ASFPM 2016 Conference

Insurance for Floodplain Managers – Where are we going?

Discussion document
June 2016
Rates into the future

Pre-FIRM Subsidized Rate Phase Out

Pre-FIRM Subsidy Phase Out

- Pre-FIRM w/ 25% increase
- -4 w/ 3% inflation
Pre-FIRM Subsidized Rate Phase Out

Rates into the future

Pre-FIRM w/ 25% increase
Pre-FIRM w/ 15% increase
-4 w/ 3% inflation

Pre-decisional - Proprietary and Confidential
Pre-FIRM Subsidized Rate Phase Out

Rates into the future

Pre-FIRM Subsidy Phase Out

Pre-FIRM w/ 25% increase
Pre FIRM w/ 15% increase
Pre FIRM w/ 5% increase
-4 w/ 3% inflation
Rates into the future

Newly Mapped Phase Out

Yr. 1  Yr. 2  Yr. 3  Yr. 4  Yr. 5  Yr. 6  Yr. 7  Yr. 8  Yr. 9  Yr. 10  Yr. 11  Yr. 12  Yr. 13  Yr. 14

X Std w/ 3% inflation

Newly Mapped w/ 15% increase

Pre-decisional - Proprietary and Confidential
Newly Mapped Phase Out

Rates into the future

- X Std w/ 3% inflation
- -4 w/ 3% inflation
- Newly Mapped w/ 15% increase
We are taking a journey-based approach to customer experience.

A customer journey is...

- An event that marks the *defining experience* of key life-cycles of a customer
- Defined around a *discrete beginning and end across time*
- Anchored in *how customers experience the journey, not the way functional silos do*
- Typically multi-touch, multi-channel and therefore *cross-functional in nature*

To understand FIMA CX, we looked at 8 customer journeys:

1. Steady state
2. Customer query
3. Program & map initiated change
4. Claims
5. Policy renewal
6. Shopping and sign-up
7. Customer initiated change
8. Policy cancellation

HOW DO WE THINK ABOUT CX?
There are critical gaps across all CX drivers and enablers that must be addressed in order to transform the NFIP.

**Value**
- Don't understand flood risk
- Coverage-to-value varies by person

**Brand**
- Obscure
- Confused across WYOs, other parts of FEMA

**Stakeholder ecosystem**
- Blame game
- Limited engagement

**Product**
- Complex
- One-size-fits all
- Unattractive to sell

**Service**
- Burdensome
- Non-transparent
- Limited accountability

**Culture & capabilities**
- Emerging CX culture
- Entrenched mindsets & ways of working

**Data**
- No CX tracking
- Lack of operational data
- Inconsistency

**WHAT DOES CX LOOK LIKE TODAY?**
- Don't understand flood risk
- Coverage-to-value varies by person
Value stands out as the most important CX driver – risk rating drives value

### Importance and NCS of core CX drivers

<table>
<thead>
<tr>
<th>Derived importance¹</th>
<th>NCS</th>
<th>Respondent rating on statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>% relative importance, $R^2 = 0.40$</td>
<td>%</td>
<td>Scale of 1 (low) to 10 (high)</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>31</td>
<td>-30</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td>26</td>
<td>-11</td>
</tr>
<tr>
<td><strong>Service</strong></td>
<td>21</td>
<td>-17</td>
</tr>
<tr>
<td><strong>Brand</strong></td>
<td>21</td>
<td>-38</td>
</tr>
</tbody>
</table>

1. Derived importance is calculated by running a multi-variate regression model that correlates customer satisfaction with the journey with overall customer satisfaction. Higher correlations indicate greater importance to the overall customer satisfaction. Percentages are assigned based on the individual variable’s correlation to contribution, taking into account relationships with other variables.

2. May not sum due to rounding

- **Value** has the largest share of derived importance and an NCS of -30%
- **Brand** has a very low NCS—the question is framed around differentiation, which is challenging for WYOs in this industry

**SOURCE:** VoC survey, December 2015
Our transformation timeline over the next four years is broken into a set of high impact initiatives.
## How Risk Rating 2.0 effort supports customer experience goals for FIMA

<table>
<thead>
<tr>
<th>CX lever</th>
<th>Impact example</th>
</tr>
</thead>
</table>
| **Value**  | • Communicate risks that homeowners bear along with steps they can take to mitigate risk  
             • Communicate impact of optional product features, mitigation efforts, and discounts on premium |
| **Ease**   | • Offer a quick and readily available “flood safety score” for each property  
             • Reduce/eliminate expensive and time consuming mapping and hazard research and burden on communities |
| **Simplicity** | • Show major drivers of risk for the homeowner as part of the “safety score” report  
                  • Use easy to license third-party data sources as substitutes for existing data |
| **Trust**  | • Proactively describe potential mitigation steps available  
             • Measure and communicate expected cost of a flood  
             • Classify risk with greater accuracy using modern and best available data and techniques |

*We will find examples of impact for each of the drivers of CX*  
*What other forms of impact will be important to demonstrate with Risk Rating 2.0?*
Current risk rating model\(^1\) focuses on determination of zones and rate tables.

