Changes to the National Flood Insurance Program

Agenda

- Overview of the National Flood Insurance Program
- Overview of Biggert-Waters 2012
- Impact of BW12 on Charlotte County
- Mitigation Options

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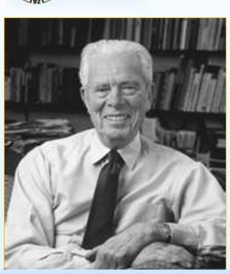
Floodplain Management



Gilbert F. White – the father of Floodplain management

"Floods are 'acts of God,' but flood losses are largely acts of man."

3

Natural Impacts of Flooding

4

Starting to control the water

A levee protects a home surrounded by floodwater from the Yazoo River on May 18, 2011 near Vicksburg

More sophisticated control

Punta Gorda Isles

Lake Okeechobee dike

When they fail

7

Why Here?

- Special Flood Hazard Area is where there is a 1% chance of a flood to a specific level happening in any year
- 28.4% of all land in the County is within a Special Flood Hazard Area (SFHA)
- 51.9% of structures in the County are in the SFHA
- 69.4% of these carry flood insurance

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Where is the SFHA?

9

NATIONAL FLOOD INSURANCE PROGRAM

- NFIP – first authorized in 1968 – represents change of focus from controlling flood waters to reducing losses
- Homeowners insurance didn't, and still doesn't, include flood insurance
- An agreement between FEMA and the local community
- Local community regulates development in the floodplain and in return, FEMA will identify those areas at risk **AND** provide flood insurance
- Intent to reduce flood losses through the community floodplain ordinance and provide protection for property owners

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Key Points on Insurance Rates

- Set by the NFIP
- Elevation of the structure
- Flood Zone when structure was built
- Limited level of coverage
- Required when the structure has a federally backed mortgage

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Why change the program?

- NFIP heavily in debt
- Premiums do not cover losses
  - Partly as a result of catastrophic loss years
  - Partly as a result of subsidized premiums
- Reform act requires elimination of subsidized premiums and a move to actuarial rates

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Subsidized Charlotte County Properties?

Open for Business

- Built prior to Jan 1 1975
- Elevation is below the current Base Flood Elevation
- 10,945 Pre-FIRM structures (25% of all structures in the SFHA)
- Only 44.7% or 4,891 have flood insurance

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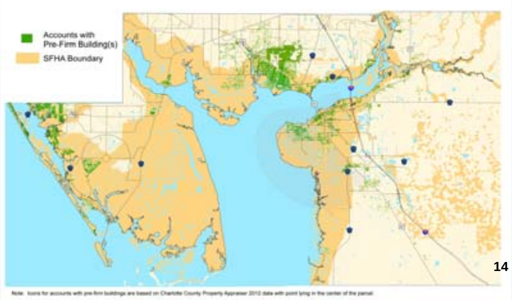
Where are they?

Open for Business



14

Immediately Impacted Structures

Open for Business

1,313 Immediate Impacts
- Non-Primary Residences (1,087)
- Non Residential Structures (187)
- Severe Repetitive Loss Structures (39)

Increase of rates
- 25% per year until actuarial rate is reached
- The lower the structure, the higher the premium

15

At risk of increases

2,882 primary homes and condos are delayed until one of the following conditions exist:

- Change of ownership
- Significant Improvements are made
- Lapse in the flood policy
- Severe or Repetitive loss occurs

This is back dated to July 6 2012

696 homes and condos at risk in 2014

16

All other policy holders

5% increase on top of regular annual increase for catastrophic reserve fund

Grandfathering is going away

- In compliance at time of construction
- Were not in SFHA when built but had, and maintained a flood insurance policy
- Will see 20% increase per year until actuarial rate is reached

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What can owners do?

Talk to insurance agent

Get an elevation certificate (check with us first)

Change deductible levels

Consider re-modeling, flood proofing or re-building

Talk with County mitigation staff

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What can/does the County do?

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Community Rating System

A way for communities to lower flood insurance costs by adopting a holistic approach to floodplain management

How well the regulations are enforced, and how restrictive those regulations are, have a DIRECT impact on the cost of Flood insurance in your community

Communities can earn up to a 40% discount on flood insurance premiums through the Community Rating System

Charlotte County is very effective

21,000 NFIP Communities in the Country and 2,000 participate in CRS

Charlotte County ranked 8th in the Nation as a Class 5 Community = 25% discount

$6.2million savings PER YEAR

One of 66 Class Five Communities in the nation

Some things we do

- Protect open space in the Special Flood Hazard Area
- Regulate development to ensure no negative impact
- Inform and educate
- Mitigate

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Mitigation Grant Programs

Hazard Mitigation Grant Program

- Authorized by the Stafford Act
- Available after Presidential Disaster Declaration
- Funding based on total Federal Assistance provided for disaster recovery
- NOTE: Charlotte County has an approved enhanced Local Mitigation Strategy to improve HMGP funding up to 15% of total provided disaster assistance.

Pre-Disaster Mitigation

- Authorized by the Stafford Act
- Competitive grant based on National Ranking Factors:
  - Approved LMS
  - CRS Class
  - Frequency of hazards
  - % of population benefited
  - Protects critical facilities
  - Status as small, impoverished community
  - 90% Federal share

Flood Mitigation Assistance

- Authorized by the National Flood Insurance Act
- Annual funding to reduce or eliminate risk of flood damage to NFIP insured buildings
- To qualify must be structures with 2 or more losses each with a claim of at least $1000 in ten year period.
- Dry flood proofing of non-residential properties is an eligible activity
- Subject to availability of funds, historically $50 to $100 million
- 90% Federal share

Repetitive Flood Claims

- Authorized by the National Flood Insurance Act
- Annual funding to reduce or eliminate risk of flood damage to NFIP insured individual properties
- To qualify must have one or more flood claim payments
- Dry flood proofing of non-residential properties is an eligible activity
- $10 million allocated annually
- Up to 100% Federal share

