FLOOD INSURANCE RATES & MORE TO CHANGE IN APRIL 2015

Changes Ahead As Government Tries To Overcome Past Losses & Growing Risks

NATIONAL FLOOD INSURANCE PROGRAM

2005's Hurricane Katrina changed everything. That storm contributed greatly to the National Flood Insurance Program's current $ 24 Billion deficit and has since caused many in Washington to look for ways to change the program so as to lower both that deficit and to discontinue federal subsidies that have been included in the rates NFIP charges for decades and that make this flood coverage affordable.

To consider what is happening today it helps to briefly understand why the National Flood Insurance Program (NFIP) was created in 1968. Historically, losses from rising water (flooding) were covered in a homeowner's policy but that changed during the 1950's when losses far exceeded premiums. Home insurers often found themselves paying flood claims on the same house over and over as the owner would suffer a loss and then rebuild only to suffer another claim the next time a new flood took place. When the private insurers ceased writing coverage the impact to homeowners, buyers, lenders and realtors was so significant that the Federal government had to step in and created the NFIP program that remains in place today.

In fact, no matter which insurance company name is on your primary flood insurance policy, the fact is that for nearly five decades all rates, rules and regulations related to flood insurance have been set by the National Flood Insurance Program (NFIP), a part of FEMA within our Federal government. In 1983 the NFIP created their Write Your Own (WYO) program that allowed participating, often well known, insurers to issue flood policies and service them for a fee. Yet, even these policies have always been subject to NFIP's rates, rules and regulations. So no matter which insurance company name appears on your policy its rates, rules and regulations are those of the NFIP program that dates to 1968.

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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- **MORE CHANGES FROM THE NEW HFIAA LAW**
- **PRIVATE FLOOD INSURANCE:** *Will it help? Is it Safe? What You Need To Know.*

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THE HOMEOWNER FLOOD INSURANCE AFFORDABILITY ACT OF 2014 (HFIAA)
(*Continued*)

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.**

"With the help of WYO insurance companies and agents, FEMA will be identifying out of the 5.5 million policies which ones are businesses," Bender explains. ***"Until they can, all non-residential buildings are going to see up to an 18% increase annually. Starting probably next year, those pre-FIRM businesses will be on a 25% rate increase."*** -

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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