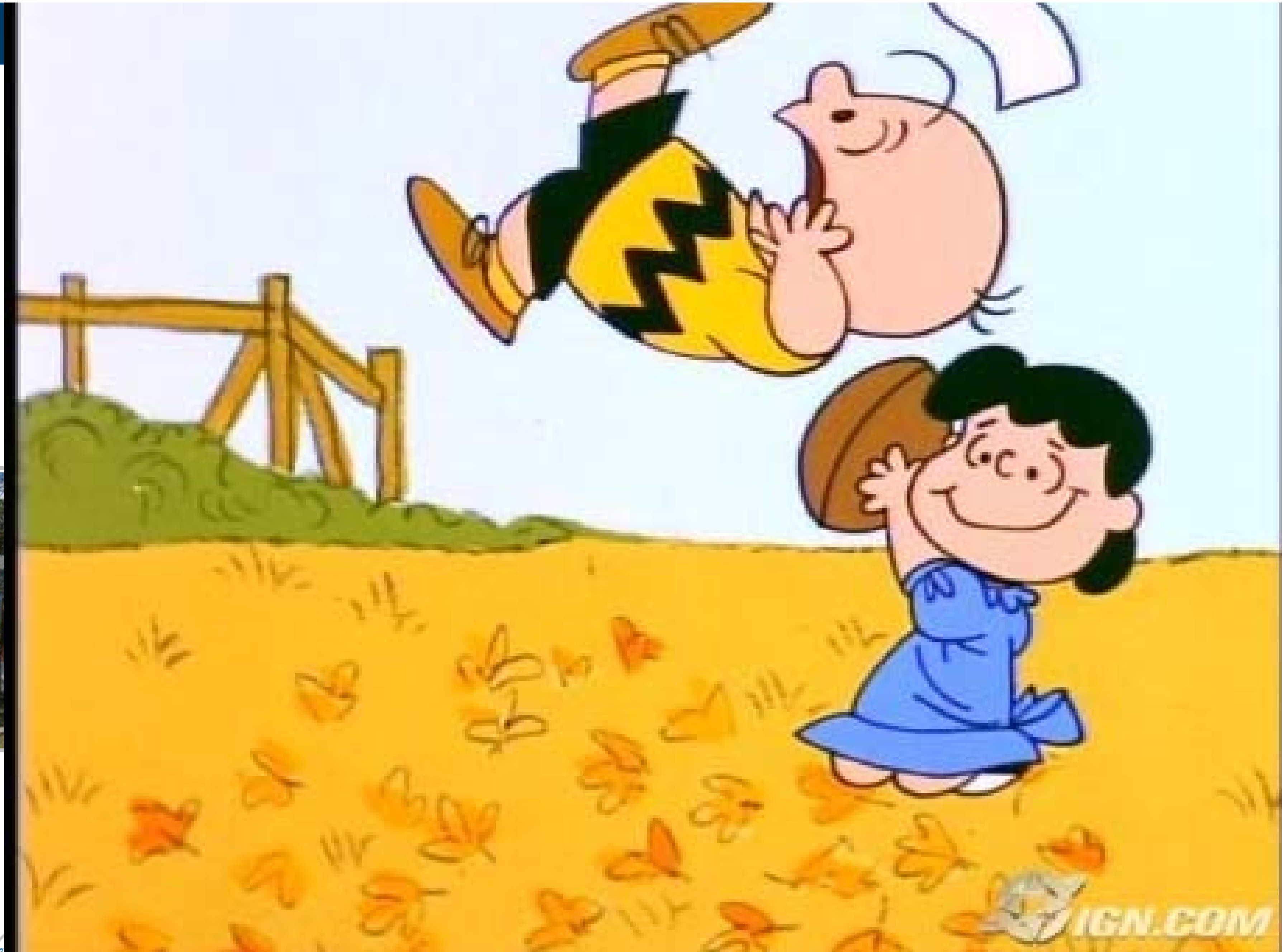

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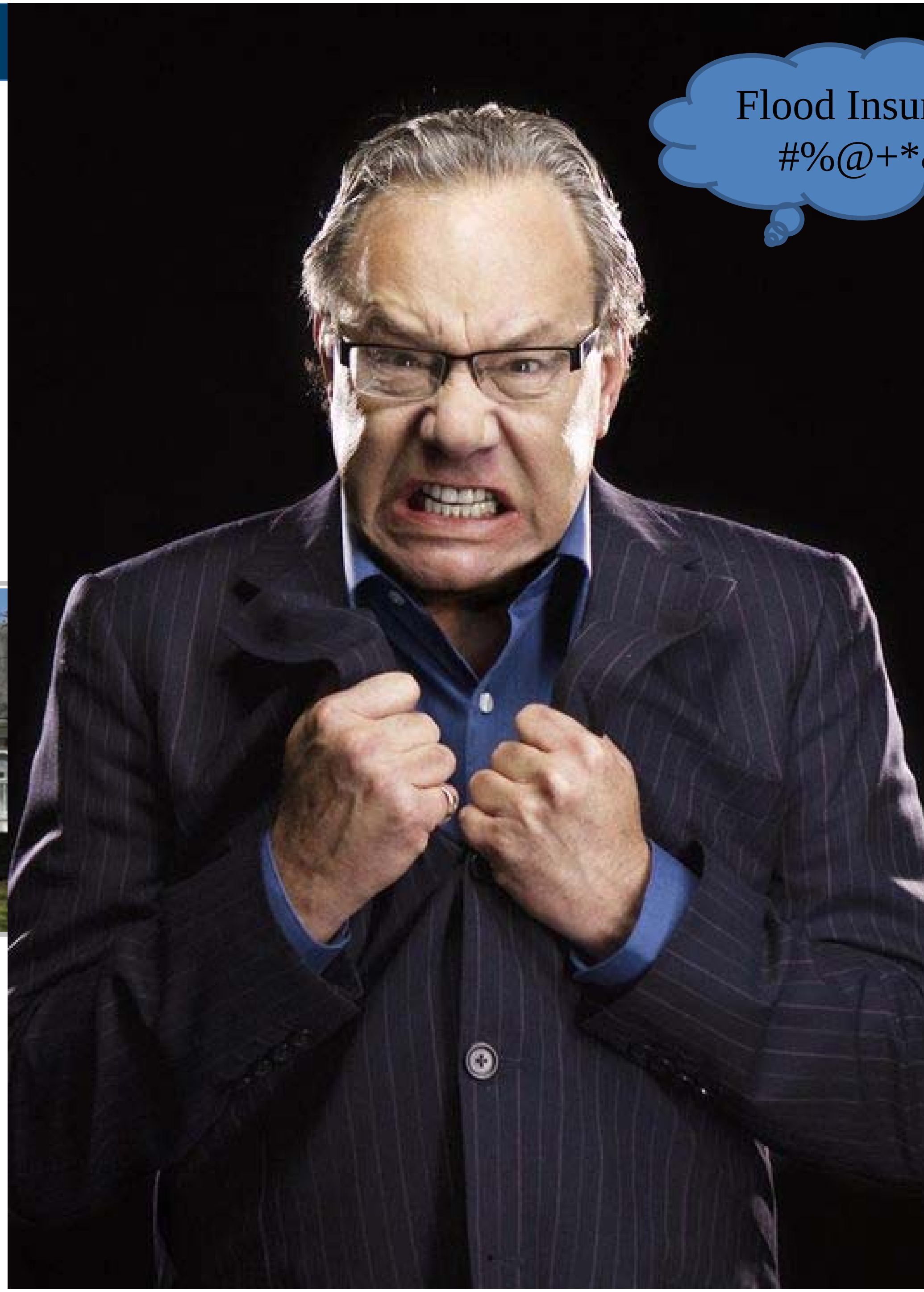
Affordability



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IT'S OUR NEW FLOOD INSURANCE CLAIMS APPEAL PROCESS.
FEMA
'06
Natural Hazards OBSERVER

Questions? Complaints?