- **Flood probability curves**: derived from decades old flood data.
- **Rate tables**: built by combining flood probability curves and past exposure risk calculations.
- **Past data on exposure risk**.
- **Agent collects customer data**.
- **WYOs and vendors use rate tables, mapped zones, and customer inputs to calculate premium**.
- **Map studies determine zones for each of FIMA’s communities**.

- **Although the high-level model is not sophisticated, communication about risk is complex**.
- **Risk rating and pricing are not separable (e.g., subsidies calculated directly into rates)**.

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\(^1\) Details in appendix. Note that separate rating tables not based on the model apply for some categories of policyholders (e.g., PRP).
There are at least 3 options for how to scope Risk Rating 2.0, each option has a large range of possible outcomes.

### NFIP RISK RATING OPTIONS

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timing</strong></td>
<td><strong>Cost</strong></td>
<td><strong>Can happen near-term (2017)</strong></td>
</tr>
<tr>
<td>Feasible now (2016)</td>
<td>$</td>
<td>$$$</td>
</tr>
<tr>
<td><strong>Changes</strong></td>
<td><strong>New communication</strong></td>
<td><strong>New communication</strong></td>
</tr>
<tr>
<td>Same model</td>
<td>Same (or easily sourced) new inputs</td>
<td>Same model</td>
</tr>
<tr>
<td>Same inputs</td>
<td></td>
<td>New inputs</td>
</tr>
<tr>
<td><strong>Top Benefits</strong></td>
<td><strong>Improves customer communication quickly</strong></td>
<td><strong>Cost to policyholder can drop if WYOs no longer need to build, code, and maintain calculators</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Homeowner and WYO receive crisper and more meaningful communication of cost or risk</strong></td>
<td><strong>FIMA has a better understanding of risk (more continuous, can start to address all properties)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Homeowner can check and verify quotes through FIMA</strong></td>
<td><strong>Can communicate a true risk-based ‘flood safety score’</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Impact</strong></td>
<td>Improve CX</td>
<td>Improve CX</td>
</tr>
<tr>
<td></td>
<td>Low/No impact</td>
<td>Low/No impact</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High Impact</td>
</tr>
</tbody>
</table>

1 After option 3, we can consider using the new model for both in/out brightline mapping decisions and to inform flood plain management.
Implementation of options can be combined and/or sequenced

HOW WILL WE FIX CX?

<table>
<thead>
<tr>
<th>Example combination</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1 &amp; 2 in 2017</td>
<td>• Prioritizes most “doable” options first, biggest early impact</td>
</tr>
<tr>
<td>Option 3 in 2019</td>
<td>• Need to move aggressively on Option 2 now</td>
</tr>
<tr>
<td></td>
<td>• Requires two different model updates</td>
</tr>
<tr>
<td>Option 1 in 2016</td>
<td>• Improves customer communication now, delivers early wins</td>
</tr>
<tr>
<td>Combined Option 2 &amp; 3 in 2018</td>
<td>• Requires concerted effort on Option 2 &amp; 3 in medium-term</td>
</tr>
<tr>
<td>Option 1, 2, 3 across 2017-2019</td>
<td>• Timeline provides runway to test, train, and implement</td>
</tr>
<tr>
<td></td>
<td>• Piecemeal approach means political will may shift/wane</td>
</tr>
<tr>
<td></td>
<td>• Confuses customers and stakeholders with multiple changes</td>
</tr>
</tbody>
</table>
Changes to the National Flood Insurance Program – 2012 to Present

The impacts of major legislation, Sandy, and the pending reauthorization
Where Have We Been?

- July 6, 2012 - The Biggert-Waters Flood Insurance Modernization and Reform Act of 2012 (BW-12)

- October 29, 2012 – Super Storm Sandy

What Happened?

- **July 6, 2012 - The Biggert-Waters Flood Insurance Modernization and Reform Act of 2012 (BW-12)**
  - Eliminated or phased out subsidies
  - Eliminated grandfathering

- **October 29, 2012 – Super Storm Sandy**
  - Exposed the need for transformative change
  - Resulted in a customer focused reset

  - Slowed subsidy elimination – but did not stop it
  - Restored grandfathering
  - Added another subsidy for property owners impacted by map changes
Some different rating methods

**Subsidized premium rates**
- The rate is deliberately set lower than the anticipated losses and expenses for the group of qualifying properties.
- The rate is applied to buildings with very limited underwriting information.
- The differentiation of risks within the group is very coarse, with a great variability of risks.

