Biggert Waters Flood Insurance Reform Act of 2012

The NFIP's *Specific Rate Guidelines*

In June 2013, the Federal Emergency Management Agency (FEMA) issued the 2013 *Specific Rate Guidelines* to participating Write Your Own (WYO) insurance companies and other insurance partners to explain the National Flood Insurance Program (NFIP) premium rate changes that will take effect October 1, 2013. As part of these annual rate changes, this year FEMA will be implementing provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12).

The *Specific Rate Guidelines* historically have been used by insurers to calculate premiums for a variety of special cases that have a much higher risk of flood damage than typical -- even within the Special Flood Hazard Area. Included in these *Rate Guidelines* are the rates for buildings where the lowest floor elevation is below the Base Flood Elevation (BFE). The BFE is the flood level that has a 1-percent chance of being equaled or exceeded in any given year. In the past, many properties built below that base flood elevation, and before Flood Insurance Rate Maps (FIRMs) were adopted by communities, received subsidized premium rates which were artificially lower than true risk. Many of those subsidies were eliminated in the 2012 Biggert Waters legislation and therefore some of the higher risk policies previously receiving subsidies will be required to be rated according to the *Guidelines.* The new tables and underwriting procedures in the *Guidelines* reflect those mandated changes. In general, the subsidized rates were rated without using elevation data – knowing how high the lowest floor of the building sits above the base flood elevation. The law requires that policy ratings more accurately reflect the risk of each property's true risk rate by eliminating the subsidies.

The *Specific Rate Guidelines* are a complex series of tables of rates and technical underwriting procedures which are used by insurers to calculate premiums for their policyholders. Before they can use these tables of rates to determine premiums, insurers must first update and test their insurance rating software systems, which then become available to their insurance agents. That process can take several weeks.

Flood insurance premiums are based on a number of factors including the type of building, the number of floors, whether a building has a basement or enclosure, flood mitigation techniques, such as breakaway walls and flood-vents, the elevation of the lowest floor of the building, and the property's geographic location in reference to flood hazards identified by the community and FEMA. An Elevation Certificate contains the information needed to assist an insurance agent with determining the true flood risk premium for a property. Property owners who do not know the elevation of their building and do not have an Elevation Certificate should speak to their agent about their specific situation.

It is important to remember that not all policyholders will have their subsidy eliminated, and more importantly, only an insurance agent will be able to tell a policyholder the specific premium for an individual's specific situation. In some cases, significantly lower-cost Preferred Risk Policies are available for properties located outside high-risk areas with no flood loss history.

Sample of changes in subsidized premium rates under Biggert-Waters Flood Insurance Reform Act of 2012:

The rates quoted here are full-risk premium rates. Depending on individual circumstances, these new rates may be either phased-in over time, or may take effect immediately based on a number of triggering events. A timetable on rate changes can be found below in the section labeled "When Will Changes Take Effect?".

For a single-story structure:

	Subsidized Premium Rates before BW12 Pre-BW12 Subsidized Rates for $250K/$100K Building/Contents Policy in **high risk, non-coastal AE zones (no elevation certificate)** .	**Premium Rates following elimination of subsidies – after October 1, 2013** Post-BW12 non-subsidzed Rates for $250K/$100K Building/Contents Policy in **high-risk non-coastal AE zones (with Elevation Certificate).**
Lowest floor of property is 4 feet above base flood elevation	$3,600	$553
Lowest floor of property is at base flood elevation	$3,600	$1,815
Lowest floor of property is 4 feet below base flood elevation	$3,600	$10,723

Rates based on a policy with a $1,000 deductible and $250,000 building coverage and $100,000 contents coverage. This scenario is based on a single-story building with no basement, crawlspaces or enclosures. An AE zone is an area subject to inundation by the 1-percent annual chance flood event. Base Flood Elevations are shown on Flood Insurance Rate Maps in these zones. AE zones are used on new and revised maps in place of numbered A zones from A1 to A30.

It is important to note that a small number of flood insurance policies protecting properties in very high risk coastal areas (VE Zones) -- where wave action combined with high water causes increased damage -- will see significantly higher premiums which could be in excess of $20,000 in rare cases.

Only an insurance agent can accurately provide a detailed premium quote given specific circumstances because flood zones where the property is located, and elevation of the lowest floor, will significantly impact premiums. It is important to work with insurance agents to see how policyholders may be able to reduce rates through elevating their buildings and choosing insurance levels and deductibles which provide proper protection.

When Will Changes Take Effect?

Remember, not everyone will be immediately affected by the new law. Subsidized premiums for policies covering non-primary residences, businesses, and structures with severe repeated flood losses will have premium increases of 25 percent per year until rates reflect the full risk.

Other actions will trigger immediate rate subsidy elimination. Subsidized premiums for primary residences in Special Flood Hazard Area's will be able to keep their subsidized rates unless or until:

- The property is sold;
- The policy lapses;

- The insured property suffers severe, repeated, flood losses where the owner refuses an offer to mitigate; or
- A new policy is purchased.

Why is this happening?

After 45 years, flood risks continue and the costs and consequences of flooding are increasing dramatically. In 2012, Congress passed the Biggert-Waters Flood Insurance Reform Act which calls on FEMA to make a number of changes to the way the NFIP is managed. 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 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. Certain actions can trigger rate changes, as indicated above. Policyholders should talk to their insurance agent about how these changes may affect their flood insurance policy premium. There are investments property owners and communities can make to reduce the impact of rate changes.

Grandfathering Changes Expected in 2014

Prior to the Biggert-Waters Flood Insurance Reform Act, when revised or updated maps showed higher risk zones or BFEs, policyholders were permitted to “grandfather” and use the zone and elevation of an older map. The Act phases-out grandfathered rates and moves to current risk-based rates for most properties when the community adopts a new FIRM. If a policyholder lives in a community that adopts a new, updated FIRM, grandfathered rates will be phased out and rates will reflect the most recent effective map. This will happen gradually, with new rates phasing in over five years. The premium example above may help homeowners anticipating map revisions to begin to plan for this change to the NFIP premium structure.

What Can Be Done to Lower Costs?

For property owners:

- Talk to your insurance agent about your options.
- If you do not have one already, you will likely need an Elevation Certificate to determine your true risk premium and to make informed decisions about flood mitigation and rebuilding.
- Higher deductibles might lower your premium.
- Consider incorporating flood mitigation into your remodeling or rebuilding.
    - Elevating or rebuilding higher will lower your risk and could reduce your premium.
    - Consider adding flood-vents to your foundation walls 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 policyholders.
- 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.

For More Information:

For more information on Biggert-Waters 12 implementation, visit http://www.fema.gov/bw12. For additional information about specific premium rates, contact your insurance agent. To learn more about flood risk and explore coverage options, visit http://www.FloodSmart.gov.