Diane Ifkovic
State NFIP Coordinator
diane.ifkovic@ct.gov
(860) 424-3537

State of the NFIP

10/25/2016

NATIONAL FLOOD INSURANCE PROGRAM

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FEMA Region I, Boston
Robert.Desaulniers@FEMA.DHS.Gov

National Flood Insurance Program

FEMA

By The Numbers

- **Flood policies in Force:** 5,068,292 (-1.1%)
  CT 39,382 (-5.3%)
- **Insurance in Force:** $1,244,989,052,100
  CT $9,874,806,000
- **Part. Communities:** 22,210
-
  CT 177
- **Cash On Hand:** ~$ 1 Billion
- **Available to borrow:** $ 7.425 Billion
- **Outstanding borrowing:** $23 Billion

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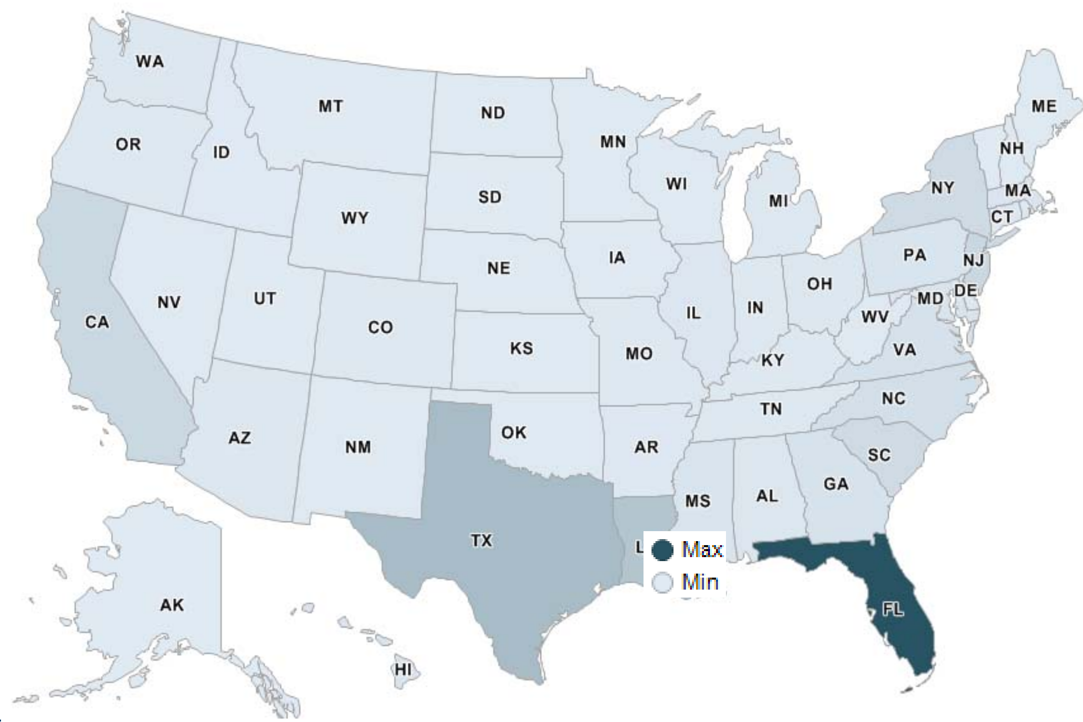
Policies-in-Force By State

The top five states that account for 66% of total PIF:

- Florida - 37.0% of PIF
- Texas - 11.4% of PIF
- Louisiana - 9.0% of PIF
- New Jersey - 4.5% of PIF
- California - 4.4% of PIF
- CT - .8%



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Decline in Policies in Force

- Cost increases
- Complicated rules
- Mandatory purchase enforcement
- Fewer mortgages
- Private markets
- Force Placed
- Lack of floods
- Brand Issues