**Full-Risk premium rates**
- The rate is set to collect sufficient premium to cover the anticipated paid losses and administrative expenses for the group.
- The rate is generally dependent on more refined underwriting.
- High risk properties are grouped with other high risk properties, medium risk with medium risk, and lower risk properties are grouped with other lower risk properties.

**Grandfathered premium rates**
- Grandfathered policies are generally considered a subcategory of full-risk policies.
- Because this group was either outside of the Special Flood Hazard Area (SFHA) or built-in-compliance at one time, the overall risk of the group is considered lower.
The premiums below are based on a $250,000 building coverage limit and $100,000 contents limit with a $2,000 deductible for each using rates effective April 1, 2016. No discount for the Community Rating System (CRS) was assumed. The Increased Cost of Compliance (ICC) coverage premium and 15% Reserve Fund Assessment are included, as well as a $25 HFIAA surcharge for a primary residence. No probation surcharge was added. A $50 Federal Policy Fee is included. The zone is AE.
NFIP Subsidies

- **Emergency Program** – Less than 1% of the book.

- **Pre-FIRM Subsidized** – Still close to 20% of the book, total prices typically between $2,000 - $3,000 per year, but can be much higher for high coverage or for V zones.

- **A99 and AR zones** – Less than 1% of the book, now eligible for the low cost PRP, often less than $500 per year.

- **Newly Mapped** – About 4% but growing. Starts at a PRP and transitions to a full-risk rate through increases not to exceed 18% per year. **NEW!!**

- **Group Flood Insurance Policy** – Less than 1%, premium is $600 for 3 years coverage paid out of Individual Assistance.
Grandfathering v. Property Specific

The premiums below are based on a $250,000 building coverage limit and $100,000 contents limit with a $2,000 deductible for each using rates effective April 1, 2016. No discount for the Community Rating System (CRS) was assumed. The Increased Cost of Compliance (ICC) coverage premium and 15% Reserve Fund Assessment are included, as well as a $25 HFIAA surcharge for a primary residence. No probation surcharge was added. A $50 Federal Policy Fee is included. The current flood zone is AE, but a previous map indicated zone X.

* The Property-Specific Full-Risk premium for your building may vary, depending on the elevation information listed on your EC and other rating considerations. Provide an EC to your insurance agent for an exact quote.
A Pre-FIRM Subsidized Rate Table

### TABLE 2A. REGULAR PROGRAM – PRE-FIRM CONSTRUCTION RATES

**ANNUAL RATES PER $100 OF COVERAGE (Basic/Additional)**

On or after October 1, 2013, this table may not be used to rate the following:
1) Pre-FIRM properties that are newly purchased or newly insured on or after July 6, 2012; 2) Policies that have lapsed in coverage and are being reinstated on or after October 4, 2012; or 3) 1-4 Family Severe Repetitive Loss properties. For Non-Principal/Non-Primary Residence use Table 2B.

#### FIRM ZONES A, AE, A1–A30, A0, AH, D

<table>
<thead>
<tr>
<th>OCCUPANCY</th>
<th>SINGLE FAMILY</th>
<th>2-4 FAMILY</th>
<th>OTHER RESIDENTIAL</th>
<th>NON-RESIDENTIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Building</td>
<td>Contents</td>
<td>Building</td>
<td>Contents</td>
</tr>
<tr>
<td>No Basement/Enclosure</td>
<td>.91 / .77</td>
<td>1.15 / 1.38</td>
<td>.91 / .77</td>
<td>.91 / 1.61</td>
</tr>
<tr>
<td>With Basement</td>
<td>.97 / 1.14</td>
<td>1.15 / 1.16</td>
<td>.97 / 1.14</td>
<td>.91 / 1.34</td>
</tr>
<tr>
<td>With Enclosure[^1]</td>
<td>.97 / 1.37</td>
<td>1.15 / 1.38</td>
<td>.97 / 1.37</td>
<td>.97 / 1.68</td>
</tr>
<tr>
<td>Elevated on Crawlspace[^2]</td>
<td>.91 / .77</td>
<td>1.15 / 1.38</td>
<td>.91 / .77</td>
<td>.91 / 1.61</td>
</tr>
<tr>
<td>Non-Elevated with Subgrade</td>
<td>.91 / .77</td>
<td>1.15 / 1.16</td>
<td>.91 / .77</td>
<td>.91 / 1.61</td>
</tr>
<tr>
<td>Crawlspace[^3]</td>
<td>.91 / .77</td>
<td>1.15 / 1.38</td>
<td>.91 / .77</td>
<td>.91 / 1.61</td>
</tr>
<tr>
<td>Manufactured (Mobile) Home[^4]</td>
<td>.91 / .77</td>
<td>1.15 / 1.38</td>
<td>.91 / .77</td>
<td>.91 / 1.61</td>
</tr>
<tr>
<td>Basement &amp; Above[^5]</td>
<td>1.15 / 1.16</td>
<td>1.15 / 1.16</td>
<td>1.15 / 1.16</td>
<td>1.93 / 3.07</td>
</tr>
<tr>
<td>Enclosure &amp; Above[^6]</td>
<td>1.15 / 1.38</td>
<td>1.15 / 1.38</td>
<td>1.15 / 1.38</td>
<td>1.93 / 3.67</td>
</tr>
<tr>
<td>Lowest Floor Only — Above</td>
<td>1.15 / 1.38</td>
<td>1.15 / 1.38</td>
<td>1.15 / 1.38</td>
<td>1.93 / 1.62</td>
</tr>
<tr>
<td>Ground Level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lowest Floor Above Ground</td>
<td>1.15 / .96</td>
<td>1.15 / .96</td>
<td>1.15 / .96</td>
<td>1.93 / 1.38</td>
</tr>
<tr>
<td>Level and Higher Floors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above Ground Level —</td>
<td>.42 / .19</td>
<td>.42 / .19</td>
<td>.42 / .19</td>
<td>.29 / .23</td>
</tr>
<tr>
<td>More Than 1 Full Floor</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTE: Elevations are not used!
A Full-Risk Rate Table

