Seth Rachlin, Ph.D. of Capgemini. (Credit: Courtesy photo)

Not that insurers will act alone. They will collaborate with insurtechs and other partners, including banks, national and global business leaders and government authorities, to find solutions that prevent risk, rather than simply covering the losses that are growing larger every year and occur every hurricane season. Academia, community organizations, local businesses and families all have roles to play in making floods less disruptive to individual lives, and to local and national economies.

Insurers have long viewed flood risk as uninsurable, and some industry analysts suggested that insurers might exit the Florida market altogether in the wake of Hurricane Ian. That would be a mistake, in our view. With new approaches and new tech, the industry can do a great deal more to fill a vital societal need, while simultaneously growing its business.

It might be something of a cliché to say business can do well by doing good. But in the case of the coverage gap for flood risk, that cliché is very much true.

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