Biggert Waters Flood Insurance Reform Act of 2012

The NFIP's *Specific Rating Guidelines*

As the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) implements the provisions of the *Biggert-Waters Flood Insurance Reform Act of 2012* (BW-12), there has been increased attention on the effect that elevation levels can have on flood insurance rates. As a result, FEMA is taking the added step to provide the public with the *Specific Rating Guidelines,* previously issued to participating Write Your Own (WYO) insurance companies and other insurance partners. This document is issued annually to our insurance partners, but due to increased public interest resulting from the reforms passed in BW-12, we are publicly releasing these Guidelines for the first time.

Insurers historically used the *Specific Rating Guidelines* to calculate premiums for a variety of properties with a high risk of sustaining flood damage, particularly rates for buildings where the lowest floor elevation is below the Base Flood Elevation (BFE).[1] In the past, many properties built below the BFE and before Flood Insurance Rate Maps (FIRMs) and minimum floodplain management requirements were adopted in community ordinance (known as pre-FIRM properties) received subsidized premium rates that were lower than true risk. BW-12 requires FEMA to immediately eliminate subsidies for certain properties, such as property purchased after BW-12 was enacted, property insured by policies that have lapsed or were purchased after BW-12 was enacted. These properties may now be rated using the *Specific Rating Guidelines*. The new tables and underwriting procedures in the *Specific Rating Guidelines* reflect those mandated changes.

Flood insurance premiums are based on a number of factors, including the elevation of the lowest floor of the building, the type of building, the number of floors, whether a building has a basement or enclosure, use of flood mitigation techniques such as breakaway walls and flood vents, and the property's geographic location in reference to flood hazards identified by the community and FEMA. FEMA sets pre-FIRM subsidized rates without regard to the lowest floor elevation, and many policyholders may not know the elevation of their pre-FIRM structures. An Elevation Certificate contains the information needed to determine the true flood risk premium for a property. Property owners who do not have an Elevation Certificate should speak to their insurance agent about their specific situation.

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 property. In some cases, significantly lower-cost Preferred Risk Policies may be available for properties with no flood loss history located outside high-risk areas.

Below are links to the NFIP Flood Insurance Manual, Specific Rating Guidelines and Actuarial Assumptions:

http://www.fema.gov/flood-insurance-manual (May 2013 Full Version)

http://www.nfipiservice.com/Stakeholder/pdf/bulletin/w-13045.pdf (October 2013 Flood Insurance Manual Revisions).

https://www.fema.gov/media-library/assets/documents/34620 (October 2013 Specific Rating Guidelines and Actuarial Assumptions)

[1] The BFE is the flood level that has a one (1) -percent chance of being equaled or exceeded in any given year.

The following examples demonstrate the kind of calculation that insurance companies will make to determine a policy rate when the lowest floor elevation is below the BFE using the *Specific Rating Guidelines.*

Example One – Non elevated, single family dwelling with two floors where the lowest floor is three feet below the Base Flood Elevation, and there is no basement.

A policy for this type of building in an AE zone with building coverage of $200,000, contents coverage of $100,000 and a standard $1,000 deductible would have a premium of $5,676 per year.

The rate for this example is determined by using the Specific Rating Guidelines, page 1-1. In this example, there is more than one floor and the elevation difference from the base flood elevation is -3 (meaning that the lowest floor is three feet below the base flood elevation). The basic coverage building rate will apply $5.19 to every $100 of the basic building coverage limit, and $0.82 for every $100 of additional building coverage. The basic contents coverage rate will apply $2.95 for every $100 of the basic contents coverage limit, and $0.44 for every $100 of additional contents coverage. The basic building coverage is $60,000, and the basic contents coverage is $25,000.

The NFIP Standard Flood Insurance Policy includes Increased Cost of Compliance (ICC) coverage to assist an insured to rebuild after a flood loss to certain building code requirements designed to reduce future flood damage. ICC premium for this example is determined by using the Specific Rating Guidelines, page 5-4, and is based on the amount of coverage requested for the policy. In this example, the determined ICC premium amount is $34.

BW-12 requires the NFIP to charge a Reserve Fund Assessment to each premium to build a catastrophic reserve fund, which is currently five percent of the total annual premium. In addition, every new and renewed NFIP standard-rated policy is charged a flat $44 fee ($22 for Preferred Risk Policy) to defray administrative expenses incurred in carrying out the NFIP.

Below is the premium calculation that demonstrates how all of these factors are calculated to determine the annual premium cost.