NOTE: Elevations are used! Other building characteristics are used as well.

# TABLE 3B. REGULAR PROGRAM – POST-FIRM CONSTRUCTION RATES

ANNUAL RATES PER $100 OF COVERAGE (Basic/Additional)

On or after October 1, 2013, also use this table to rate the following: 1) Pre-FIRM properties that are newly purchased or newly insured on or after July 6, 2012; or 2) Policies that have been reinstated on or after October 4, 2012, after a lapse in coverage.

## FIRM ZONES AE, A1–A30 – BUILDING RATES

<table>
<thead>
<tr>
<th>ELEVATION OF LOWEST FLOOR ABOVE OR BELOW THE BFE</th>
<th>1 FLOOR No Basement/Enclosure/Crawlspace</th>
<th>MORE THAN 1 FLOOR No Basement/Enclosure/Crawlspace</th>
<th>MORE THAN 1 FLOOR With Basement/Enclosure/Crawlspace</th>
<th>MANUFACTURED (MOBILE) HOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 Family</td>
<td>.24 / .08</td>
<td>.20 / .08</td>
<td>.24 / .08</td>
<td>.24 / .08</td>
</tr>
<tr>
<td>+4</td>
<td>.30 / .08</td>
<td>.27 / .10</td>
<td>.25 / .08</td>
<td>.27 / .08</td>
</tr>
<tr>
<td>+3</td>
<td>.42 / .08</td>
<td>.36 / .11</td>
<td>.33 / .08</td>
<td>.32 / .08</td>
</tr>
<tr>
<td>+2</td>
<td>.71 / .10</td>
<td>.62 / .16</td>
<td>.57 / .09</td>
<td>.46 / .08</td>
</tr>
<tr>
<td>+1</td>
<td>1.78 / .13</td>
<td>1.60 / .25</td>
<td>1.37 / .12</td>
<td>1.00 / .10</td>
</tr>
<tr>
<td>0</td>
<td>4.40 / .85</td>
<td>4.37 / .93</td>
<td>3.33 / .65</td>
<td>2.28 / .41</td>
</tr>
<tr>
<td>-1</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>-2</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
</tr>
</tbody>
</table>
What did BW-12 Do?

<table>
<thead>
<tr>
<th>Pre-FIRM Subsidized</th>
<th>Grandfathered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted rates developed with limited underwriting information for buildings constructed prior to a community’s initial Flood Insurance Rate Map (FIRM)</td>
<td>A cross-subsidy whereby a policyholder is permitted to remain in a rating class determined by a previous FIRM following a map revision after the initial FIRM.</td>
</tr>
</tbody>
</table>

1) **Direct move to full-risk premium rates** for pre-FIRM property newly purchased or newly insured on or after July 6, 2012, including reinstatement of a lapse.

Grandfathering authority eliminated. A **policyholder will transition gradually over five years through 20% increments** from the rate determined in the rate class from the prior map to the new map.

2) **Increases of 25% per year** for subsidized policies effective prior to July 6, 2012, for the following:
   - non-primary residences,
   - businesses,
   - Severe Repetitive Loss properties,
   - cumulative loss properties and
   - properties substantially damaged or improved.

3) **Up to 20% annual increases** for all other pre-FIRM subsidized policies
## What did HFIAA Do to BW-12?

<table>
<thead>
<tr>
<th>Pre-FIRM Subsidized</th>
<th>Grandfathered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted rates developed with limited underwriting information for buildings constructed prior to a community’s initial Flood Insurance Rate Map (FIRM)</td>
<td>A cross-subsidy whereby a policyholder is permitted to remain in a rating class determined by a previous FIRM following a map revision after the initial FIRM.</td>
</tr>
</tbody>
</table>

1) **Direct move to full-risk premium rates** for pre-FIRM property newly purchased or newly insured on or after July 6, 2012, including reinstatement of a lapse, reinstating coverage for a pre-FIRM subsidized policy that lapsed while subject to mandatory purchase.

