

The Biggert-Waters Flood Insurance Reform Act of 2012

Senate Banking and Insurance Committee

October 8, 2013

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Biggert-Waters Flood Insurance Reform Act of 2012

- 5-year federal extension of the National Flood Insurance Program (NFIP)
- Flood insurance rates, flood hazard mapping, mitigation grants and floodplain management
- Recurring financial deficits
- Unsustainable premium structure

Source: Federal Emergency Management Administration/National Flood Insurance Program (FEMA/NFIP)



NFIP Policy Status Nationally

Nationally: 5.60 million policies

Full-Risk Rates:

80% of policies (4.48 million policies)

Subsidized Rates (Pre-FIRM properties*):

20% of policies (1.12 million policies)

Source: FEMA/NFIP

*Flood Insurance Rate Map (Pre-FIRM) –
Prior to the community's initial flood
insurance rate map.



NFIP Policy Status in Florida

Florida: Over 2 million policies or 37% of total NFIP policies

Full-Risk Rates:

87% of policies (1,789,559 policies)

Subsidized Rates (Pre-FIRM properties):

13% of policies (268,500 policies)



Comparing Florida to Other States

State	Premium Paid to Claims Payments Received*
Alabama	\$0.40 paid for every \$1 received
California	\$4.90 paid for every \$1 received
Colorado	\$15.10 paid for every \$1 received
Florida	\$3.60 paid for every \$1 received
Mississippi	\$0.20 paid for every \$1 received
New York	\$1.90 paid for every \$1 received
Texas	\$0.70 paid for every \$1 received
West Virginia	\$0.70 paid for every \$1 received

Source: Wharton Center for Risk Management and Decision Processes, Issue Brief , Fall 2011 – *“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).”*

*Based on data available between 1978-2008 (in 2008 prices).



Rate Structure Reforms Under the Act

- Requires full-risk rate for newly insured properties and lapsed policies.
- Raises cap (“glide-path”) on regular annual rate increases from 10 percent to 20 percent (except those subject to phase-out).
- Eliminates subsidized rates for Pre-FIRM properties.
- Phases out “grandfathered” rates for properties affected by remapping.



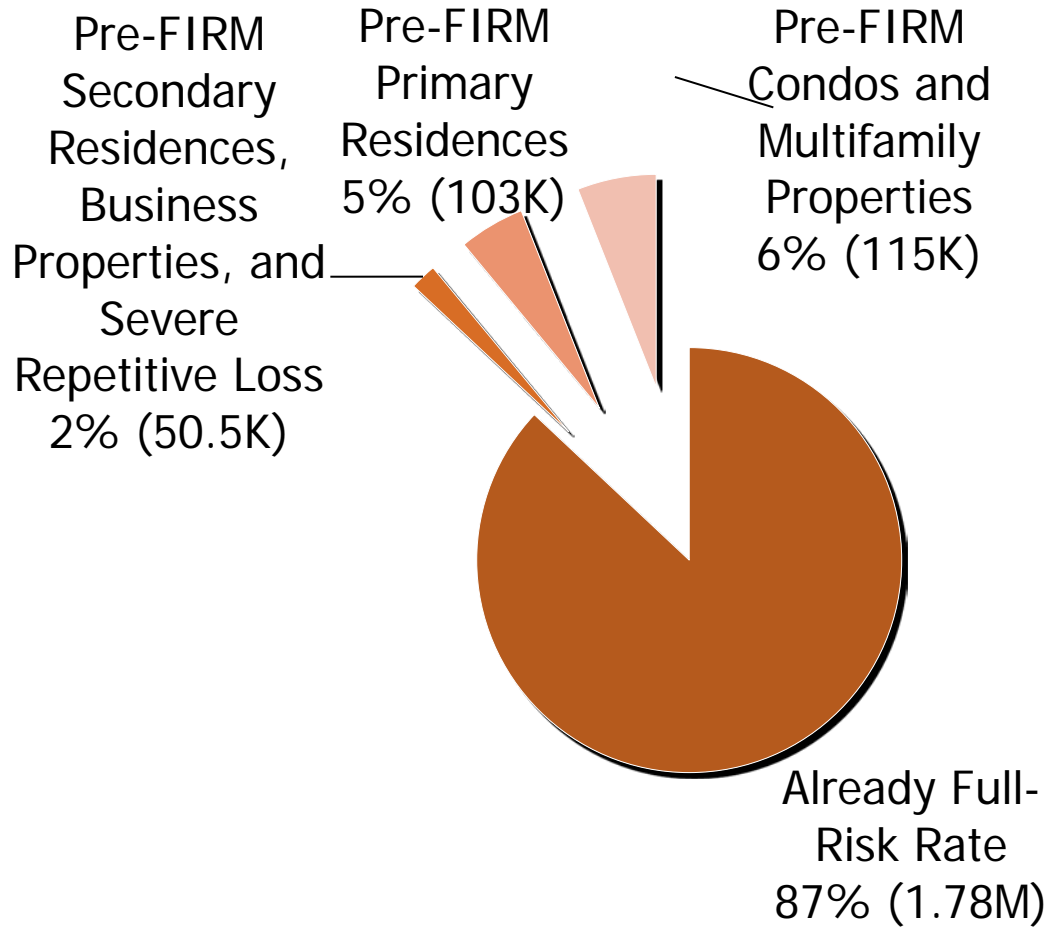
Rate Effect from Elimination of Pre-FIRM Subsidies

Florida has 268,500 Pre-FIRM subsidized policies:

- **Secondary residences/businesses/severe repetitive loss properties (50,500 policies):** Immediate 25% increase—
 - Secondary residences (January 1, 2013)
 - Businesses and severe loss properties (October 1, 2013)
- **Primary residences (103,000 policies):** No change unless/until triggering event occurs (e.g., sell home, policy lapse).
- **Condos/non-condo multifamily (115,000 policies):** No change until FEMA develops guidance.



NFIP Rate Status in Florida



Florida Counties With Largest Share of Pre-Firm Subsidized Policies

County	Subsidized Policies	Policies not subsidized	% of Policies Subsidized
Pinellas	50,255	91,509	35%
Miami-Dade	47,442	318,934	13%
Lee	30,398	111,735	21%
Broward	19,425	350,051	5%
Sarasota	18,770	49,431	28%
Collier	17,133	85,319	17%
Hillsborough	14,368	54,613	21%
Monroe	11,840	20,104	37%
Pasco	11,352	19,773	36%
Manatee	11,264	28,763	21%



Rate Effect From Remapping

- “Grandfather” rules allow policies to be rated based on the FIRM in effect at time of construction.
- Elimination of “grandfathered” rates upon remapping; phase-in of “full-risk” rates over 5 years at 20% per year until full-risk rate achieved (late 2014).
- Impacts from potential change in flood risk for currently insured properties.
- New properties subject to flood requirements.

Additional Changes

- Sets minimum deductibles for pre-and post-FIRM policies.
- Requires FEMA to use actuarial principles in setting rates.
- Creates a Reserve Fund for higher-than-expected losses.
- Allows “equivalent” private flood insurance in lieu of NFIP coverage in securing mortgage.



Conclusion

- Significant impact on Florida policyholders and economy.
- Unclear how remapping may affect Florida policyholders.
- Florida has historically paid approximately \$4 in premium for every \$1 in claims payments received.
- Continue to seek updates from FEMA and monitor implementation.



Questions?

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