Severe Repetitive Loss

- Authorized by the National Flood Insurance Act
- Annual funding to reduce or eliminate risk of flood damage to NFIP insured individual properties
- To qualify must have at least 4 claim payments over $5,000 each or 2 claim payments exceeding value of building
- $40 to $80 million allocated annually
- Up to 90% Federal share

Table 4: Eligible Activities by Program

Eligible Activities	HMGP	PDM	FMA	RFC	SRL
1. Mitigation Projects	√	√	√	√	√
Property Acquisition and Structure Demolition	√	√	√	√	√
Property Acquisition and Structure Relocation	√	√	√	√	√
Structure Elevation	√	√	√	√	√
Mitigation Reconstruction					√
Dry Floodproofing of Historic Residential Structures	√	√	√	√	√
Dry Floodproofing of Non-residential Structures	√	√	√	√	
Minor Localized Flood Reduction Projects	√	√	√	√	√
Structural Retrofitting of Existing Buildings	√	√			
Non-structural Retrofitting of Existing Buildings and Facilities	√	√			
Safe Room Construction	√	√			
Infrastructure Retrofit	√	√			
Soil Stabilization	√	√			
Wildfire Mitigation	√	√			
Post-Disaster Code Enforcement	√				
5% Initiative Projects	√				
2. Hazard Mitigation Planning	√	√	√		
3. Management Costs	√	√	√	√	√

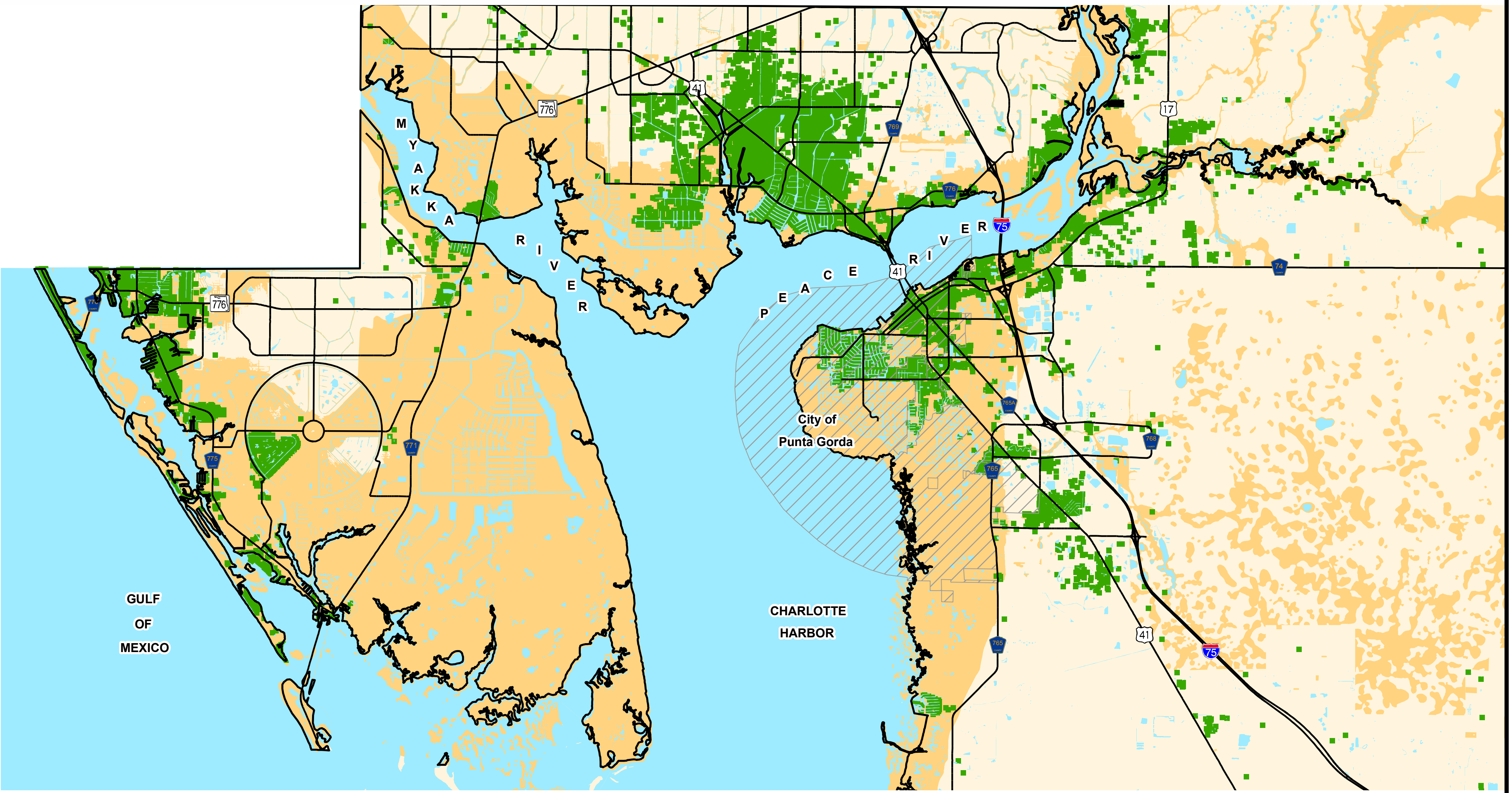
For additional information:

Charlotte County Emergency Management
26571 Airport Road
Punta Gorda, FL 33982
(941)833-4000
http://www.charlottecountyfl.com/emergency

Land Information Section

CHARLOTTE COUNTY

Accounts with Pre-Firm Building(s)



Note: Icons for accounts with pre-firm buildings are based on Charlotte County Property Appraiser 2012 data with point lying in the center of the parcel.