2) **Increases of 25% per year** for subsidized policies effective prior to July 6, 2012, for the following:
   - non-primary residences,
   - businesses,
   - Severe Repetitive Loss properties,
   - cumulative loss properties and
   - properties substantially damaged or improved.

3) **Up to 20% annual increases** per policy (no less than 5% average per class, and no more than an average per class of 15%) for all other pre-FIRM subsidized policies

Grandfathering authority eliminated. A policyholder will transition gradually over five years through 20% increments from the rate determined in the rate class from the prior map to the new map.

**Newly Mapped:** In addition to restoring the authority to use grandfather rating, FEMA is mandated to allow a property newly mapped into the Special Flood Hazard Area by a map revision to receive a “preferred risk premium” in the first year after the map revision, and transition to full-risk rates at no more than 18% per year.
However, Pre-FIRM Subsidy Elimination Continues

- 25% Annual Premium Rate Increases Continue for the Following Pre-FIRM Subsidized Policyholders
  - Non-primary residences
  - Businesses
  - Severe Repetitive Loss Properties
  - Cumulative Loss Properties
  - Substantial Damage or Improvement

- Up to 18% Annual Increases Continue for all Other Pre-FIRM Subsidized Policyholders

- If a Pre-FIRM Subsidized Policy or if a Newly Mapped Policy (Pre-FIRM or Post-FIRM) Lapses, Eligibility for Either Subsidy Can be Lost
All property pre- or post-FIRM that is outside of the SFHA is already full-risk at premiums typically under $500 for a single-family residence.

All post-FIRM property inside the SFHA is already full-risk at premiums typically under $1,000 in A zones, but considerably higher in V zones.

All pre-FIRM property is typically eligible for pre-FIRM subsidized premium rates resulting in typical total prices around $2,000-$3,000 in A zones (so long as ‘the lapse trigger’ does not apply).

All property, pre- or post-FIRM, newly mapped into the SFHA by a map revision (not the initial FIRM) is typically eligible for the Newly Mapped rating procedure (so long as ‘the lapse trigger’ does not apply).

FEMA’s grandfather procedures have never changed (Section 100207 of BW-12 was repealed before it was implemented).

Other subsidies have been expanded (AR and A99 Zones).
# Newly Mapped (NM) Procedure

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRP/NM Base Premium</td>
<td>NM Base Premium</td>
</tr>
<tr>
<td>$386</td>
<td>$386</td>
</tr>
<tr>
<td>Multiplier</td>
<td>Multiplier</td>
</tr>
<tr>
<td>1.00</td>
<td>1.15</td>
</tr>
<tr>
<td>ICC Premium</td>
<td>ICC Premium</td>
</tr>
<tr>
<td>$4</td>
<td>$4</td>
</tr>
<tr>
<td>Reserve Fund Assessment</td>
<td>Reserve Fund Assessment</td>
</tr>
<tr>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>HFIAA Surcharge</td>
<td>HFIAA Surcharge</td>
</tr>
<tr>
<td>$25</td>
<td>$25</td>
</tr>
<tr>
<td>Federal Policy Fee</td>
<td>Federal Policy Fee</td>
</tr>
<tr>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td>$524</td>
<td>$590</td>
</tr>
</tbody>
</table>
When Do I Reach My Full-Risk Rate?

Grandfathering?

Wait and See?

A99 or AR

Newly Mapped

Emergency Program

Pre-FIRM subsidized

Purchase an Elevation Certificate

Reach the Property Specific Full-Risk Rate
These policies are not Pre-FIRM subsidized (already actuarially rated), 4,480,669 policies. They are not affected by 205 but may see routine annual rate increases.

Pre-FIRM Subsidized Policyholders
(data as of 12/31/2012)

81%

These pre-FIRM non-primary residences, business properties, and Severe Repetitive Loss (SRL) properties (252,851 policies) will see 25% increases until the true risk premium is reached.

These pre-FIRM primary residences (578,312 policies) will retain their subsidies until sold to new owner, policy lapse, etc.

These properties, which include pre-FIRM condos and multifamily properties (244,085 policies) will not see immediate subsidy removal.
Changes for October 1, 2016

- Validation of current mapping information began April 1, 2016
  - This will validate subsidies
  - This will identify grandfathered policies
  - This will prepare for the “Clear Communication of Risk” required by Section 28 of HFIAA

- The ‘Lapse Trigger’ reinstated
  - The first time a late payment is made will not count, so long as the payment is received within 90 days of expiration

- Revisions to Refund Procedures
  - Cancellation Refunds are mostly prospective.
  - Rating adjustments are allowed for up to 5 years

- Preferred Risk Policy (PRP) eligibility will be extended to policies rated in A99 and AR Zones effective October 1, 2016
Other Highlights

- BW-12 introduced a Reserve Fund for catastrophic loss, and the NFIP now has a Reserve Fund Assessment built into its pricing.