Premium Calculation

1)	Multiply Rate x $100 of Coverage:	
	Building Basic Limit	$5.19 x $60,000 = $3,114
	Building Additional Limit	$.82 x $140,000 = $1,148
	Contents Basic Limit	$2.95 x $25,000 = $738
	Contents Additional Limit	$.44 x $75,000 = $330
	Building/Contents Subtotal:	Building: $4,262 / Contents: $1,068
2)	Annual Subtotal:	$5,330
3)	Add ICC Premium:	$34 (Specific Rating Guidelines page 5-4)
4)	Subtotal:	$5,364
5)	Subtract CRS Discount:	N/A
6)	Subtotal:	$5,364
7)	Add Reserve Fund Assessment:	$268 (5% - Flood Insurance Manual page RATE 14)
8)	Subtotal:	$5,632

9) Probation Surcharge: N/A
10) Add Federal Policy Fee: $44 (Flood Insurance Manual page RATE 14)
11) Total Amount Due: $5,676

Example Two – Post FIRM, elevated, single family dwelling with two floors where the lowest elevated floor is six feet above the BFE, but with a finished enclosure that is 1,500 square feet, that is three feet below the BFE. The enclosure contains building machinery and equipment, and a washer and dryer.

A policy for this type of building in an AE zone with building coverage of $200,000, contents coverage of $100,000, and a standard $1,000 deductible would have a premium of $946 per year.

The rate for this example is determined by using the Flood Insurance Manual for the basic and additional rates of the two floors built above the BFE and the Specific Rating Guidelines for the enclosure and contents. In this example, there is more than one floor and the elevation difference from the base flood elevation is +6 (meaning that the lowest floor is six feet above the base flood elevation). Rates will first be determined for the elevated portion of the building, and then for the enclosure. The rate for the elevated portion of the building is determined by identifying the basic and additional rates for the lowest floor of the elevated structure. The basic coverage building rate will apply $0.24 to every $100 of the basic building coverage limit, and $0.08 for every $100 of additional building coverage. The basic contents coverage rate will apply $0.38 for every $100 of the basic contents coverage limit, and $0.12 for every $100 of additional contents coverage. The rate for the enclosure (which is three feet below the BFE) will be determined using the *Specific Rating Guidelines*, Section 2. In this instance, the structure is three feet below BFE and is 1,500 square feet in area, so the insurance rate is an additional $0.43 for every $100 in basic building coverage (see page 2.2), an additional $0.21 for every $100 in basic contents coverage for the machinery and equipment (see page 2-3), and an additional $0.31 for every $100 in basic contents coverage for the appliances (see page 2-4).

In total, $0.88 will be applied to every $100 of the basic building coverage limit, and $0.08 for every $100 of additional building coverage. The basic contents coverage rate will apply a total of $0.69 for every $100 of the basic contents coverage limit, and $0.12 for every $100 of additional contents coverage. The basic building coverage is $60,000, and the basic contents coverage is $25,000.

As referenced in the previous example, every new and renewed NFIP Standard Flood Insurance Policy includes Increased Cost of Compliance coverage, and each NFIP Standard Flood Insurance Policy is charged a Reserve Fund Assessment and a flat $44 fee to defray administrative expenses.

Below is the premium calculation that demonstrates how all of these factors are calculated to determine the annual premium cost.

Premium Calculation

1) Multiply Rate x $100 of Coverage:
   Building Basic Limit $.88 x $60,000 = $528
   Building Additional Limit $.08 x $140,000 = $112
   Contents Basic Limit $.69 x $25,000 = $95
   Contents Additional Limit $.12 x $75,000 = $90
   Building/Contents Subtotal: Building: $640 / Contents: $185

2)	Annual Subtotal:	$825
3)	Add ICC Premium:	$34 (Specific Rating Guidelines page 5-4)
4)	Subtotal:	$859
5)	Subtract CRS Discount:	N/A
6)	Subtotal:	$859
7)	Add Reserve Fund Assessment:	$43 (5% - Flood Insurance Manual page RATE 14)
8)	Subtotal:	$902
9)	Probation Surcharge:	N/A
10)	Add Federal Policy Fee:	$44 (Flood Insurance Manual page RATE 14)
11)	Total Amount Due:	$946

Only an insurance agent can provide an accurate and detailed premium quote for a specific property. An insurance agent also can help identify how a policyholder may be able to reduce rates through elevating the building and choosing appropriate insurance levels and deductibles.

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 insured (as of July 6, 2012) primary residences in Special Flood Hazard Areas will be able to keep their subsidized rates unless or until:

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

Other rate changes may apply after a FIRM is revised or updated if flood risks change.

Why is this happening?

After 45 years, flood risks continue to change, 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.

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 your 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 BW-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.

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