Stateplane Projection
Datum: NAD83
Units: Feet

Source: Community Development, Property Appraiser, FEMA

Metadata available upon request

Accounts with Pre-Firm Building(s)

SFHA Boundary

N W E S

2 1 0 2 Miles

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by: A.Steele
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Charlotte County Government

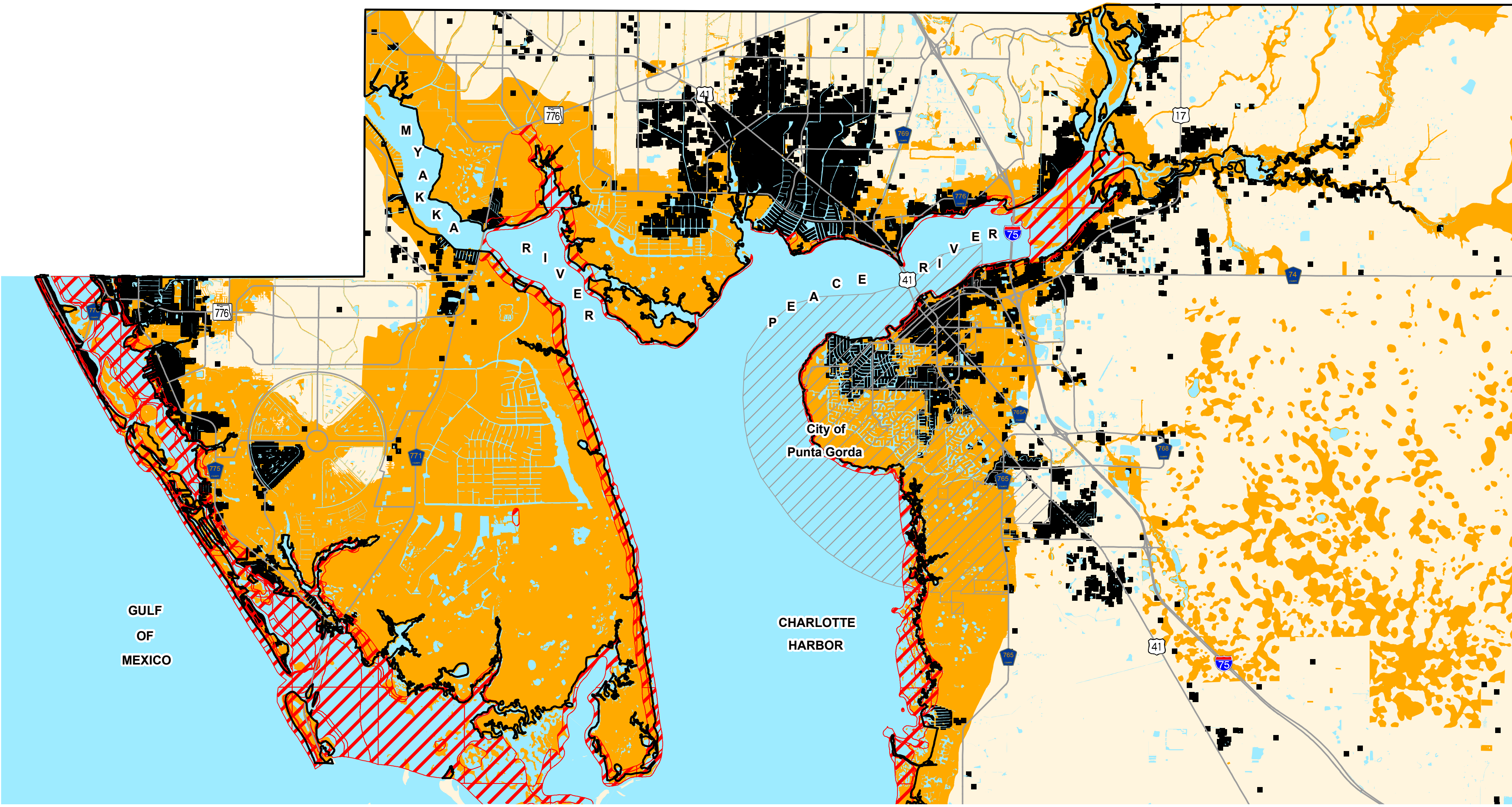
"To exceed expectations in the delivery of public services."

www.CharlotteCountyFL.gov

Land Information Section

CHARLOTTE COUNTY

Accounts with building(s) Pre-Firm



Stateplane Projection
Datum: NAD83
Units: Feet

Source: Community Development, Property Appraiser, FEMA

Metadata available upon request

Accounts with Pre-Firm Building(s)

Flood Zone-V

SFHA Boundary

N W E S

2 1 0 2 Miles

This map is a representation of compiled public information. It is believed to be an accurate and true depiction for the stated purpose, but Charlotte County and its employees make no guarantees, implied or otherwise, to the accuracy, or completeness. We therefore do not accept any responsibilities as to its use. This is not a survey or is it to be used for design. Reflected Dimensions are for Informational purposes only and may have been rounded to the nearest tenth. For precise dimensions, please refer to recorded plats and related documents.

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by: A.Steele
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National Flood Insurance Program and the Biggert-Waters 2012 reform act

Additional Resources

- YouTube Video summarizing program and updates presented by FEMA:
  - http://www.youtube.com/watch?v=tpeqSQr3ngY
- Good Overview from Storm Smart Coasts:
  - http://us.stormsmart.org/2013/01/07/what-flood-insurance-reform-means/
- FEMA BW12 Information Page:
  - http://www.fema.gov/national-flood-insurance-program/flood-insurance-reform-act-2012#3
- General flooding and flood insurance information:
  - http://www.floodsmart.gov/floodsmart/
- County Resources
  - Elevation Certificates – Andra Bogardus (941) 764-4158
  - Flood Insurance and Community Rating System – Claire Jubb (941) 743-1241
  - Flood proofing techniques, technical requirements and flood zone determinations – Chip Hague – (941) 623-1080
  - Mitigation – Emergency Management –(941) 833-4000

Biggert Waters Flood Insurance Reform Act of 2012

Impact of National Flood Insurance Program (NFIP) Changes

Note: This Fact Sheet deals specifically with Sections 205 and 207 of the Act.