- HFIAA introduced a surcharge on all new or renewal policies:
  - $25 for a policy covering an individual’s primary residence
  - $250 for all other policies

- If a Pre-FIRM Subsidized Policy Lapses, eligibility for subsidy can be lost.

- If a Newly Mapped policy lapses, eligibility for Newly Mapped can be lost.
Review of Grandfather Eligibility

- **Built-in-Compliance**
  - Only mapping information (zone and BFE) can be grandfathered
  - Applies to all post-FIRM buildings that comply with NFIP requirements at time of construction (when the permit is issued)
  - Applies only to those pre-FIRM buildings that were constructed in compliance with an initial FIRM that became effective prior to January 1, 1975
  - Is never lost, even if coverage lapses

- **Continuous Coverage**
  - Only mapping information (zone and BFE) can be grandfathered
  - Applies to the mapping information at the date of application or renewal so long as continuous coverage is maintained
  - Is lost if payment is received more than 90 days after expiration, or if payment is received two times more than 30 days after expiration.
Premium Increases

- **Property Specific Full-Risk** = Annual increases are mainly inflation adjustments, with occasional actuarial adjustments based on new knowledge.

- **Grandfathered Full-Risk** = Annual increases are typically above the general inflation rate but below 15% per rate year per class, and below 18% per year per policy. “Adverse selection” drives up the rate faster than inflation.

- **Newly Mapped Subsidized** = Annual increases of about 15% per rate year per class, and below 18% per year per policy until a full-risk rate is reached.

- **Pre-FIRM Subsidized** = Annual increases of 25% per year required for non-primary residences, businesses, severe repetitive loss, cumulative loss, and substantially damaged or improved buildings. All others increase at least 5% as a class average per year with a maximum class average of 15% per year, and no individual policy over 18%.
Exceptions to the caps on increases

- A change in coverage or deductibles
- A downgrade to the Community Rating System for the community
- The correction of a misrating
<table>
<thead>
<tr>
<th>Date Issued</th>
<th>Bulletin Number</th>
<th>Statutory Provision</th>
<th>Brief Description</th>
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<tbody>
<tr>
<td>06/29/2012</td>
<td>W-12043</td>
<td>Sec 2 HR 5740/BW-12 Sec 205</td>
<td>25% increase to subsidized non-primary residences</td>
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<tr>
<td>07/10/2012</td>
<td>W-12045</td>
<td>BW-12 Sec 241</td>
<td>Waiting period exception for wildfires</td>
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<td>10/19/2012</td>
<td>W-12080</td>
<td>BW-12 Sec 227</td>
<td>Flood in progress determinations</td>
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<td>03/19/2013</td>
<td>W-13016</td>
<td>BW-12 Sec 205</td>
<td>25% increases to SRL and Non-Residential</td>
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<td>BW-12 Sec 205 (g)</td>
<td>Full-Risk Rates for newly purchased, newly insured, or lapsed reinstatement</td>
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<td>BW-12 Sec 212</td>
<td>Reserve Fund Assessment</td>
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<td>09/26/2013</td>
<td>W-13058</td>
<td>BW-12 Sec 223</td>
<td>State Claim Mediation</td>
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<td>12/16/2013</td>
<td>W-13070</td>
<td>BW-12 Sec 204</td>
<td>Increased maximum limits for 5 or more family residence</td>
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<td>BW-12 Sec 210</td>
<td>New Minimum Deductibles</td>
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<td>BW-12 Sec 228</td>
<td>One policy per building</td>
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<td>BW-12 Sec 234</td>
<td>Large Size Font SFIP made available</td>
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<td>02/05/2014</td>
<td>W-14004</td>
<td>Omnibus Bill</td>
<td>Hold on BW-12 Sec 207</td>
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<tr>
<td>04/15/2014</td>
<td>W-14014</td>
<td>HFIAA Sec 3</td>
<td>Repeal BW-12 205(g) and stop full-risk rates</td>
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<tr>
<td>05/29/2014</td>
<td>W-14026</td>
<td>HFIAA Sec 5</td>
<td>18% Rate caps</td>
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<tr>
<td>06/26/2014</td>
<td>W-14035</td>
<td>HFIAA Sec 3 and 5</td>
<td>HFIAA Refund</td>
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<tr>
<td>10/01/2014</td>
<td>W-14053</td>
<td>HFIAA Sec 4 and 6</td>
<td>Newly Mapped procedure</td>
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<td>HFIAA Sec 12</td>
<td>$10K residential deductible option</td>
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<td></td>
<td></td>
<td>BW-12 Sec 205/HFIAA Sec 15</td>
<td>25% phase in to full-risk rate for substantially improved pre-FIRM property</td>
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<tr>
<td>05/01/2015</td>
<td>W-15016</td>
<td>BW-12 Sec 205/HFIAA Sec 5 and Sec 29</td>
<td>Reunderwrite Non-Residential to identify Businesses</td>
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<td>10/01/2015</td>
<td>W-15046</td>
<td>BW-12 Sec 205</td>
<td>25% rate increase to subsidized Businesses</td>
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<td>BW-12 Sec 205(g)</td>
<td>Loss of subsidy for lapsed reinstatement</td>
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<td>HFIAA Sec 28</td>
<td>Phase 1 towards Clear Communication of Risk (zone/BFE validation) and development of letter</td>
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</tbody>
</table>
Sandy Experience

