Flood Insurance

A Presentation By
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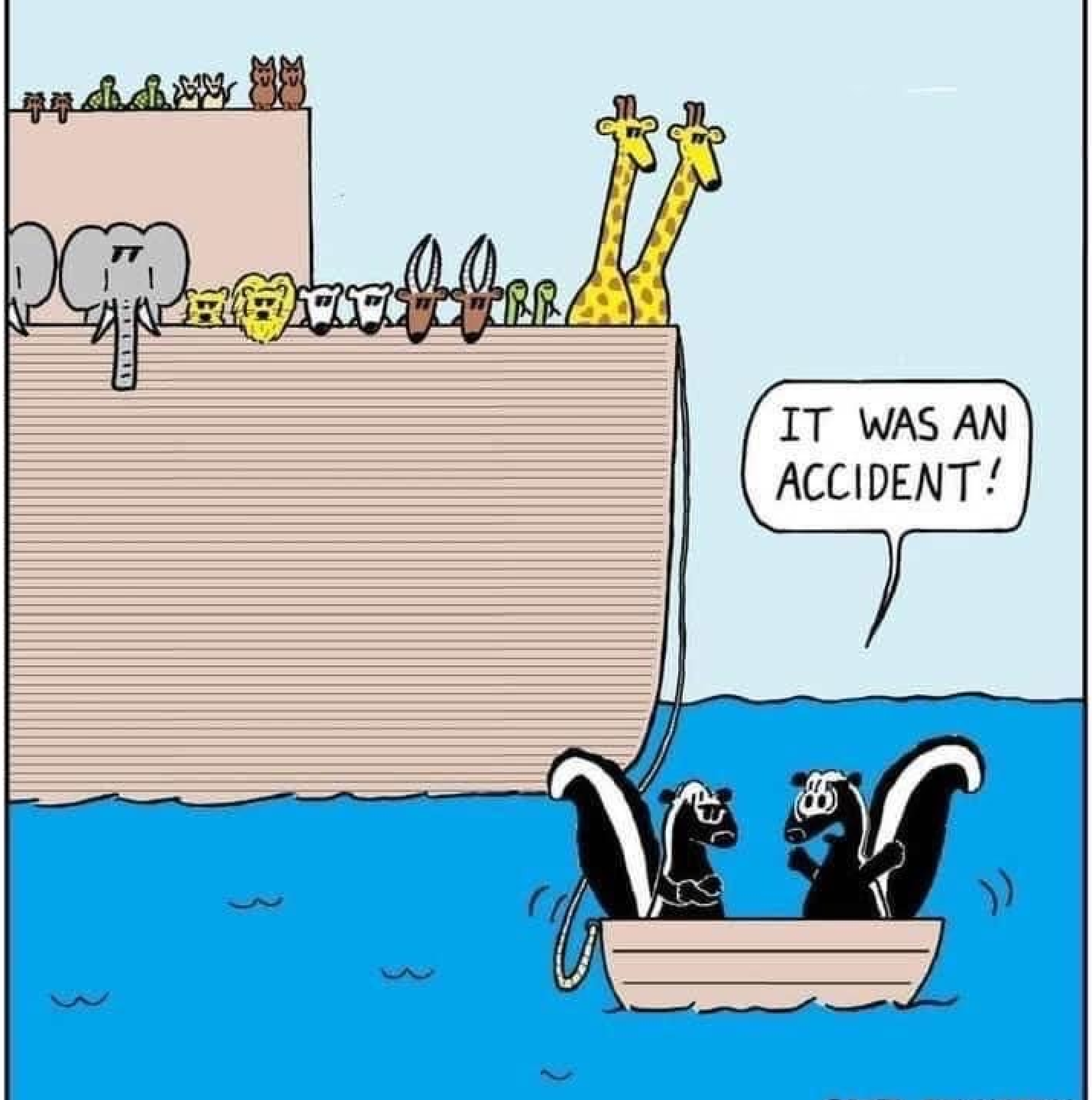
Oh, crap! Was that TODAY?
REGAN

National Flood Insurance Program

- The National Flood Insurance Program (NFIP) was by Congress in 1968.
- The NFIP has two purposes:
- (1) to spread the risk of flood losses through flood insurance; and
- (2) to reduce flood damages by restricting flood plain development.


IT WAS AN ACCIDENT!