In 2012, the U.S. Congress passed the Biggert Waters Flood Insurance Reform Act of 2012 which calls on the Federal Emergency Management Agency (FEMA) and other agencies to make a number of changes to the way the NFIP is run. Some of these changes have already been put in place, and others will be implemented in the coming months. Key provisions of the legislation will require the NFIP to raise rates to reflect true flood risk, make the program more financially stable, and change how Flood Insurance Rate Map (FIRM) updates impact policyholders. The changes will mean premium rate increases for some – but not all -- policyholders over time.

What this means:

The new law encourages Program financial stability by eliminating some artificially low rates and discounts. Most flood insurance rates will now move to reflect full risk, and flood insurance rates will rise on some policies.

Actions such as buying a property, allowing a policy to lapse, or purchasing a new policy can trigger rate changes. You should talk to your insurance agent about how changes may affect your property and flood insurance policy. There are investments you and your community can make to reduce the impact of rate changes. And FEMA can help communities lower flood risk and flood insurance premiums.

What is Changing Now?

Most rates for most properties will more accurately reflect risk. Subsidized rates for non-primary/secondary residences are being phased out now. Subsidized rates for certain other classes of properties will be eliminated over time, beginning in late 2013. There are several actions which can trigger a rate change, and not everyone will be affected. It's important to know the distinctions and actions to avoid, or to take, to lessen the impacts.

Not everyone will be affected immediately by the new law – **only 20 percent of NFIP policies receive subsidies**. Talk to your agent about how rate changes could affect your policy. Your agent can help you understand if your policy is impacted by the changes.

- Owners of subsidized policies on **non-primary/secondary** residences in a Special Flood Hazard Area (SFHA) will see 25 percent increase annually until rates reflect true risk – began January 1, 2013.
- Owners of subsidized policies on **property that has experienced severe or repeated flooding** will see 25 percent rate increase annually until rates reflect true risk – beginning October 1, 2013.
- Owners of subsidized policies on **business/non-residential properties in a Special Flood Hazard Area** will see 25 percent rate increase annually until rates reflect true flood risk -- beginning October 1, 2013.
  (Each property's risk is different. Some policyholders may reach their true risk rate after a couple years of increases, while other policyholder increases may go beyond five years to get to the full risk rate required by the new law. Rate tables on true risk will not be available until June 2013.)

Primary residences in SFHAs **will be able to keep their subsidized rates** unless or until:

- The property is sold;

- The policy lapses;
- You suffer severe, repeated, flood losses; or
- A new policy is purchased.

Grandfathering Changes Expected in 2014

The Act phases-out grandfathered rates and moves to risk-based rates for most properties when the community adopts a new Flood Insurance Rate Map. If you live in a community that adopts a new, updated Flood Insurance Rate Map (FIRM), grandfathered rates will be phased out. This will happen gradually, with new rates increasing by 20% per year for five years.

What Can Be Done to Lower Costs?

For home owners and business owners:

- Talk to your insurance agent about your insurance options.
- You will probably need an Elevation Certificate to determine your correct rate.
- Higher deductibles might lower your premium.
- Consider incorporating flood mitigation into your remodeling or rebuilding.
    - Building or rebuilding higher will lower your risk and could reduce your premium.
    - Consider adding vents to your foundation or using breakaway walls.
- Talk with local officials about community-wide mitigation steps.

For community officials:

- Consider joining the Community Rating System (CRS) or increasing your CRS activities to lower premiums for residents.
- Talk to your state about grants. FEMA issues grants to states, which can then distribute the funds to communities to help with mitigation and rebuilding.

Background:

In 1968, Congress created the National Flood Insurance Program (NFIP). Since most homeowners’ insurance policies did not cover flood, property owners who experienced a flood often found themselves financially devastated and unable to rebuild. The NFIP was formed to fill that gap and was designed to incorporate community adoption of minimum standards for new construction and development to minimize future risk of flood damage. Pre-existing homes and businesses, however, could remain as they were. Owners of many of these older properties were eligible to obtain insurance at lower, subsidized rates that did not reflect the property’s true flood risk.

In addition, as the initial flood risk identified by the NFIP has been updated, many homes and businesses that had been built in compliance with existing standards have received discounted rates in areas where the risk of flood was revised. This “Grandfathering” approach prevented rate increases for existing properties when the flood risk in their area increased.

After 45 years, flood risks continue and the costs and consequences of flooding are increasing dramatically. In 2012, Congress passed legislation to make the NFIP more sustainable and financially sound over the long term.