- Almost 145,000 total claims
- Over $8.4 billion in paid claims
- Average claim of $63,418
- A review process was developed based on customer experience
Where are We Going?

- A customer focused claims process
- Product Simplification
- Product Redesign
- Rating Redesign
- Affordability
- Mitigation
Office of the Flood Insurance Advocate

Email: Insurance-advocate@fema.dhs.gov
The Advocate’s Mission

The Office of the Flood Insurance Advocate (OFIA) advocates for the fair treatment of policyholders and property owners by providing education and guidance on all aspects of the NFIP, identifying trends affecting the public, and making recommendations for program improvements to FEMA leadership.
Establishing the Flood Insurance Advocate

**Passage of Driving Legislation**
- Signed into law March 2014
- Section 24 frames the Advocate’s roles and responsibilities

**Concept of Operations**
- Four key leadership decision points: Independence, case management, policy influence and scope
- Three-pronged approach: Analysis and Evaluation, Advocacy, and Policy

**The Flood Insurance Advocate**
- The “Interim” Office was established December 2014
- The permanent office was formalized in June of 2015 and the Acting Advocate received permanent status
Organizational Relationships

• The independence of the office is critical to maintaining focus on and seeking the fair treatment of policyholders and property owners
• The Office of the Flood Insurance Advocate reports to the Deputy Associate Administrator for FIMA and has a direct unfettered line of communication with the FEMA Administrator. The OFIA maintains a distant, but collaborative relationship with FIMA leadership
• The role of the OFIA is not to do the job of the programs, but to provide the perspective of the policyholder and property owner when trends and/or issues are identified
The Office of the Advocate

- The Flood Insurance Advocate, and the Deputy Flood Insurance Advocate*, are the public face of the Office.
- Team Leads and Program Staff work with designated Directorate POCs within FIMA to advocate for policyholders and property owners.
- The Advocate, and the Advocate team, are primarily concerned with identifying programmatic issues and high-level trends that may negatively and/or unfairly impact policyholders and property owners.
The OFIA’s Scope

• The Office focuses on:
  • Coordinating referrals to existing resources and providing specialized assistance to inquirers in complex cases
  • Providing information and guidance when existing resources have not adequately addressed a customer’s concern
  • Helping customers understand their options during the claims process
  • Providing customers with general information on the flood insurance rate map review and amendment process
  • Work directly with NFIP SMEs to answer complex questions
• To meet the requirements of legislation, the Advocate is in the process of increasing its activities to fulfill the complete list of responsibilities outlined in Section 24.
Total Advocate Inquiries

- Approximately 75% of inquiries received by the Advocate’s office primarily focus on Insurance related topics including underwriting and rating and claims.

Inquiry Breakdown*:

- Insurance: 74%
- Mapping: 16%
- HMA Grants: 7%
- Floodplain Management: 3%

- A significant number of inquiries are complex in nature, touching multiple issues, and requiring significant staff time and collaboration within FIMA to address.

- Initial findings indicate an overall need for increased agent education and training requirements and clearer, consistent communication with policyholders and property owners.

- The number of more general inquiries are expected to drop as the programs strengthen resources.

To contact the Office of the Advocate email: Insurance-advocate@fema.dhs.gov
First Year Findings

- The lack of actionable and timely data available to FIMA.
- The challenges of submitting a claim for and obtaining Increased Cost of Compliance (ICC).
- Limitations on the issuance of prior-term refunds.
- Application of the HFIAA surcharge, specifically default assumptions and limitations.
- Lack of understanding of, and the availability of, information related to Floodproofing Certification/Credit.
### First Year Findings

