



The Real Estate Roundtable

Commercial Insurance Coverage in an Evolving Threat Environment

Capital and Credit

Summary

The proliferation of natural catastrophe threats has raised concerns about commercial insurance coverage for real estate. These concerns have highlighted the lack of—and need for—insurance capacity and various lines of commercial insurance. Risks from natural disasters like floods, hurricanes, wildfires, hail, tornadoes and drought cost the U.S. billions of dollars each year. Even if policyholders are able to find coverage for these various lines, prices are increasing dramatically. A lack of adequate coverage will lead to economic uncertainty, harm stakeholders, and undermine the growth of communities.

The budget debate in Congress has called into question the future of the National Flood Insurance Program (NFIP), which is subject to temporary funding extensions and must be reauthorized by September 30, 2025.

RER, along with its industry partners, continues to work constructively with policymakers and stakeholders to address market failure and enact a long-term reauthorization of an **improved NFIP**.

Key Takeaways

- The increased frequency and severity of natural disasters is leading to increased premiums for commercial properties.
- As economic losses caused by disasters increase, it is important to find new strategies in order to effectively manage natural catastrophe risk.
- Expanding coverage gaps and increased costs present challenges for businesses across many industries, including real estate.
- Without adequate coverage, the vast majority of natural catastrophe losses **are likely to be absorbed by policyholders**. These widening coverage gaps and price hikes bring about serious economic concerns about protection gaps, coverage capacity, and increased costs from natural catastrophes and business interruption losses.
- Commercial property owners can take steps to mitigate the risk of natural disasters and potentially lower their insurance costs.

Background

Current Insurance Environment

- Real estate insurance rates have spiked, with consecutive quarterly increases in overall premiums.
- The nation has seen years of atypical weather patterns and historic losses from natural catastrophes attributed to climate change—economic damages have tripled in cost from just 10 years ago.
- High reinsurance costs and a lack of reinsurance capacity also contribute to higher premiums.
- The U.S. insurance industry is regulated at state-level, with no central federal regulation.

National Flood Insurance Program (NFIP)

- Floods are the most common, costliest natural peril in the U.S. The NFIP was enacted in 1968 due to a lack of private insurance and increases in federal disaster aid.
- The Program is administered by the Federal Emergency Management Agency (FEMA) and is essential for homeowners, renters, and small businesses in affected areas.
- Under the NFIP, commercial property flood insurance limits are low—\$500,000 per building and \$500,000 for its contents. NFIP has approximately 5 million total properties, and only 6.7 percent are commercial.



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Nearly 70 percent of NFIP is devoted to single-family homes and 20 percent to condominiums. In the total program, 80 percent pay actuarial sound rates; however, in the commercial space, only 60 percent pay actuarial sound rates.

- Congressional hearings have **illuminated numerous acute problems** surrounding the NFIP, such as insolvency, increased risk of flooding across the country, and insufficient and inaccurate flood mapping. The unintended negative outcomes generated by the NFIP continue to grow and are now spreading to GSEs (government-sponsored enterprises) Fannie Mae and Freddie Mac.
- The NFIP is currently operating under a continuing resolution. Since 2017, Congress has extended the NFIP's authorization 33 times, though the program has lapsed briefly three times.
- As policymakers continue to debate potential changes and improvements to the program, their challenge is to find a balance between improving the financial solvency of the program, reducing taxpayer exposure, and addressing affordability concerns.

Recommendations

Enact a Long-Term Reauthorization of NFIP: The level of flood damage from recent storms makes it clear that FEMA needs a holistic plan to prepare the nation for managing the cost of catastrophic flooding under the NFIP.

- RER and its partners support a long-term reauthorization of an improved NFIP that helps property owners and renters prepare for and recover from future flood losses. NFIP is **essential** for residential markets, overall natural catastrophe insurance market capacity, and the broader economy.
- Going forward, it is important to protect American jobs and to ensure a **sustainable and speedy economic recovery** from future natural catastrophe events. If not remedied, these insurance gaps could hinder economic growth.

Increase Private Market Participation: By permitting certain private issue insurance policies to satisfy the NFIP's "mandatory purchase requirement" for properties in flood plains financed by loans from federally guaranteed institutions, commercial property owners would have the ability to "opt out" of mandatory NFIP commercial coverage if they have adequate private coverage outside the NFIP to cover financed assets.

- Lenders typically require base NFIP coverage, and commercial owners must purchase Supplemental Excess Flood Insurance for coverage above the NFIP limits. The NFIP's low commercial limits make it problematic for most commercial owners.
- As a result, RER has been seeking a **voluntary exemption** for mandatory NFIP coverage if property owners have flood coverage from commercial insurers.