Biggert-Waters Flood Insurance Reform Act of 2012 (BW12) Timeline

Date of Implementation	Who Is Affected	What Will Happen	Why Is It Changing
July 10, 2012	**Owners of property:** • that is affected by flooding on Federal land caused, or exacerbated by, post-wildfire conditions on Federal land, and • who purchased flood insurance fewer than 30 days before the flood loss and within 60 days of the fire containment date.	• If a flood occurs under certain conditions, **an exception to the 30-day waiting period is implemented** for a policy purchased not later than 60 days after the fire containment date.	• BW 12 **Section 100241** created a third exception to the 30-day waiting period for insurance coverage for private properties affected by flooding from Federal lands as a result of post-wildfire conditions.
October 19, 2012	• **Policyholders in the Missouri River Basin** (ND, SD, IA, NE, KS, MO) who had claims on a policy purchased from May 1-June 6, 2011, and were not damaged by flood for 30 days after purchase date.	• When certain conditions are met, **an alternative effective date for the policy or the increased coverage is established** as the 30th day after the policy purchase date, without regard for the otherwise applicable flood in progress exclusion, for claims denied based on Exclusion V.	• BW 12 **Section 100227(b)** provides an alternative effective date for qualifying policies that had claims from flooding of the Missouri River that started June 1, 2011.
January 1, 2013	• **Homeowners** with subsidized insurance rates on non-primary residences • Properties receiving subsidized insurance rates are those structures built prior to the first Flood Insurance Rate Map (**pre-FIRM properties) that have not been substantially damaged or improved**.	• **25 percent increase in premium rates each year** until premiums reflect full risk rates	• BW 12 calls for the phase-out of subsidies and discounts on flood insurance premiums. • This premium increase is outlined in **Section 100205**. • The phase out of subsidies affecting non-primary residences was also mandated by earlier 2012 legislation**, HR 5740.**
October 1, 2013	• **Owners of business properties** with subsidized premiums • Owners of **severe repetitive loss** properties consisting of 1-4 residences with subsidized premiums. • Owners of any property that has incurred flood-related damage in which the cumulative amounts of claims payments exceeded the fair market value of such property.	• **25 percent increase in premium rates each year** until premiums reflect full risk rates	• BW 12 calls for the phase-out of subsidies and discounts on flood insurance premiums. • These premium increases are outlined in **Section 100205.**

Updated April 17, 2013

Biggert-Waters Flood Insurance Reform Act of 2012 (BW12) Timeline

When	Who Is Affected	What Will Happen	Why Is It Changing
October 1, 2013 cont.	**Owners of property** • not insured as of the date of enactment of BW 12 (subject to a possible exception in Section 100207 of BW 12); • with a **lapsed NFIP policy**; • that has been purchased after the date of enactment of BW 12.	• **Full-risk rates** will apply to these policies. •	• BW 12 calls for the elimination of subsidies and discounts on flood insurance premiums. • These premium increases are outlined in **Section 100205.**
Late 2014	• **Other property owners, including non-subsidized policyholders,** affected by map changes	• Full-risk rates **will be phased in** over five years at a rate of 20 percent per year to reach full risk rates.	• BW 12 calls for the phase-out of subsidies and discounts on flood insurance premiums • This premium increase is outlined in **Section 100207.**

Questions about the Biggert-Waters Flood Insurance Reform Act of 2012

1. What is the Biggert-Waters Flood Insurance Reform Act of 2012?

Answer: The Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) is a law passed by Congress and signed by the President in 2012 that extends the National Flood Insurance Program (NFIP) for five years, while requiring significant program reform. The law requires changes to all major components of the program, including flood insurance, flood hazard mapping, grants, and the management of floodplains. Many of the changes are designed to make the NFIP more financially stable, and ensure that flood insurance rates more accurately reflect the real risk of flooding. The changes will be phased in over time, beginning this year.

2. Why was the Biggert-Waters Reform Act of 2012 passed?

Answer: Flooding has been, and continues to be, a serious risk in the United States—so serious that most insurance companies have specifically excluded flood damage from homeowners insurance. To address the need, in 1968 the U.S. Congress established the NFIP as a Federal program. It enabled property owners in participating communities to purchase flood insurance if the community adopted floodplain management ordinances and minimum standards for new construction. However, owners of existing homes and businesses did not have to rebuild to the higher standards, and many received subsidized rates that did not reflect their true risk.

Over the years, the costs and consequences of flooding have continued to increase. For the NFIP to remain sustainable, its premium structure must reflect the true risks and costs of flooding. This is a primary driver for many of the changes required under the law.

Insurance Cost/Rate Questions

3. What changes to insurance operations are anticipated?

Answer: Many of the proposed changes are designed to increase the fiscal soundness of the NFIP. For example, beginning this year there will be changes addressing rate subsidies and a new Reserve Fund charge will start being assessed. There are also provisions to adjust premium rates to more accurately reflect flood risk.

Other provisions of the law address coverage modifications and claims handling. Studies will be conducted to address issues of affordability, privatization, and reinsurance, among other topics.

4. Will all policyholders see changes in insurance rates as a result of BW-12?

More than 80 percent of policyholders (representing approximately 4.48 million of the 5.6 million policies in force) do not pay subsidized rates.

About 20 percent of all NFIP policies pay subsidized rates. Only a portion of those policies that are currently paying subsidized premiums will see larger premium increases of 25% annually starting this year, until their premiums are full-risk premiums. Five percent of policyholders – those with subsidized policies for non-primary residences, businesses, and severe repetitive loss properties - will see the 25% annual increases immediately. . Subsidies will no longer be offered for policies covering newly purchased properties, lapsed policies, or new policies covering properties for the first time.

The 80% of all NFIP policies that already pay full-risk premiums will not see these large premium increases. Most policyholders will see a new charge on their premiums to cover the Reserve Fund assessment that is mandated by BW-12. Initially, there will be a 5% assessment to all policies except Preferred Risk Policies (PRPs). The Reserve Fund will increase over time and will also be assessed on PRPs at some undetermined future date.

Additional changes to premium rates will occur upon remapping, the provision calling for these premium rate changes will not be implemented until the latter half of 2014.

5. In general, which properties will be most affected by changes in rates?

Answer**:** Rate changes will have the greatest effect on properties located within a Special Flood Hazard Area (SFHA) that were constructed before a community adopted its first Flood Insurance Rate Map (FIRM) and have not been elevated. For many communities the initial FIRM would have been adopted in the 1970's and 1980's. Your local insurance agent will be able to provide you the initial FIRM date for your community.

Many of these pre-FIRM properties have been receiving subsidized rates. Subsidies are already being phased out for non-primary residences. Starting this fall, subsidies will be phased out for businesses; properties of one to four residences that have experienced severe repetitive loss; and properties that have incurred flood-related damages where claims payments exceed the fair market value of the property. Premiums for these properties will increase by 25% per year until they reach the full risk rate.