<table>
<thead>
<tr>
<th>Trend</th>
<th>Recommendation</th>
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<tbody>
<tr>
<td>Lack of Actionable Data</td>
<td>FIMA should identify an interim solution to collect, analyze and disseminate data to enhance current business processes and decision-making.</td>
</tr>
</tbody>
</table>
| Increased Cost of Compliance    | • Building Science Branch should update FEMA P-758, *Substantial Improvement/Damage Desk Reference 2010*, used by community officials, with specific guidance and examples on what must be included in the community’s substantial damage letter.  
• Floodplain Management Division should update FEMA 301, *NFIP Increased Cost of Compliance Coverage – Guidance for State and Local Officials, 2003*.  
• Federal Insurance Directorate and the Mitigation Directorate work together to develop additional materials to educate customers and stakeholders about the ICC process. |
| Prior Term Refunds              | • Federal Insurance Directorate should create additional educational materials to educate the insurance agent and other stakeholders about the process and what is to be expected in terms of rating and refunds.  
• The program should consider authorizing multi-year refunds, as well as reviewing all refund procedures to ensure there is an element of fairness on behalf of the policyholder. |
First Year Findings

<table>
<thead>
<tr>
<th>Trend</th>
<th>Recommendation</th>
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<tr>
<td>HFIAA Surcharge</td>
<td>• An outreach strategy to insurance agents and other stakeholders should be</td>
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<td>developed to communicate the surcharge to their customers when an application</td>
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<td>is being completed and when a policy is being renewed.</td>
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<td>• The renewal invoice should include communication to the policyholder about</td>
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<td>the surcharge amount and steps they can take if the building is a primary</td>
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<td>residence.</td>
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<tr>
<td></td>
<td>• Consideration should be given to exempting state and local housing</td>
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<td>authorities from being charged the non-primary residence surcharge</td>
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<td></td>
<td>• Consideration should be given to the applicability of the non-residence</td>
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<tr>
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<td>surcharge for building owners who have spouses living in separate residences</td>
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<td></td>
<td>• Additional educational materials should be developed regarding the applicability of the surcharge.</td>
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<tr>
<td>Trends</td>
<td>Recommendation</td>
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<tr>
<td>Floodproofing Certificates/Credit</td>
<td>• The Federal Insurance Directorate should establish a new timeframe that better reflects the time that is needed for receipt, review and revalidation of a floodproofing credit.</td>
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<td></td>
<td>• The Floodplain Management Division should update FEMA P-480, National Flood Insurance Program Floodplain Management Requirements, A Study Guide and Desk Reference for Local Officials, and all associated training modules.</td>
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<td></td>
<td>• The Building Science Branch should add descriptive language of the floodproofing review process in their already scheduled updating of Technical Bulletin 3-93, “Non-Residential Floodproofing — Requirements and Certification”, and FEMA P-936, “Floodproofing Non-Residential Buildings”.</td>
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<tr>
<td></td>
<td>• Technical Bulletin 3-93, “Non-Residential Floodproofing — Requirements and Certification“, should be updated.</td>
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<td></td>
<td>• The Risk Management, Insurance, and Mitigation Directorates review all published material related to this topic, and make updates that will specify the required documentation that is needed, or author new publications that will clarify the new floodproofing credit issuance/revalidation process.</td>
</tr>
</tbody>
</table>
Notable Case Studies

Program Collaboration

A policyholder (PH) rebuilt his home post-Sandy per an elevation certificate and prelim map stating a flood zone of AE. The current effective flood map indicated zone VE. The insurer raised the PH’s premium 560% to reflect full risk, causing severe financial hardship.

Advocate Actions:
Advocate staff collaborated with Underwriting, Engineering Management, the Division Directors and OCC to determine if another solution was available to reflect the previous premium. A legal solution was found and the PH’s premium was revised to the AE zone rates.

Results:
• Annual premium reduced from $33,000 to $432, and premium will increase no more than 18% per year as required by HFIAA-14
• Associate Administrator used his discretion to apply the provision to achieve the solution

Assistance/Collaboration

A property owner purchased a home based on a misquoted flood insurance premium of $561 by an agent who assumed grandfathering for a Zone A, when the home was in Zone V (a more hazardous zone). The premium increased 10-fold to $5,918 based on the actual risk. The policyholder could not afford to pay the additional premium. The lender force-placed a policy for the difference costing an additional $903 per month in addition to his mortgage. When the policyholder fell in arrears, the bank began foreclosure proceedings. He was referred to the Advocate’s Office for assistance by three congressional offices.

Advocate Actions:
The Advocate verified the accuracy of the higher premium and then began discussions and research with Risk Insurance, OCC and Congressional offices on what might be done including increasing the deductible to reduce the premium.

Results:
• Premium reduced 55% to $2,624
• Force Placed Policy is being cancelled saving the inquirer $903/month
• Higher deductible accepted by the lender
• Home foreclosure stopped
Next Steps

• Continue implementing the office’s operational and staffing plans
• Formalize and embed data and analysis needs for the OFIA
• Distribute and communicate the process and criteria by which regions can escalate issues to the OFIA
• Begin implementing the OFIA’s strategic plan
• Begin researching identified issues for 2016 Annual Report
• Continue implementing the customer relationship management system (CRM) and incorporate lessons learned