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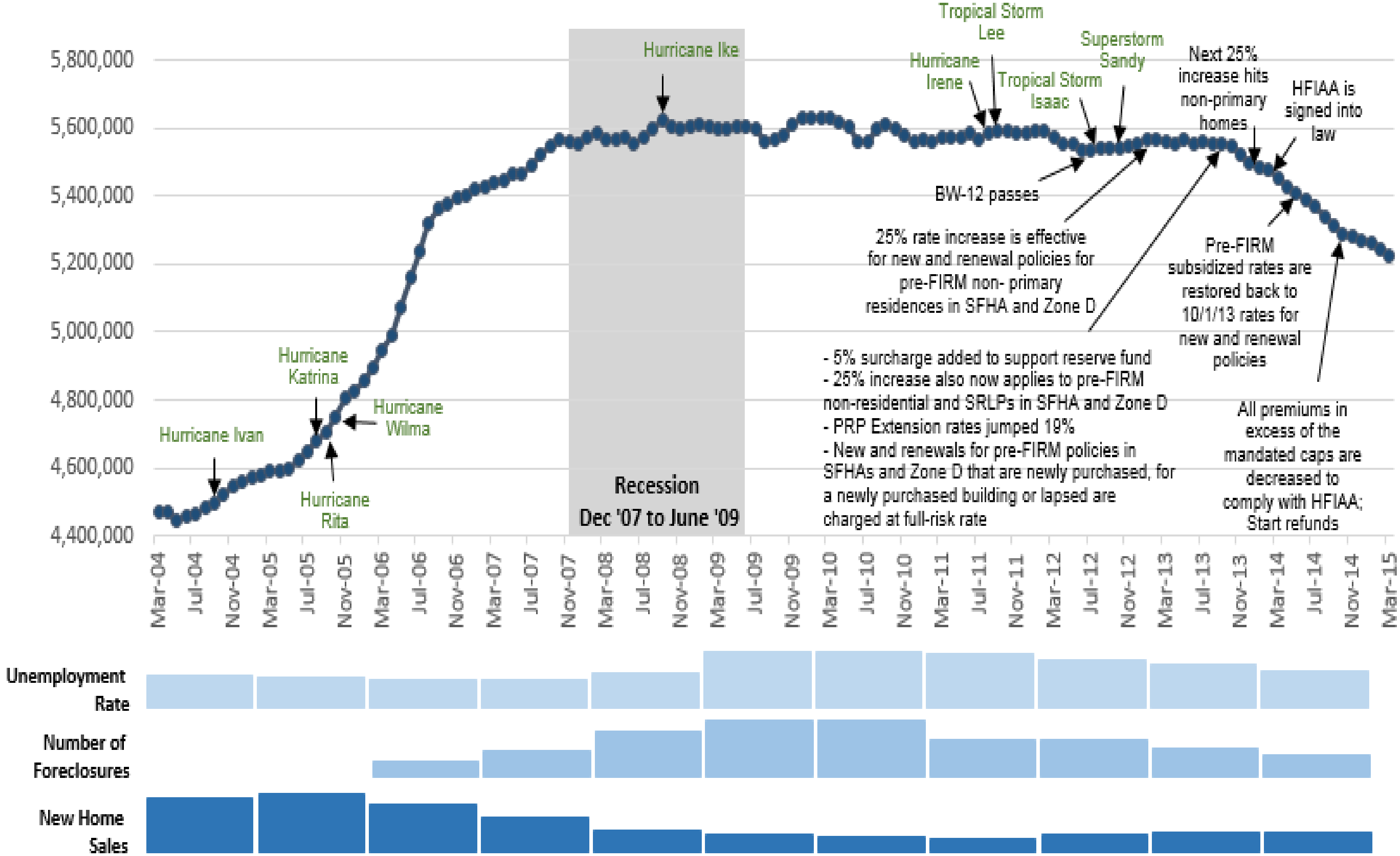

5,800,000
5,600,000
5,400,000
5,200,000
5,000,000
4,800,000
4,600,000
4,400,000
Hurricane Ivan
Hurricane Katrina
Hurricane Rita
Hurricane Wilma
Hurricane Ike
Recession
Dec '07 to June '09
Hurricane Irene
Tropical Storm Lee
Tropical Storm Isaac
Superstorm Sandy
Next 25% increase hits non-primary homes
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
- 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 19%
- 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
Pre-FIRM subsidized rates are restored back to 10/1/13 rates for new and renewal policies
All premiums in excess of the mandated caps are decreased to comply with HFIAA; Start refunds
Mar-04
Jul-04
Nov-04
Mar-05
Jul-05
Nov-05
Mar-06
Jul-06
Nov-06
Mar-07
Jul-07
Nov-07
Mar-08
Jul-08
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Mar-12
Jul-12
Nov-12
Mar-13
Jul-13
Nov-13
Mar-14
Jul-14
Nov-14
Mar-15
Unemployment Rate
Number of Foreclosures
New Home Sales

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SFHA Policy Penetration

- Significant amount not in compliance - **only 53% have policies.**
  - 1.5MM residential structures are required to have flood insurance, but only 783K structures are insured.