Subsidies are not being phased out for existing policies covering primary residences. However, the subsidy provided to primary residences could still be lost under conditions that apply to all subsidized policies. Subsidies will be immediately phased out for all new and lapsed policies and upon sale of the property. There may also be premium changes for policyholders after their community is remapped. But that provision of the Act is still under review and will be implemented in the future.

6. What happens if a policy with subsidized rates is allowed to lapse or the property is sold?

Answer: Starting this fall, for all currently subsidized policies, there will be an immediate increase to the full risk rates for all new and lapsed policies and upon the sale/purchase of a property. Full risk rates will be charged to the next owner of the policy.

7. What does "full risk rate" actually mean?

Answer: Simply put, it means that the premium reflects both the risk assumed by the program (that is, the expected average claims payment) and all administrative expenses. In the case of flood insurance, this means the premium takes into account the full range of possible flood losses, including the rare but catastrophic floods as well.

8. How can someone find out what a property's full risk rate will be?

Answer: Of the many factors that determine the full risk rate of a structure, the single most important is the elevation of the structure in relation to the Base Flood Elevation (BFE). A community's Flood Insurance Rate Map (FIRM) indicates the area of the community that has a 1% or greater annual chance of flooding. That area is called the Special Flood Hazard Area, or high-risk zone. Put another way, the BFE is the elevation where there is a 1% or greater annual chance of flooding. For a property in the high-risk zone, you need to know the elevation of the structure in relation to the BFE. Generally, the higher the elevation above the BFE, the lower the flood risk. The information is shown on an Elevation Certificate, which is a form completed and signed by a licensed engineer or surveyor. So to determine the premium for a property in a high-risk zone, you first need an elevation certificate. Then, an insurance agent can calculate the premium based on the amount of coverage desired.

9. What percentage of policies nationwide, and in high risk zones, actually receives these subsidized rates?

Answer: More than 80 percent of policyholders (representing approximately 4.48 million of the 5.6 million policies in force) do not pay subsidized rates. About 20 percent of all NFIP policies pay subsidized rates. However, only 5 percent of policyholders – those subsidized policies covering non-primary residences, businesses, and severe repetitive loss properties - will see immediate increases to their premiums.

10. When will NFIP Grandfathering be eliminated?

Answer**:** Currently**,** the NFIP Grandfather procedure provides eligible property owners the option of using risk data from previous Flood Insurance Rate Maps (FIRMs) if a policyholder maintained continuous coverage through a period of a FIRM revision or if a building was constructed "in compliance" with the requirements for the zone and BFE reflected on a previous FIRM. A provision of BW-12, however, requires FEMA to use revised flood risk data (zone and BFE) after a map revision. The legislation provides a 5-year mechanism to phase-in the new rates. This provision impacts the NFIP Grandfather procedure and will be implemented in the latter half of 2014. Many of the precise details of this implementation are still under development.

11. Is there any option for people who are now in a flood zone, did not have substantial damage, but now the BFE is 10 feet higher than previously and face dramatic rate increases?

Answer: FEMA's Hazard Mitigation Assistance (HMA) HMA programs provide funds for projects that reduce the risk to individuals and property from natural hazards. These programs enable mitigation measures to be implemented before, during, and after disaster recovery. Local jurisdictions develop projects that reduce property damage from future disasters and submit grant applications to the State. The States submit applications to FEMA based on State criteria and available funding. The HMA programs include:

- Hazard Mitigation Grant Program (HMGP) - The Hazard Mitigation Grant Program provides grants to implement long-term hazard mitigation measures after a major disaster declaration. The purpose of HMGP is to reduce the loss of life and property due to natural disasters and to enable mitigation measures to be implemented during recovery from a disaster.

- Flood Mitigation Assistance (FMA) - The Flood Mitigation Assistance program provides funds on an annual basis so that measures can be taken to reduce or eliminate risk of flood damage to buildings insured under the NFIP.

- Pre-Disaster Mitigation Program (PDM) - The Pre-Disaster Mitigation Program provides nationally competitive grants for hazard mitigation plans and projects before a disaster event. States can receive PDM funds regardless of whether or not there has been a disaster declared in that state.

FEMA encourages property and business owners interested in implementing mitigation activities to contact their local community planning, emergency management, or State Hazard Mitigation Officer for more information. Individuals and businesses may not apply directly to the State or FEMA, but eligible local governments may apply on behalf of a private entity. Your community will be working with the State to develop applications for HMA funding and implement the approved mitigation projects. Information about the HMA programs can be found at http://www.fema.gov/hazard-mitigation-assistance.

Informed Decisions on Catastrophe Risk

Who's paying and who's benefiting most from flood insurance under the NFIP?

A Financial Analysis of the U.S. National Flood Insurance Program (NFIP)

The National Flood Insurance Program (NFIP) is a federal program that insures $1.25 trillion of property in the U.S.

Reforming the operation of the NFIP is on the agenda of Congress.

- In the United States, basic insurance against flood hazard is primarily provided by the federally-run National Flood Insurance Program (NFIP), which was established in 1968. The program benefits from partnership with private sector insurance companies and agents that write the policies and settle claims on behalf of the federal government (the NFIP retains 100 percent of the underwritten risk).
- Coverage for flood damage resulting from rising water is explicitly excluded in standard homeowners' insurance policies. Amounts greater than the $250,000 building-coverage limit that is available from the NFIP can be obtained from commercial insurers.
- The total value of property insured under the NFIP was $165 billion in 1978, rising to $348 billion in 1990, and $703 billion in 2000 (corrected for inflation). From 2000 to 2009, the total exposure increased by 75 percent, reaching $1.25 trillion at the end of 2011. This increase results from higher average quantity of insurance purchased per policy ($114,000 in 1978 versus $217,000 in 2009) and more people in flood risk areas who need coverage.
- The NFIP has been renewed 11 times since October 1, 2008 for very short periods with short expiration dates.
- The House passed its reform bill in July 2011; the Senate bill will soon be introduced.

