

Commissioner's Monthly Column

Overview of Changes to the National Flood Insurance Program

March 2013

This month marks the beginning of spring, and while we welcome the promise of new life that this time of year brings, we are also entering a period marked by spring storms and of course, the approach of hurricane season. It is no coincidence that March includes two weeks dedicated to raising consumers' preparedness for the threat of severe weather and flooding. The Federal Emergency Management Agency (FEMA), in conjunction with the National Oceanic Atmospheric Administration, launched its second annual National Severe Weather Preparedness Week March 3-9. Flood Safety Awareness Week, which took place March 18 – 22, was established by the National Oceanic and Atmospheric Administration (NOAA) and the National Weather Service (NWS) to alert consumers to potential flood risks. In light of this, and the significant reforms to the National Flood Insurance Program (NFIP), I'd like to address the changes that you may receive questions about and that have received a good deal of attention.

Since flood damage is not covered under homeowners policies, purchasing a flood insurance policy can help homeowners and commercial interests protect their homes and businesses. As a coastal state, Louisiana has relied heavily on the National Flood Insurance Program. In fact, up until Superstorm Sandy, the NFIP was \$18 billion in the red and \$15 billion of that was due to Hurricane Katrina and Rita payments in our state.

In 2012, the Biggert-Waters Flood Insurance Reform and Modernization Act was signed into law by President Obama. The act reauthorized the NFIP until 2017 and revamped the program in order to make it actuarially sound going forward.

You may have heard me refer to the sticker shock experienced by policyholders when it comes to storm deductibles. I expect the changes to the national flood insurance program will likely result in similar reactions by consumers and business owners faced with sharply increased premiums. Key changes of the federal law include the phasing out of subsidies for second homes, business properties, substantially damaged structures, structures with cumulative losses over the fair market value and severe repetitive loss properties (four losses of \$5,000 or more each). Rates for these properties will increase annually up to 25 percent until the premiums meet the full actuarial cost. Homeowners purchasing flood insurance for the first time, or who have allowed policies to lapse, will see actuarial (non-subsidized) rates.

The act also requires a premium rate adjustment upon the effective date of any revised or updated flood insurance rate map, on any property located in an NFIP-participating area, to accurately reflect the current risk of flood to such property. Because the determination will be made after the effective date of any revised flood insurance map, the updated flood maps being rolled out by FEMA are of great interest. Policyholders who will experience rate increases include those outside the flood protection system and those with homes and businesses below base flood elevation. If the updated maps result in an increase in risk premium, that increase will be phased in over a five-year period at a rate of up to 20 percent per year. Conversely, the

updated maps could result in lower premiums for those who live in areas that have seen improvements in flood protection.

While the changes to the program will result in increased premiums for many, I still feel that Louisiana homeowners will benefit greatly from the federal program. As you will recall, the vast majority of the damage to homes and businesses caused by Hurricane Isaac last year was flood-related. Additionally, severe winter storms in January caused widespread damage and flooding in parishes as far north as East Carroll and Madison, prompting the federal government to declare disasters in 11 parishes. In 2008 hundreds of homes in the Alexandria and Monroe areas of our state flooded as a result of the rains associated with Hurricane Gustav as it made its way through north Louisiana.

While some may believe that flooding only affects properties in coastal and low lying areas, the truth is everyone is vulnerable to floods. In fact, property owners outside of high-risk flood areas are responsible for 25 percent of NFIP claims in Louisiana. Rising floodwaters can prove to be hazardous no matter where you live, yet only one out of every four single family homes in Louisiana have flood insurance.

According to the NFIP, just a single inch of floodwater can cause more than \$10,000 in damage to a home. Here are additional flood facts from the NFIP:

- For those who live in a Special Flood Hazard Area (SFHA) or high-risk area and have a federally backed mortgage, the mortgage lender requires a flood insurance policy.
- Floods and flash floods happen in all 50 states.
- In a high-risk area, a home is more than twice as likely to be damaged by flood than by fire.
- The Standard NFIP flood insurance policy does not provide coverage in excess of \$250,000 for your house (Coverage A) and \$100,000 for its contents (Coverage B). If more coverage is necessary, it can be acquired through excess flood insurance that can be purchased through private insurers.
- The Standard NFIP flood insurance policy provides coverage up to \$500,000 for a commercial structure (Coverage A) and up to \$500,000 for its contents (Coverage B).

Louisiana homeowners may be more knowledgeable about flood insurance following events such as our many hurricane events, which provide an (unwelcome) education on the federal program. These changes enacted by Biggert-Waters will require further education for consumers, and for you as producers. I urge you to continue to routinely advise property owners to take the time to assess their flood insurance needs.