A Flood of Changes Brings Confusion, Criticism .. And in Some Cases Credits!

BY: KELLY TOWNSEND AAI, AIS, AINS, PGI, CPIA
PERSONAL LINES ACCOUNT MANAGER

As the Biggert –Waters Flood Insurance Reform Act of 2012 continues to role out, the only thing that is clear is that nothing is clear. The latest round of changes, which happen to coincide with the release of new flood insurance rate maps in our area, have set off a landslide of misinformation and confusion.

The changes to the Flood Insurance Program, including the phase out of subsidies and increasing of premiums, are intended to reduce the nearly $25 billion in debt that the National Flood Insurance Program currently carries and allow it to work towards becoming a self-funding program.

Policies and premiums will be affected differently depending on each property's specific characteristics. On January 1, 2013 rate increases to subsidized secondary homeowners began. October 1, 2013 brought those same increases to business risks and policies written through FEMA's Severe Repetitive Loss Program. Premiums for all of these policies are set to increase approximately 25% annually for the foreseeable future, with the ultimate goal of each property being rated based upon its true risk.

October 1, 2013 also conveyed other changes that could adversely affect property owners and potential buyers, including:

- All new policies or property purchases that occurred on or after 7/6/2012 will be required to adhere to the new pricing program upon renewal after 10/1/2013.
- Policies that fall into that category will be required to submit an elevation certificate to determine the full flood insurance rate in order to renew coverage.
- If an elevation certificate is not available in time for renewal, a renewal based on tentative rates can be issued for up to one year but the cost is very prohibitive.
- Those not built in compliance will see drastic rate increases immediately.
- Policies can no longer be transferred if the property is sold or transferred to another party, forcing all policies for properties subject to sale or transfer to become fully compliant immediately. This could price certain buyers out of properties within those higher risk flood zones, and force sellers to obtain elevation certificates in order to allow for potential buyers to properly price flood insurance coverage for a property prior to the sale or transfer.

Policyholders that use subsidized rates for secondary homes, business risks, and policies within FEMA's Severe Repetitive Loss Program, who owned the property and/or had a policy in force prior to 7/6/2012 will not be required to obtain an elevation certificate at this time. However, the compounding 25% rate increase year after year will push consumers to do just that. Sooner or later the rate will be better based on the elevation certificate than the compounding increases. Also, if the policy lapses at anytime it would be similar to a new policy purchase as above, forcing policyholders to adhere to the full risk rates immediately.

The easiest way to know whether or not you have a policy based on a subsidized rate is by finding out if you are in a high risk flood zone and if an elevation certificate was used to calculate your current insurance rate. If so, you are not on a subsidized policy because they are already calculating your insurance premium based on the properties true risk characteristics. If an elevation certificate is not being used then you are

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paying based on the subsidized rate. Depending how your home was built and what the requirements are for your flood zone, your price could be lower or higher if using the elevation certificate to obtain your rate. FEMA uses the example of a one-story home valued at $250,000 with $100,000 in contents coverage, and a $1,000 deductible. If the current premium based on the subsidized cost is $3,600 per year, the premium could range from $553 to $10,723 when using an elevation certificate to determine the true actuarial rate. The only way to know for certain just how you will be affected is to have an elevation certificate completed and obtain a quote based on the information provided by the certificate.

Preferred Risk Policies, those policies held for properties in low to moderate risk areas are treated differently in that they do not have elevation requirements so no elevation certificate is needed. These policies are seeing standard increases but are not subject currently to an additional 25% increase because they are not considered to be subsidized policies.

Also, currently exempt are policies for primary homes in those higher risk flood zones. The National Flood Insurance program defines a home as primary if the home is owner occupied 80% of the year or more. Primary homes that had been purchased along with their flood insurance policies prior to 7/6/2012 are currently allowed to keep the subsidized rate without the additional 25% increase as long as the policies remain in force without a lapse. Like the Preferred Risk Policy, they will still see standard increases just not the additional compounding 25%.

With all of the changes to maps, policies and ever-rising premiums it's easy to see where frustrations develop, but amidst all of the confusion and chaos there are some bright spots. New England, Rhode Island specifically, recently rolled out its first ever Community Rating System User Group. Members of the group include the Rhode Island Emergency Management Agency, the State Association of Flood Plain Managers, Town building and zoning officials, Attorneys, First Responders and only three insurance agents - including Kelly Townsend and Howard Thorp of Thorp & Trainer. The user group is installed to help all communities achieve their goals in obtaining a Community Rating distinction and discount. Currently 5 Rhode Island Communities are eligible: Bristol, Middletown, Narragansett, North Kingstown, and Westerly. Each of these communities have taken extra steps to obtain a special rating from FEMA and the National Flood Insurance Program resulting in many benefits including but not limited to a discount for each flood insurance policy within that community. Each of these communities has achieved a 10% rate reduction with the exception of North Kingstown who has achieved 5%. Higher ratings and discounts are available and hopefully as awareness grows we will see that more communities choose to participate and obtain discounts for their citizens.

If there is one take away let it be this - when in doubt, ask an experienced flood insurance agent. Thorp & Trainer has some of the most knowledgeable flood insurance agents in the area available to answer your questions and assist you with any of your flood insurance needs.

For more information, call 401.596.0146.

About The National Flood Insurance Program

Since standard homeowners insurance doesn't cover flooding, it's important to have protection from the floods associated with hurricanes, tropical storms, heavy rains and other conditions that impact the U.S.

In 1968, Congress created the National Flood Insurance Program (NFIP) to help provide a means for property owners to financially protect themselves. The NFIP offers flood insurance to homeowners, renters, and business owners if their community participates in the NFIP. Participating communities agree to adopt and enforce ordinances that meet or exceed FEMA requirements to reduce the risk of flooding.

For more information visit **floodsmart.gov.**