More than two-thirds of NFIP policies are located in just five coastal states: Florida, Texas, Louisiana, California and New Jersey.

The aggregate premiums/claims ratio varies significantly across states.

- 20,000 communities across the nation participate in the NFIP. However, data reveal that flood insurance policies are concentrated in a small number of states.
- The state of Florida, which represented less than 6 percent of the U.S. population in 2011, had nearly 40 percent of the total number of flood policies issued by the NFIP in the fall, of 2011.
- Better understanding how much policyholders have paid in premiums versus how much they have collected in claims is important.
- Our analysis of the entire NFIP portfolio between 1978 and 2008 reveals that in some states, policyholders have paid as much as 15 times in premiums than they have collected in claims; in other states, policyholders have received 5 times more in insurance claims than they paid in premiums over this period.

The public-private partnership worked well when faced with the most catastrophic event in its history.

As it was designed to do, the NFIP borrowed from the U.S. Treasury to pay for 2005 and 2008 claims.

- Hurricane Katrina and the failure of the levee system in 2005 led to the most catastrophic loss in the history of this federal program.
- One year after the disaster, virtually all claims were settled, providing insured victims with nearly $16 billion in claims payments and illustrating the effectiveness of the partnership with private insurers.
- Our analysis, which is based on financial data provided to us by the NFIP, shows that at the end of 2004, the NFIP was facing a $1.5 billion cumulative deficit since its inception in 1968 (in 2008 prices). This deficit seemed manageable given the scope of the program and the significant non-claim expenses it faces.
- The program, which was not designed to cover truly catastrophic losses by itself, borrowed over $19 billion from the U.S. Treasury to pay claims from the 2005 and 2008 hurricane seasons, and it is not clear how this debt will be repaid.

During the period 1978-2008, in some states, policyholders cumulatively paid much more in premiums than they received in claims…

others, much less.

The state-level analysis reveals the inherent difficulty in pricing insurance coverage for low probability, high consequence events.

A policyholders' analysis (i.e., excluding all administrative costs and payment to participating insurers and agents who sell NFIP policies and manage claims on behalf of the program) at the *state* level is revealing, too:

SOME STATES PAID **MORE** IN PREMIUMS THAN THEY RECEIVED IN CLAIMS:

- **Florida:** policyholders paid $16.1 billion in premiums but collected only $4.5 billion in claims reimbursements: that is, premiums paid over time were about **3.6 times** the insurance reimbursements (see Figure 1).
- **California:** policyholders paid $3.5 billion in premiums but collected only $710 million in claims reimbursements: that is, premiums paid over time were about **5 times** the insurance reimbursements.
- **Colorado:** policyholders paid more than **15 times** what they collected in insurance reimbursements between 1978 and 2008.

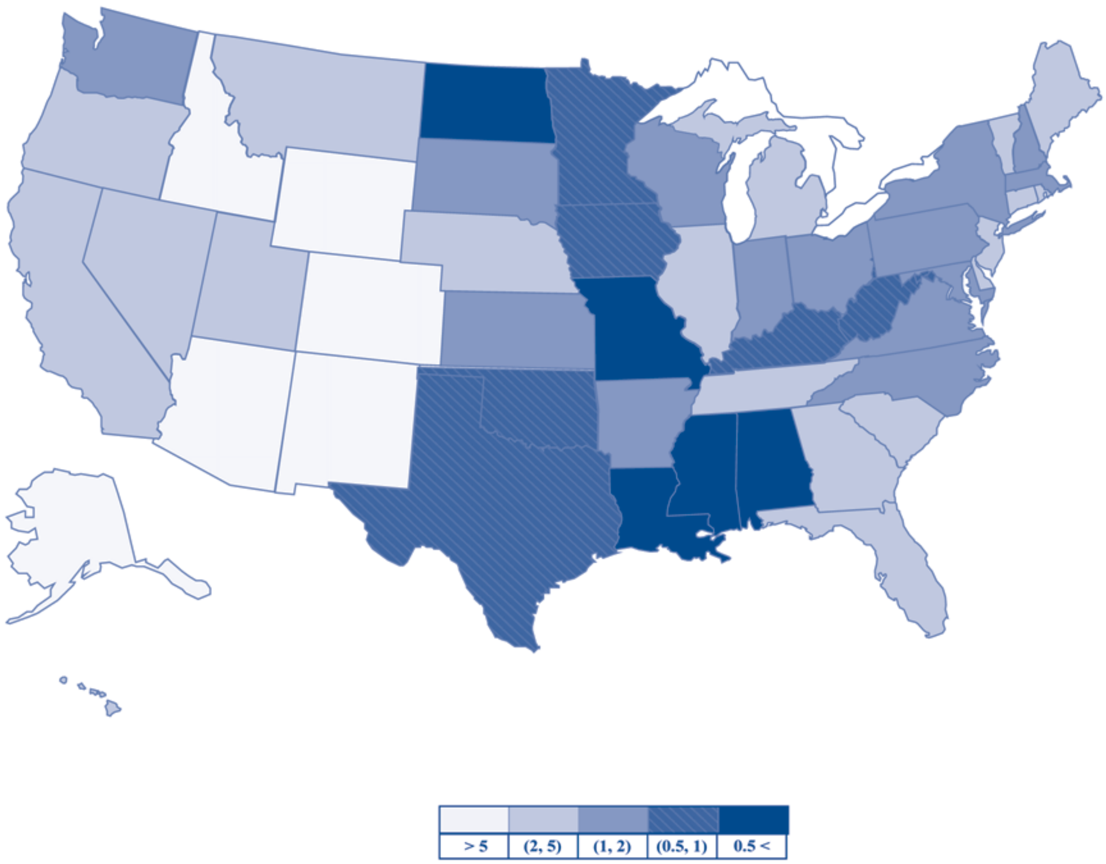
OTHER STATES PAID **LESS** IN PREMIUMS THAN THEY RECEIVED IN CLAIMS:

- **Louisiana:** policyholders paid $4.4 billion in premiums, but collected $16.7 billion in claims; premiums paid for only **one-quarter** of the claims. *Note: excluding paid claims associated with Hurricane Katrina in Louisiana ($13.2 billion), the balance of Louisiana's policyholders over this period would have been positive.*
- **Texas:** policyholders paid $4.5 billion in premiums but collected $6.7 billion in claims; premiums paid for only **two-thirds** of the claims.

