April 1, 2016 – NFIP Changes
and How We Got Here

Presented by:
Brian T. Ford, CPCU, MBA of Insurance Resources
and Ashley Tharp of Wright Flood
How Did We Get Here?

• National Flood Insurance Program – 1/28/69
  • Goals
    • Prevent future loss of life & property
    • Reduce public monies paid for flood losses
  • Administrator: Federal Emergency Management Agency (FEMA)
• National Flood Insurance Reform Act of 1994
  • If a structure is located in a SFHA, insurance MUST be purchased with any federally assisted mortgage or with any mortgage offered by a federally regulated institution
How Did We Get Here?

Katrina (2005) – $16.2 Billion Paid
How Did We Get Here?

Sandy (2012) – $7.7 Billion Paid
Biggert–Waters Flood Insurance Reform Act of 2012 (BW12)

- Program was $24B in debt
- Extended the NFIP for 5 years
- Called for significant reform
- Supposed to deal with Program’s insolvency
- Desire was for premiums to reflect real flood (non-subsidized) rates
  - Premiums for homeowners would increase by 25% per year until reach rate to reflect true risk
- Required removing subsidies from commercial and secondary homes
- Results
  - HUGE premium increases
  - Scared coastal markets, especially real estate and small business, right when economy was coming back
Homeowner Flood Insurance Affordability Act of 2014 (HFIAA)

- Delayed flood insurance increases under BW12
- Homeowners could sell homes and pass subsidized premiums to the next homeowner
- Set plans for rate increases
- FEMA was supposed to come up with a plan to make premiums more affordable and reassess maps
April 1, 2015 NFIP Changes

- Rate increases
  - Individual policy premium increases capped at 18% (before annual surcharge and a Federal Policy Fee)
- Reserve Fund Assessment Increase
- HFIAA Surcharge
  - Primary residence: $25
  - Non-primary residence: $250
  - Multi-family residential (condo): $250
  - Non-residential: $250
- Federal policy fee increase
- New deductible option: $10,000
April 1, 2016 NFIP Changes Overview

- 5 Major Changes
  - Premium increases!
  - Federal Policy Fee Increases
  - Policy Lapse Rule
  - Subsidy elimination
  - Clear communications
Premium Increases

- Average residential premium increase is 9% and the average non-residential increase is 25%
  - Variables: flood zone, year built (Pre vs. Post-FIRM), and property type
- Flood zones and their average premium increases
  - V Zone
    - Pre-FIRM: 5%
    - Post-FIRM: 10%
    - Pre-FIRM Non-Primary: 24%
  - AE and A1–A30 Zones
    - Pre-FIRM: 5%
    - Post-FIRM: 9%
    - Pre-FIRM Non-Primary: 24%
  - X-Zone
    - Standard Rated: 3%
    - Preferred Risk: 5% decrease
- Increases do not take into consideration the probation surcharge, Federal Policy Fee, or the HFIAA surcharge
Federal Policy Fee (FPF) Increases

• Federal Policy Fee: flat charge each policy holder pays to pay for NFIP administrative expenses
• Increases are being seen for all property types
• Preferred Risk Policies: $22 to $25
• Standard-rated policies: $45 to $50
• Condominiums
  • 1 unit: $50 ($5 increase)
  • 2–4 units: $150 ($15 increase)
  • 5–10 units: $400 ($80 increase)
  • 11–20 units: $800 ($80 increase)
  • 21+ units: $2,000 ($200 increase)
Policy Lapse Rule

- Lapse = when payment is received 30 days past the policy expiration date, but within 90 days of that expiration date
- If there is only 1 lapse, FEMA will not require re-underwriting of the policy
- If there is a 2nd lapse, the policy will be subject to full risk rating (Pre-FIRM policies will require an EC)
- Only applies for lapses that occur after April 1, 2016 for policies active as of April 1, 2016
- Rule can only be used 1 time per policy (regardless of ownership changes)
Subsidy Elimination

- Pre–FIRM policy that has lapsed as a result of non-payment for over 90 days is ineligible for reinstatement with Pre–FIRM subsidized rates
- Property covered by a non–NFIP policy purchased in the private market for a period longer than 120 days after NFIP coverage has expired is considered to have lapsed from the NFIP, thus losing the ability to return to the NFIP at the subsidized rates
Clear Communications

• Changes were implemented to improve the understanding of the risk of flood damage and how flood insurance premiums do/do not correlate with that risk
• Insurers now have to verify & report current flood zone and current FIRM information including the Base Flood Elevation
• Verification & review will be done in 2 phases starting October 1, 2016
Questions – Contact Us

Brian T. Ford, CPCU, MBA, ARM
• Position: Account Executive
• Phone: 727-345-0242
• Email: bford@insuranceresourcesllc.com
• Website: www.insuranceresourcesllc.com

Ashley Tharp, AIS, AINS, ANFI
• Position: Corporate Agent Training Manager
• Phone: 866-373-5663 x5510
• Email: ashley.tharp@weareflood.com
• Website: www.wrightflood.com