I GOT A ROCK!
Affordability
Flood Insurance

#%@+*&!
IT'S OUR NEW FLOOD INSURANCE CLAIMS APPEAL PROCESS.
Questions? Complaints?

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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
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%
Decline in Policies in Force

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

FEMA
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

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

### Bottom 10 Compliant States

<table>
<thead>
<tr>
<th>State</th>
<th>Total Structures with Policy Coverage</th>
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<th>Mandatory Purchase Requirement Penetration Rate</th>
</tr>
</thead>
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<tr>
<td>MN - Minnesota</td>
<td>830</td>
<td>8,358</td>
<td>9.93%</td>
</tr>
<tr>
<td>ME - Maine</td>
<td>262</td>
<td>2,260</td>
<td>11.59%</td>
</tr>
<tr>
<td>UT - Utah</td>
<td>230</td>
<td>1,893</td>
<td>12.15%</td>
</tr>
<tr>
<td>KS - Kansas</td>
<td>16</td>
<td>96</td>
<td>16.67%</td>
</tr>
<tr>
<td>MT - Montana</td>
<td>15</td>
<td>88</td>
<td>17.05%</td>
</tr>
<tr>
<td>NH - New Hampshire</td>
<td>844</td>
<td>4,656</td>
<td>18.13%</td>
</tr>
<tr>
<td>ID - Idaho</td>
<td>32</td>
<td>149</td>
<td>21.48%</td>
</tr>
<tr>
<td>HI - Hawaii</td>
<td>1,910</td>
<td>8,173</td>
<td>23.37%</td>
</tr>
<tr>
<td>MO - Missouri</td>
<td>2,208</td>
<td>9,052</td>
<td>24.39%</td>
</tr>
<tr>
<td>WI - Wisconsin</td>
<td>1,555</td>
<td>6,340</td>
<td>24.53%</td>
</tr>
</tbody>
</table>
• **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 non-primary residences (25%)
   - Implemented starting January 1, 2013

2. Pre-FIRM Severe Repetitive Loss properties (25%)
   - Implemented starting October 1, 2013

3. Pre-FIRM Substantially Damaged & Substantially Improved properties (25%)
   - Implemented starting October 1, 2013

4. Pre-FIRM non-residential “businesses” (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 identify 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.
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 22\textsuperscript{nd}, 2014
- insurance-advocate@FEMA.dhs.gov
- \url{http://www.fema.gov/national-flood-insurance-program-flood-insurance-advocate}
AFFORDABILITY STUDY

• HFIAA required an 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.

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
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”
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