- Although we might expect such insurance to display a high volatility, the difference among states is significant given that the analysis looks at a fairly long period, over three decades.
- A massive flood in Florida or California next year would produce changes in the policyholder's cumulative balance for those states.

Figure 1. NFIP Policyholders' Balance by State, 1978–2008

Ratio of flood insurance premiums collected by the NFIP from policyholders, over flood claims paid to the policyholders, by state, for data available 1978–2008 (in 2008 prices)



Colorado	15.1	Illinois	4.2	Connecticut	2.5	Massachusetts	1.6	Oklahoma	0.9
New Mexico	10.4	Nebraska	3.8	New Jersey	2.3	South Dakota	1.5	West Virginia	0.7
Wyoming	7.9	Hawaii	3.7	Tennessee	2.2	Virginia	1.4	Minnesota	0.7
Idaho	7.2	Florida	3.6	South Carolina	1.9	Indiana	1.4	Texas	0.7
Alaska	6.4	Montana	3.6	Wisconsin	1.9	Ohio	1.4	Iowa	0.5
Arizona	6.1	Utah	3.3	Arkansas	1.9	Washington	1.3	North Dakota	0.4
California	4.9	Georgia	3.0	New York	1.9	Kansas	1.2	Missouri	0.4
Michigan	4.5	Nevada	3.0	Maine	1.8	Pennsylvania	1.1	Alabama	0.4
Rhode Island	4.3	Delaware	2.9	Maryland	1.6	North Carolina	1.1	Louisiana	0.3
Vermont	4.2	Oregon	2.6	New Hampshire	1.6	Kentucky	0.9	Mississippi	0.2

This map presents the cumulative policyholders' balance as a ratio of flood insurance premiums collected by the NFIP from policyholders in that state, over flood claims paid to the policyholders of that state (in 2008 prices) during the period 1978–2008. The ratio for each state is provided in the table. A ratio near 1 means that payments and claims are about equal. The states that paid less in premiums than they received in claims are in darker shades.

For more information, please access the full study or contact the author:

Erwann Michel-Kerjan (2010). **Catastrophe Economics. The National Flood Insurance Program.** *Journal of Economic Perspectives,* Vol. 24, No. 4, 165-186.

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Erwann O. Michel-Kerjan (ErwannMK@wharton.upenn.edu) teaches at the Wharton School and is the Wharton Risk Center's managing director. He also chairs the OECD Secretary-General Board on Financial Management of Catastrophes which advises the governments of its 34 member countries on catastrophe risk management. In 2007, he was named a Young Global Leader by the World Economic Forum (Davos), a five-year nomination bestowed to recognize the most extraordinary leaders of the world under the age of forty. He currently co-leads with Carolyn Kousky (Resources for the Future) a multi-year NSF-supported research program on the reform of the NFIP. Recent books include *The Irrational Economist* (with P. Slovic, PublicAffairs, 2010) and *At War with the Weather* (with H. Kunreuther, MIT Press, 2009), which in 2011 received the prestigious Kulp Wright Award for the most influential contribution to the field of risk management and insurance.

MEMORANDUM

From: Van Scoyoc Associates
To: Charlotte County
Subject: Flood Insurance Rate Increases in Charlotte County and the City of Punta Gorda
Date: May 10, 2013

CHARLOTTE COUNTY

- Rates will increase by 25% until true-risk rates are reached for about 16% of County policy holders:
  - **Occurring Immediately:**
    - 1,087 single family or condo units owned by non-primary residents
    - 187 businesses
    - 39 severe repetitive loss pre-FIRM (Flood Insurance Rate Map, often before 1975) properties
  - **Delayed Temporarily:**
    - 2,882 homes or condos until one of the following occurs:
      - Change of ownership
      - Significant improvements are made to the property
      - Lapse in the flood policy
      - Severe or repetitive loss occurs
  - 696 homes or condos will face 25% increases upon additional implementation of the NFIP reauthorization, likely in 2014

CITY OF PUNTA GORDA

- Rates will increase by 25% until true-risk rates are reached for about 13% of City policy holders:
  - **Occurring Immediately:**
    - 245 single family or condo units owned by non-primary residents
    - 82 businesses
    - 2 severe repetitive loss pre-FIRM (often before 1973) properties
  - **Delayed Temporarily:**
    - 605 homes or condos until one of the following occurs:
      - Change of ownership
      - Significant improvements are made to the property
      - Lapse in the flood policy
      - Severe or repetitive loss occurs
  - 232 homes or condos will face 25% increases upon additional implementation of the NFIP reauthorization, likely in 2014

OTHER NFIP POLICYHOLDERS

- All policyholders not described above will face a 5% increase in rates to establish a Congressionally-mandated "reserve fund" for the NFIP that will pay down the program's debt to the Treasury.
- In late 2014, policyholders considered to have lower-cost "grandfathered" policies will have full risk rates phased in over five years at a rate of 20% per year to reach full risk rates (whatever they may be; at this point it is unclear).
  - More specifically, "grandfathering" includes those policyholders who:
    - had a flood insurance policy in effect when a new flood map became effective and then maintained continuous coverage; or
    - built in compliance with the FIRM in effect at the time of construction.