Top 10 Compliant States

State	Total Structures with Policy Coverage	Total Structures	Mandatory Purchase Requirement Penetration Rate
LA - Louisiana	39,793	49,278	80.75%
SC - South Carolina	27,387	37,979	72.11%
NY - New York	23,336	39,169	59.58%
FL - Florida	403,652	702,758	57.44%
TX - Texas	58,763	102,607	57.27%
DE - Delaware	1,753	3,107	56.42%
NJ - New Jersey	33,131	61,710	53.69%
CA - California	63,862	119,728	53.34%
NV - Nevada	3,080	5,796	53.14%
AL - Alabama	3,186	6,184	51.52%

Bottom 10 Compliant States

State	Total Structures with Policy Coverage	Total Structures	Mandatory Purchase Requirement Penetration Rate
MN - Minnesota	830	8,358	9.93%
ME - Maine	262	2,260	11.59%
UT - Utah	230	1,893	12.15%
KS - Kansas	16	96	16.67%
MT - Montana	15	88	17.05%
NH - New Hampshire	844	4,656	18.13%
ID - Idaho	32	149	21.48%
HI - Hawaii	1,910	8,173	23.37%
MO - Missouri	2,208	9,052	24.39%
WI - Wisconsin	1,555	6,340	24.53%

BW-12 & HFIAA Chronology

- JULY 6, 2012. Biggert-Waters Reform Act of 2012 (BW-12) signed into law.
- JANUARY 1, 2013. Non-primary Single Family residences see 25% increase for new/renewing policies.
- APRIL 1, 2013. Reserve Fund Assessment introduced; 5% for most policies.
- **OCTOBER 1, 2013.**
  - New/renewing pre-FIRM policies in the SFHA policyholders needed an Elevation Certificate to be actuarially rated. If no EC provided, policyholders could be offered a policy using Tentative Rate Tables, thus allowing them up to a year to acquire an EC, or policy could be force placed by lender.
  - Pre-FIRM SRL and pre-FIRM SD/SI policies see 25% increase.
- MARCH 21, 2014. HFIAA passed by Congress. Pre-FIRM subsidized policies reinstated with premium caps set at 18%. (The 25% categories remain unchanged).
- OCTOBER 1, 2014. Flood insurance manual became baseline for HFIAA mandated premiums.
- DECEMBER 22, 2014. Flood Insurance Advocate office, mandated by HFIAA, stood up.
- DECEMBER 31, 2014. Refunds for some BW-12 impacted policies completed. BW-12 impacted policies written between October 1, 2013 and September 30, 2014.
- **APRIL 1, 2015**. Premium cap of 18% and HFIAA surcharges added; Reserve Fund Assessment and Federal Policy Fee amended.
- NOVEMBER 1, 2015. Non-residential occupancy "business" defined.

RESERVE FUND & HFIAA SURCHARGE

- RESERVE FUND
  - Authorized under BW-12 to build a catastrophic reserve fund for future events
  - First implemented April 1, 2013
- HFIAA SURCHARGE
  - To maintain affordability for subsidized policies, HFIAA slowed elimination of subsidy.
  - To support financial stability, Congress mandated surcharge to offset slowdown of subsidy elimination.
  - Surcharge will continue until subsidy is eliminated.
  - Surcharge revenue will go into Reserve Fund to help cover cost of future claims and pack back debt.

18% Cap on Premium Increases

The October 1, 2014 Flood Insurance Manual aligns rates with a 18% annual cap (rating tables) on most individual policyholders.

- Established the baseline rates from which the 18% cap will be based.

EXCEPTIONS to 18% cap

1. **Pre-FIRM <u>non-primary residences</u> (25%)**
   - Implemented starting January 1, 2013
2. **Pre-FIRM <u>Severe Repetitive Loss properties</u> (25%)**
   - Implemented starting October 1, 2013
3. **Pre-FIRM <u>Substantially Damaged & Substantially Improved properties</u> (25%)**
   - Implemented starting October 1, 2013
4. **Pre-FIRM non-residential "<u>businesses</u>" (25%)**
   - Currently capped at 18%. FEMA must develop definition of "business" (November 1, 2015 FIM); NON-residential policies can include businesses, warehouses, barns, etc. Implementation of PRE-FIRM business rating November 2016 or later.

