

Flood insurance in the United States has long been a government subsidized program. I'm not sure if it was originally designed to be so heavily subsidized but the reasoning goes like this. Flood insurance, by its very nature, is a game of adverse selection. In other words, only people who have a strong need for it will buy it. Fire insurance is different. Anyone's house could burn, so we have the law of large numbers and a slim likelihood of any one consumer filing a claim. That allows homeowners insurance or auto insurance to be affordable as the risk of loss is spread among many who have only a very slight chance of ever filing a claim. But flood insurance is very different as the risk of loss only applies to those in known flood zones. So, for this reason, the federal government took on the chore of creating a flood insurance marketplace and either from the beginning, or over time, allowed the rates to be set far below what is needed to pay the losses generated in the program.

Now, with a government looking to cut costs, the National Flood Insurance Program (NFIP) found itself squarely in the sights of legislators. The Biggert-Waters Flood Insurance Reform Act of 2012, while reauthorizing the NFIP through September 30, 2017, included a mandate to eliminate the offering of NFIP coverage at subsidized premiums. So, many of those who buy flood insurance will now see the end of subsidized rates and can expect huge rate increases for years to come.

The rate increases will happen on one of two ways. Flood insurance policyholders will either see 25% rate increases each year for an undetermined number of years into the future, or they will see immediately higher rates as their policy is forced into a post-firm conversion to post-firm rates. No matter which method your policy falls into, you will be facing much higher flood insurance rates for all renewals and changes that take place after October 1, 2013.

So what are these pre-FIRM and post-FIRM categories that determine how quickly your rates will increase? Pre-FIRM buildings are those built before January 1, 1975 or built before their community first adopted its first Flood Insurance Rate Map (FIRM). And while there are some exceptions to the rule, if your home is a pre-FIRM home, located in flood zones A, V, or D, then you can expect 25% rate increases on your flood insurance policy each year for the foreseeable future. If your building or home is a pre-FIRM building and located in flood zones A, V, or D and the building was not insured on a NFIP policy prior to July 6, 2012, or was purchased by a new owner after July, 6, 2012 or have experienced a lapse in flood coverage on or after October 4, 2012, then that building will be immediately forced into the higher cost post-FIRM rating. This means that you will experience all of the rate increase needed to remove all subsidies immediately.

If you have a home or building that will have to move from pre-FIRM to post-FIRM categorization immediately, then you will have to take some steps to make sure that you maintain your eligibility to purchase flood insurance. This will require that you submit a new elevation certificate on your property as well as photos of the front and back of you building.

With the elimination of flood insurance rate subsidies, some homeowners will find themselves facing higher premiums and perhaps even some paperwork duties. If you have a flood insurance policy in place now, then you can expect to receive some notifications of the rate changes, along with instructions on what you must do to remain eligible. Please read all of this information carefully to insure that you keep the ability to purchase this insurance for your flood risk building. If you need any help with your flood insurance or have questions about this program, please feel free to call us, toll free, at 877-687-7557.