Connecticut Association of Flood Managers Conference

Flood Insurance Reform: Where the Rubber Meets the Road!

October 21, 2015, Westbrook
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IT'S OUR NEW FLOOD INSURANCE CLAIMS APPEAL PROCESS.
Why Changes to the NFIP Rates?

- 45 years later, costs of flooding are increasing, program is in debt, not sustainable in the future
- Artificially low rates & discounts no longer sustainable
- In July 2012, Congress passed the Biggert-Waters Flood Insurance Reform Act (BW12), to make the program more financially sound over the long term.
- In March 2014, Congress enacted the Homeowners Flood Insurance Affordability Act (HFIAA) which revised sections of BW12 and added new reform
Biggert-Waters Flood Insurance Reform Act of 2012

BW12 signed into law July 6, 2012

• Targeted Pre-FIRM structures to pay actuarial rate
• 25% increase for commercial, non-primary residence, severe repetitive loss properties (SRLP)
• Actuarial rating at sale of property or new policy
• Increased annual rate cap from 10% to 20%/year
• Reserve Fund – additional 5% of premium
• Start to phase out grandfathered rates October 2014

Elevation Certificates required for rating
Pre-FIRM versus Post-FIRM

**FIRM** = Flood Insurance Rate Map

**Pre-FIRM**
- Built before initial FIRM
- Subsidized Rate, not rated with elevation data

**Post-FIRM**
- In Compliance as New Construction or Substantial Improvement
- Built on or after the initial FIRM
- Actuarial Rate
Rating Examples: Impact of Loss of Subsidies

45% of CT policies are subsidized, 20% nationally.

- **Subsidized**
  - $2,235/yr (1 foot above BFE)
  - $2,235/yr (1 foot below BFE)
  - $2,235/yr (10 feet below BFE)

- **Actuarial**
  - $819/yr
  - $5,623/yr
  - 25,000+/yr

Building $200,000 and Contents $80,000 (2012 rates)
Example of how NFIP rates may increase when the Biggert-Waters Flood Insurance Reform Act of 2012 is implemented.
Flood Insurance
#%@+*!&!
Fallout from BW12

• Seen as “too much, too soon”.
• Sale of homes in floodplain were difficult, especially in coastal towns.
• Realtor organizations lobbied for reform.
• Property owners felt rates rose too sharply.
• Muddled with Sandy recovery and new maps.
• Pressure was put on Congress to provide relief in the form of revised legislation.
Homeowner Flood Insurance Affordability Act of 2014

- HFIAA signed into law on March 21, 2014
- Repeals or modifies some BW12 provisions
- Adds some new provisions
- Maintains long term goal of removing subsidized rates
Affordability
HFIAA – What Stayed the Same?

- 25% annual increase for commercial, SRLP, non-primary residences until actuarial rate achieved. (definition for a non-primary [seasonal] residence changed from 80% to 50% annual occupancy)

- Reserve Fund – additional 10% - 15% of premium (increased from 5% initially in 2014)
HFIAA – What Changed?

• Repeals actuarial rate at sale/new policy
• Restores grandfathered rates
• Rate increases lowered to 5-15%/year per class
• Added annual surcharge of $25 residence, $250 commercial and secondary home
• 18% annual rate cap on any individual policy (includes Reserve Fund 10%, excludes surcharge)
• Raised deductible limit to $10,000
• Elevation certificates not required for rating
FEMA Flood Insurance Advocate

- HFIAA established Office of Flood Insurance Advocate
- Educates residents on flood map appeals
- Aids policyholders with accurate rate information
- Assists with complicated claims issues
- Office established December 22, 2014
- Contact by email: insurance-advocate@fema.dhs.gov
What do these HFIAA changes mean?

- Pre-FIRM structures - Almost guaranteed to max out at 18% per year rate increase (min. 5% rate increase & 10-15% reserve fund)

- Post-FIRM structures – Actuarial rate, still subject to surcharge ($25 or $250) and 10% reserve fund. These policies also subject to 18% annual rate cap but rates aren’t quite there yet, but they are starting to see double digit increases.
Policy Counts Dropping Nationally

- 5% surcharge added to support reserve fund
- 25% increase also now applies to pre-FIRM non-residential and SRLPs in SFHA and Zone D
- PRP Extension rates jumped 10%
- New and renewals for pre-FIRM policies in SFHAs and Zone D that are newly purchased, for a newly purchased building or lapsed are charged at full-risk rate

All premiums in excess of the mandated caps are decreased to comply with HFIAA; Start refunds

Pre-FIRM subsidized rates are restored back to 10/1/13 rates for new and renewal policies

Next 25% increase hits non-primary homes

HFIAA is signed into law

BW-12 passes

- 25% rate increase is effective for new and renewal policies for pre-FIRM non-primary residences in SFHA and Zone D

Recession Dec '07 to June '09

- Hurricane Katrina
- Hurricane Ivan
- Hurricane Wilma
- Hurricane Rita
- Tropical Storm Irene
- Tropical Storm Sandy
- Superstorm Sandy
- Hurricane Lee

Unemployment

Number of Foreclosures

New Home Sales

FEMA
Identification of Business Properties - 25% increase

- Insurance application form now asks if the property is a business (previously only categories were residential or non-residential)

- Business means a building were a licensed commercial enterprise is carried out to generate income

- Targeting older, Pre-FIRM commercial properties
I GOT A ROCK!
Overall Program Concerns

• Property owners are dropping flood insurance coverage due to high costs.
• Program is again losing revenue, fewer policies.
• Less flood insurance coverage leads to more requests for federal disaster assistance, and assistance from state and local relief agencies.
• Less flood insurance coverage may make it harder for residents without deep pockets to rebuild and recover after a flood event.
Concern for Municipal Officials

- Insurance costs will increase over time for older, non-mitigated structures, unable to pay premium.
- Letter of Map Amendment (LOMA) requests.
- More requests for FEMA mitigation grants/$$.
- Pressure to join Community Rating System (CRS).
- Homes in floodplain areas may be difficult to sell.
- Home values may decrease, leading to decrease in the property tax base for local governments.
- More complaints from businesses on high rates.
For Consulting/Design Professionals

• More requests for Elevation Certificates (new EC coming very soon, form expires Oct. 31, 2015)
• More requests for LOMA applications.
• More work involving design of elevations or flood mitigation projects.
All bets may be off in 2017 . . .

- As the NFIP is up for re-authorization in 2017.
- More changes may be coming.
- Potential political football.
Questions? Complaints?

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