Flood Insurance, Legislation and Implementations

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Remember this?

Des Plaines, IL
June, 2008
Illinois Floods

Quick Facts on Flooding

- 80% of Declared Disasters are flood related
- Illinois had had 9 flood related declarations in the last 10 years.
- A home in the SFHA has a 25-30% chance of flood during a 30 Year Mortgage
- Most property owners buy flood insurance only when it is mandated by lender
Illinois Floods

Flood Insurance In Illinois

- 878 Participating Communities
- 60 in CRS
  - All Class 8 - Class 5
- 45,571 Policies in Force
- 1,831 properties insured
- $8,580,356,600 in Coverage
- $7,670,863 Losses 2015
- $504,367,979 loss since 1978
RECENT LEGISLATION

Biggert-Waters Flood Insurance Reform Act of 2012
Homeowners Flood Insurance Affordability Act of 2014
Biggert-Waters Flood Insurance Reform Act of 2012

- Passed on July 6, 2012.

- Extended the National Flood Insurance Program 5 years, until September 30, 2017.

- Its purpose:
  - Make the NFIP more financially stable by raising rates on certain classes of property to reflect true flood risk
  - Create a funding pool for large disasters.
  - Trigger rate changes for certain properties, when certain events were met to accurately reflect the flood risk
Main Effect on Insurance

Move away from subsidy

- Pre-FIRM structures wrote at full-risk rates
  - Newly purchased policies required to go to full-risk rates
  - Elevation Certificates required for full-risk rating

- Annual Percentage Increase Policies
  - Cap rose on how high policies could go
  - Some had 25% and over rate increases

- Grandfathered policies phase-out (not subsidized)
  - Full-risk rate if mapped into SFHA
Impact of Biggert-Waters

- Newly purchased policies: Pre-FIRM policies were going straight to elevation based full-risk rates
  - Many policyholders had to purchase an elevation certificate to obtain and/or keep flood insurance
    - This additional expense could be burdensome
    - Didn’t have a positive elevation outcome
- Policies jumped in some cases by $1,000s
- Most other policy rate classes had a jump in rates, around 20% annually.
- We all started feeling the effects......

- Congress then tried to rectify the affects of Biggert-Waters and the impacts on homeowners
Homeowners Flood Insurance Affordability Act

- Passed March 21, 2014, President Obama signed into law
- Stop policy increases for certain subsidized policyholders
- Reverts full-risk rating for Pre-FIRM properties that hit full risk the triggers
- Set a Cap on how high policies can go in a given year
- Created refunds for policies that went over a cap
- Halts the elimination of Grandfathering (for now)
- Implements a surcharge on all policyholders
- Portions of HFIAA and B-W is being phased-in through time.
Rate Increases & Surcharges

Gradual Rate Increases

- Requires at least a 5% increase in subsidized rates a year
- Prohibits increasing rates by more than **15 percent** for any risk class and **18 percent** for an individual policy
- With some exceptions
  - Pre-FIRM non-primary Pre-FIRM
  - Severe Repetitive Loss
  - Pre-FIRM business properties
- Surcharges and Fees
Reserve Fund Assessment

- The Reserve Fund is aimed at assisting with the costs of NFIP claims that exceed the annual premiums collected and supporting the program’s sustainability.

- As of April 1, 2016:
  - 15 percent annual rate assessment calculated off of premium for all policies.
Mandatory Surcharges

- Applies to all policies
- Surcharges are not considered premium and are therefore not subject to premium increase caps required under Section 5 under the new Act
- Began April 1, 2015

<table>
<thead>
<tr>
<th>Category</th>
<th>Surcharge</th>
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<tbody>
<tr>
<td>Primary Residences/Condominium Dwelling Policy</td>
<td>$25</td>
</tr>
<tr>
<td>Non-Residential and Non-Primary Residence</td>
<td>$250</td>
</tr>
<tr>
<td>RCBAP and Other Residential</td>
<td>$250</td>
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Grandfathering

- HFIAA restores ability to grandfather properties into lower risk classes
  - For newly mapped properties, the law sets first year premiums at the same rate offered to properties located outside the SFHA (Preferred Risk Policy rates)
Properties Newly Mapped

- Properties newly mapped into the SFHA (Started April 1, 2015)
  - Between October 1, 2008, and March 31, 2015, are eligible for the Newly Mapped Procedure if they obtain coverage before March 1, 2016. (PRP Eligibility Extension)

  - New maps published after April 1, 2015 homeowner must obtain coverage within 12 months of the map revision date.

- Eligible properties begin with a Preferred Risk Policy premium for a year (before fees and surcharges)
  - Must meet loss history requirements of PRP
  - After initial policy year will get a multiplier added until it reaches full risk rates
  - May be able to have a standard X zone rated policy after (Grandfathering)
Residential Policy Deductible Option

- $10,000 deductible option is available for residential properties

- A disclosure must be made at the time of application
  - If selecting the $10,000 for a policy with both building and contents coverage, the deductible is $10,000 on each ($20,000 combined)
Flood Insurance Advocate

- Assists in understanding how to appeal preliminary rate maps and implementing measures to mitigate evolving flood risks;
- Coordinates outreach and education with local officials and community leaders in areas impacted by map amendments and revisions; and
- Aids potential policy holders in obtaining and verifying accurate rate information when purchasing or renewing a policy.

*Effective December 22\textsuperscript{nd}, 2014*

*Director of the Office of Flood Insurance Advocate*

David Stearrett

*It’s Official!*
This April

- Policy Rates will continue to go up in all rate classes

- Subsidized (Pre-FIRM, no elevation)
  - Non-Primary Residences Pre-FIRM A and V zones- 24%
  - Primary Residence- 5%
  - Business Class, SRL -25%

- Elevation based rates
  - Unnumbered A- 13%
  - AE-9%
  - AO, AH, AR, A99 -4%

- X zone, outside SFHA
  - Standard-3%
  - PRP- 5%

- Federal Policy Fee
  - $25 PRP and $50 Standard Policy
This April

- **Subsidy Elimination for Lapsed /Canceled Policies**
  - Previously covered by NFIP
  - Under same ownership
  - Lapsed more than 90 days then reinstated
  - Legally Required to carry a policy (Mandatory Purchase)

- **Clear Communications**
  - FEMA and WYO must clearly communicate to policyholders the risk of flood damage and how flood insurance premiums do or do not correlate with that risk
  - Insurance companies must keep current map information,
  - If available: EC, SFHD, LOMA/LOMR information
  - In October all companies must re-underwrite policies
Where Should It Stop?
Food For Thought

- Major flood events continue to happen
- HFIAA only slowed B-W changes, subsidy is phasing out
- Riding the subsidized rate increases up may surpass the true-risk rate
- Some private companies are insuring flood now
  - They can drop a policyholder if there are repetitive losses
  - If a lender is involved they have to approve the private policy
  - Some GSEs won’t accept a private policy
- Floodplain management and mitigation is still the best tool for risk reduction and insurance costs
  - Enforce Floodplain Management Rules
  - Set higher standards
Resources

- Flood Insurance reform page-

- NFIP I-Services
  - [www.NFIPiservice.com](http://www.NFIPiservice.com) (FEMA Bulletins, Reports, Training, Mailing Lists for flood insurance)

- Floodsmart –
  - [www.FloodSmart.gov](http://www.FloodSmart.gov)

- Map Service Center (including historic maps)
  - [www.msc.fema.gov](http://www.msc.fema.gov)

- FEMA NFIP Homepage
  - [https://www.fema.gov/national-flood-insurance-program](https://www.fema.gov/national-flood-insurance-program)

- New Elevation Certificate