November 1, 2015
Flood Insurance Manual

- Procedure to <u>identify</u> business properties to implement the 25% annual increase on pre-FIRM subsidized business properties.
  - Non-Residential building-use questionnaire
- Rate tables modified with additional rates for buildings with the lowest floor below BFE (non-compliant Pre-FIRM).

April 1, 2016

Flood Insurance Manual

- Business properties to renew with 25% annual increase on pre-FIRM subsidized buildings as Required by BW and HFIAA.
- Pre-FIRM policies that lapse and not reinstated within 90 days of expiration date will no longer get subsidized premiums if Mandatory Purchase of Flood Insurance applied at expiration.
- Cancellation rules changed.

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October 1, 2016
Flood Insurance Manual

- Pre-FIRM Renewals to be re-underwritten starting with new flood zone determinations and renewal questionnaires.
- Cancellation rules changed again.

Flood Insurance Advocate

(HFIAA)

- 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;
- Aids potential policy holders in obtaining and verifying accurate rate information when purchasing or renewing a policy.
- Effective December 22nd, 2014
- ***insurance-advocate@FEMA.dhs.gov***
- ***http://www.fema.gov/national-flood-insurance-program-flood-insurance-advocate***

AFFORDABILITY STUDY

- HFIAA required a affordability study to be conducted by the National Research Council of the National Academy of Sciences.
- HFIAA requires the submission of the Affordability Study by the FEMA Administrator in 18 months from enactment of the Act.
- Two reports to be submitted to FEMA by NAS:
  - –February 2015
  - –September 2015

Affordability of National Flood Insurance Program Premiums: Report 1

- Is the first part of a two-part study to provide input as FEMA prepares their draft affordability framework.
- Discusses the underlying definitions for an affordability framework and describes the affordability concept and applications and program policy options.
- Gives an overview of the demand for insurance and the history of the NFIP premium setting.
- Describes alternatives for determining when the premium increases resulting from Biggert-Waters 2012 would make flood insurance unaffordable.
- http://www.nap.edu/catalog/21709/affordability-of-national-flood-insurance-program-premiums-report-1

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Affordability of National Flood Insurance Program Premiums: Report 2

- Study came out November 2015.
- Study does NOT contain an affordability cost/benefit analysis.
- Study represents the design of a nationwide affordability study, with a proof of concept for the study from North Carolina.
- Why isn't it delivering results?
  - Data needed to know the full risk premiums for subsidized and grandfathered structures is not available and cannot be easily obtained. The NAS study is recommending ways to address lack of data.

AFFORDABILITY FRAMEWORK

- FEMA's recommendation to Congress on how to deliver an affordability program.
- NAS gave FEMA the questions that need to be asked (reports 1 & 2) about that framework.
- Not funded.
- New team.
- To be delivered to Congress in 2017.

COMMUNITY BASED INSURANCE

A single insurance policy for an entire community--which may be more effective and less expensive than administering separate policies for each property within a given community.

A community-based flood insurance option may create new opportunities to reduce flood losses, but is unlikely to provide the single solution to the nation's pressing flood insurance problems.

Either as a stand-alone policy option or as part of a suite of policies, a community-based flood insurance option will need to address specific challenges like increasing policy take-up rates, reducing administrative costs, and enhancing floodplain management.

http://dels.nas.edu/Report/Community-Based-Flood-Insurance-Option/21758

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AFFORDABILITY ISSUES

- Repetitive Loss Buildings (2% of policies = +20% of losses paid)
- Unnumbered A Zones
- Built-in-Compliance Grandfathering
- AE Zone Elevation-Based Full Risk premiums may be lower for Pre-FIRM building even if lowest floor is below BFE
- Post-FIRM building owners could check with agent before the construction starts – use a “plan-EC” to get a quote and ask “what needs to be different on the EC to get a lower premium”

FEMA

AFFORDABILITY ISSUES

- More communities want to join CRS to get discount on premiums, but it's not that simple
- Agents and policyholders using the new $10,000 policy deductible option will lead to consumer dissatisfaction at time of claim submission
- Newly Mapped premiums are low but this opportunity has a sunset
- Baby Boomers with no mortgage often miss opportunities for low premium policy

FEMA