FLOOD INSURANCE RATES & MORE TO CHANGE IN APRIL 2015
Changes Ahead As Government Tries To Overcome Past Losses & Growing Risks

The Homeowner Flood Insurance Affordability Act of 2014 (HFIAA)

The folks at NFIP are in the process of implementing Congressionally mandated reforms required by a law that was implemented last year, the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA), and that attempts to overcome deficits that the program has faced dating back to 2005’s Hurricane Katrina. Since this new law will likely impact your coverage and its premium, we are pleased to outline a few of the changes that will begin in April 2015 along with possible ideas and options for you at this time.

The new law attempts to repair some of the more damaging impacts of an earlier, ill-conceived law, the Biggert Waters Flood Insurance Reform Act of 2012, as well as slow some rate increases and offer relief to some policyholders who experienced very steep flood insurance premium increases in 2013 and early 2014. In fact, in December of 2013 we wrote an article on the Biggert Waters law entitled New Federal Law That Seeks To Raise Rates Is Flawed, You can find that article on our website (in the Bob’s Blog area) or by clicking here if you are reading this online.

The HFIAA April 2015 Changes

Here is a summary of some of the April 2015 NFIP changes:

1) Rates & Premiums:
The new law requires flood rates to increase starting with April 2015 renewals. According to NFIP, annual increases will range between 5% and 15% with an average increase of 9.9%. The law caps premium increases at 18% before applying a newly created fee called the Annual Surcharge and Federal Policy Fee. Given their new approach, even if your rates decreased, the overall cost may increase the total cost of your flood policy.

2) NFIP Reserve Fund:
The Biggert Waters law established a Reserve Fund to help cover costs when claims exceed the premium collected by NFIP. FEMA began collecting an assessment in 2013 and in 2015 will expand the fee to apply to Preferred Risk Policies at a cost of 10% of the policy premium, while non-Preferred policies will be 15%. Federal fees will also increase in 2015 and this added cost is not included in the 18% HFIAA annual per policy premium increase cap.

3) HFIAA Surcharge Fee:
The law creates a HFIAA Surcharge that is federally mandated and will have a cost of $ 25.00 for a primary, verified residences. Businesses and secondary homes will pay an annual surcharge of $250.00.

Primary single family residences and primary condo units will be required to provide Proof of Primary Residency to receive a reduced surcharge of $ 25.00. Without such proof the $ 250.00 fee will be charged. Acceptable proof of Primary Residency includes;

(A) Homestead Tax Credit Form,
(B) Driver’s License,
(C) Auto Registration,
(D) Proof of Auto Insurance,
(E) Voters Registration or
(F) Documents showing where children attend school.

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Some policies will automatically receive the $250.00 surcharge to their policy with no option to reduce this fee including; (A) Residential Condominium Building Association Policy (RCBAP), (B) 2-4 family risks covering the entire building, (C) Non-Primary residences and (D) Non-residential risks.

4) PRE-FIRM & BUILDINGS WITH DAMAGE:

A new rate summary has been created by NFIP that illustrates annual rate increases of 25% for structures that are completed or substantially improved prior to the issuance of the community’s first Flood Insurance Rate Map, known as Pre-“FIRM”, as well as buildings that have been substantially damaged or improved. However, repairs to such buildings must meet current building codes and, therefore, will usually receive better rates than using post-FIRM rate tables.

Secondary homes—those lived in less than 50% of the year—in high-risk areas that were built before the community’s first Flood Insurance Rate Map took effect (known as pre-FIRM) will receive a 25% annual rate increase, “which means essentially every four years, rates are doubling,” says Bruce Bender, specialist in outreach and risk communication for FEMA’s FloodSmart marketing campaign and FEMA’s Risk MAP effort.

Pre-FIRM businesses will also receive a 25% increase, Bender says, but first FEMA must find a way to distinguish between businesses and other non-residential buildings, such as churches.

5) $10,000.00 DEDUCTIBLE OPTION:

A new $10,000 deductible is available for 1-4 family residential policyholders. The deductible applies separately to both building and contents. If this new, larger, deductible is of interest and if flood insurance is/was required by your lender, please confirm with your lender that they will accept the higher deductible.

While ending this summary of the new law, it’s likely wise to keep in mind that rising water, flooding, type claims are not covered in most homeowners or commercial property policies. In fact, these policies typically exclude flooding losses and, thus, to have proper protection a separate flood policy is needed.

If you have any questions about your flood insurance policy, the new law, the cost of your coverage or anything else please contact us as we are happy to help. 305.238.1000.

THE RETURN OF PRIVATE FLOOD INSURERS?

After many decades of catastrophic losses in the Mississippi Valley, and after paying claims on homes in that region following a flood only to see those same homes rebuilt in the same locations and suffer damage from new flooding, private insurers deemed the risks from flooding too great to insure and ceased offering insurance.

That’s when, in 1968, the National Flood Insurance Program was born and has, in the decades since, written virtually all primary flood insurance protection in America. In response to the increase in premiums that

the Biggert Waters and HFIAA laws will cause NFIP policyholders, three private insurers have begun offering flood insurance again for the first time in nearly five decades. Lloyds, an Excess & Surplus insurer that is not regulated by the state (nor Federal government) and Homeowner’s Choice, a Florida home insurer offering flood coverage to some of their homeowner’s clients as a ‘package’ are the first two. Philadelphia Insurance Company, a commercial insurer, is also offering flood coverage to select businesses. Morris & Reynolds, of course, represents Lloyds, Homeowner’s Choice and Philadelphia.

Our country has not suffered a hurricane loss for nine years and the current insurance market has investors with abundant capacity looking to write new business of various types. As such, we expect to see more private insurer options enter the flood insurance market. How they fair in the event of a widespread flood disaster is anyone’s guess but it pays to keep in mind why the NFIP was created (because the private insurers stopped writing flood insurance when claims became a concern).

Morris & Reynolds has private flood insurer options, possible alternatives to the NFIP backed coverage, and would be happy to discuss those options with you at any time.

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