Administration

- The NFIP is managed and administered by the Federal Emergency Management Agency (FEMA) through the Federal Insurance and Mitigation Administration (FIMA).
- The program is designed to provide an insurance alternative to disaster assistance for the repair of damage to buildings and their contents caused by floods.

Financial Status

- The cost of the insurance program was fully covered by its premiums until Hurricane Katrina in August 2005.

- In August 2017 the program was in debt to the tune of $25,000,000,000.00.

- In October 2017, Congress cancelled $16 billion of NFIP debt.

Implementation

- Participation in the NFIP is based on an agreement between local communities and the federal government that states that if a community will adopt and enforce a floodplain management ordinance to reduce future flood risks to new construction in Special Flood Hazard Areas (SFHA), the federal government will make flood insurance available within the community as a financial protection against flood losses.

Amendments

- Flood Disaster Protection Act of 1973 – made purchase of flood insurance mandatory for the protection of property within SFHAs.

- Coastal Barrier Resources Act (1982) – enacted a set of maps depicting the John H. Chafee Coastal Barrier Resources System in which federal flood insurance is unavailable for new or significantly improved structures.

- National Flood Insurance Reform Act of 1994 – codified the Community Rating System which is an incentive program that encourages communities to exceed the minimum federal requirements for development within floodplains.
- Flood Insurance Reform Act of 2004 – effort to reduce losses to properties for which repetitive flood insurance claim payments have been made.

- Biggert – Waters Flood Insurance Reform Act of 2012 – goal was to have actuarial risk-based premiums that better reflected the expected losses from flooding. The Act also eliminated “grandfathering” of older rates.

- Homeowner Flood Insurance Affordability Act of 2013 – changed the process used to address subsidized premiums and reinstated “grandfathering” of older rates.

Flood Maps

Risk Rating 2.0

- Risk Rating 2.0 is a risk rating methodology that enables FEMA to deliver rates that are actuarialy sound, equitable, easier to understand and better reflect a property’s flood risk.

- Phase I – Beginning October 1, 2021, new policies were subject to the new rating methodology. Also, beginning October 1, existing policyholders eligible for renewal were able to begin taking advantage of immediate decreases in their premiums.
- Phase II – All remaining policies renewing on or after April 1, 2022 are subject to the new rating methodology.

- With Risk Rating 2.0, FEMA now has the capability and tools to address rating disparities by incorporating more flood risk variables. These include flood frequency, multiple flood types – river overflow, storm surge, coastal erosion and heavy rainfall – and distance to water source along with property characteristics such as elevation and the cost to rebuild.

What is not changing under Risk Rating 2.0

- Existing statutory limits on rate increases require that most rates not increase by more than 18% per year.

- Using flood insurance rate maps (FIRMs) for mandatory purchase and floodplain management.

- Policyholders are still able to transfer their discount to a new owner by assigning their flood insurance policy when their property changes ownership.

What’s not changing - continued

- Discounts to policyholders in communities who participate in the Community Rating System will continue. Communities can continue earning NFIP rate discounts of 5% to 45% baed on the Community Rating System classification. Since Risk Rating 2.0 does not use flood zones to determine flood risk, the discount will be uniformly applied to all policies throughout the participating community, regardless of whether the structure is inside or outside of the Special Flood Hazard Area.

Below are the number of in-effect policies that FEMA estimates will be affected across each tier:

Rate change (per month)	Policies affected
Immediate decrease	1,161,539
$10 or less increase	3,323,350
Between $10 and $20	330,516
Greater than $20	192,836

Of more than 5 million in-effect policies, 77% will see some increase, while 4% will experience a per-month cost increase that's greater than $20.

State	Total policies in effect	Percentage with decrease	Percentage with any increase	Percentage with an increase greater than $20 a month
Florida	1,727,900	20%	80%	4%
Texas	768,600	14%	86%	3%
Louisiana	495,900	20%	80%	3%
New Jersey	217,200	21%	79%	5%
California	215,000	27%	73%	4%
South Carolina	208,600	26%	74%	3%
New York	171,100	32%	68%	7%
North Carolina	139,800	26%	74%	3%
Virginia	104,800	45%	55%	2%
Georgia	82,000	24%	76%	2%
Maryland	65,000	61%	39%	1%
Hawaii	61,400	13%	87%	4%