

## Making Sense of April 2017 NFIP Changes

This document provides a summary of changes to the National Flood Insurance Program (NFIP) impacting policyholders (both new and renewed) effective on or after April 1, 2017.

### CHANGES SUMMARY

- **Premium increases**
  - Updated premium multiplier tables
- **Clarifications for policy rating and loss adjustment**

### EXPLANATION OF CHANGES

#### Overall Premium Increases & Surcharges

Overall, premiums will increase by an average of 6.3%

- These amounts do not include the Homeowner Flood Insurance Affordability Act (HFIAA) surcharge or the Federal Policy Fee (FPF)
- When the HFIAA surcharge and FPF are included, the total amount billed to the policyholder will increase by an average of 5.4%
- Note, there will be no changes to:
  - Deductible Factors
  - Federal Policy Fee
  - Reserve Fund Assessment
  - HFIAA Surcharge
  - Probation Surcharge
  - Increased Cost of Compliance (ICC) Premiums
  - Tentative & Provisional Rates
  - Mortgage Portfolio Protection Program (MPPP)

#### What Agents Need to Know:

Premiums for the following four categories of Pre-Flood Insurance Rate Map (Pre-FIRM) subsidized policies must be increased 25% annually until they reach full-risk rates:

- ✓ Non-primary residential properties
- ✓ Business properties
- ✓ Severe Repetitive Loss (SRL) properties, which includes cumulatively damage properties
- ✓ Substantially improved properties

Although the average annual premium rate increase for all other risk classes is limited to 15%, there are some cases where the premium rate increase of an individual property may be up to 18%. **In some cases, the total increase in amount charged to a policyholder may exceed on average 18%.** When premium rate increases are evaluated for compliance with these caps, the building and contents premium, the ICC premium, and the Reserve Fund Assessment (RFA) are all included. The probation surcharge, FPF, and Congressionally-mandated HFIAA surcharge are not considered premium and, therefore, are not subject to the premium rate cap limitations. Policies with changes to the Community Rating System (CRS) class, mis-ratings and increases in coverage are also not subject to the 18% cap for individual policyholders.

#### Pre-FIRM Subsidized Policies

- Primary residences – premiums will increase on average by 5%
- Non-primary residences – premiums will increase on average by 24%
- Policies subject to 25% annual increases – premiums will increase on average by 23%
- All other Pre-FIRM subsidized risks not covered in the first three bullets (primarily condominium and multi-family policies) – premiums will increase on average by 8%

**Other Subsidized Policies A99 and AR Zones** – premiums will decrease an average of 64%

A99 Zones (i.e., zones in which flood protection systems are still in the process of being constructed) and AR Zones:

- ✓ Effective October 1, 2016, these policies are eligible for the Preferred Risk Policy (PRP), subject to eligibility requirements, with the exceptions of Residential Condominium Building Association Policies (RCBAP) and repetitive loss properties.
- ✓ Properties newly mapped into the Special Flood Hazard Area (SFHA): Newly Mapped policies are initially charged PRP rates during the first year following the effective date of the map change.

### **Properties Newly Mapped – Multiplier Tables**

Updated Newly Mapped Multiplier Tables help determine which multiplier to use in calculating the premium for properties newly mapped into the SFHA through December 2018.

After being newly mapped into a SFHA:

- Policies receive a PRP premium for the first year
- Subsequent premiums gradually increase to full-risk rates through use of a PRP premium multiplier
- Multipliers are tied to the date the property was newly mapped into the SFHA and if it is a renewal of a policy written, in its prior term, as a Newly Mapped policy

Annual increases to these policies result from the use of a “multiplier” that varies by the year of the map change; this multiplier is applied to the base premium before adding the ICC premium. The RFA is added after the ICC premium, and this subtotal is the amount subject to the annual premium rate increase cap. The HFIAA surcharge, probation surcharge (if applicable), and the FPF will be added to the premium; they are not subject to the cap on annual premium rate increases.

### **What Agents Need to Know:**

As increases to the multiplier go into effect January 1, 2017, premiums for newly mapped policies will increase on average by 14%.

### **Post-FIRM Rated Policies by Designated Flood Zone**

#### **V Zones (coastal high-velocity zones)**

- Premiums will increase on average by 7%

Rate increases are a result of the Heinz Center’s Erosion Zone Study, which indicates that current rates significantly underestimate the increasing hazard from steadily eroding coastlines.

#### **A Zones (non-velocity zones)**

- A1-30 and AE zones – premiums will increase by on average by 1%

- AO, AH, AOB and AHB zones (shallow flooding) – premiums will remain unchanged
- Unnumbered A zones (undetermined elevations) – premium will increase on average by 5%

**X Zones (low- to moderate-risk areas) – Pre- and Post-FIRM**

- Standard rated policies – premiums will increase by on average by 2%
- Preferred Risk Policies (PRPs) – premium will remain unchanged

**Clarifications for Pre-FIRM Substantially Improved Buildings**

Policies on substantially improved buildings must be rated based on the FIRM in effect at the time of the reconstruction or substantial improvement. When a Pre-FIRM building has been substantially improved, NFIP insurers must adjust any subsequent losses on that building in accordance with Post-FIRM rules, regardless of the rating methodology.

For Pre-FIRM substantially improved buildings that are rated with Pre-FIRM rates because they are lower than the Post-FIRM rates, future loss adjustments will be based on coverage limitations that apply to Post-FIRM buildings in SFHAs. Insurers must include a statement on the policy Declarations page that Post-FIRM coverage limitations apply.

**What Agents Need to Know:**

For more information about Post-FIRM coverage limitations, refer to:

[NFIP Flood Insurance Manual](#)

<http://www.nfipiservice.com/Stakeholder/pdf/bulletin/w-16020.pdf>