NFIP Risk Rating 2.0 — The New Landscape of Flood Insurance

Charlotte S. Hicks,
CPA, CIC, AAI, CWCA, ARM
Charlotte@Nowpreneur.com

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Would You Sell This Coverage?

An estimated 45% of homes in the US are at moderate to high risk of loss **but less than 3%** have purchased coverage

Would You Sell This Coverage?

Often pays the *highest* commission of all property policies in your agency

Would You Sell This Coverage?

While requiring the *least* amount of time to place and service

Would You Sell This Coverage?

And… most of your competition *never* discusses it with their clients or prospects

With Flood Insurance

YOUR CUSTOMER wins — flood losses are paid, helping them return to normal faster

YOU WIN — More income, higher account value, higher retention, higher customer satisfaction

YOUR COMMUNITY wins — more resiliency means higher property values, less economic loss after flooding

Frequency of NC Flooding

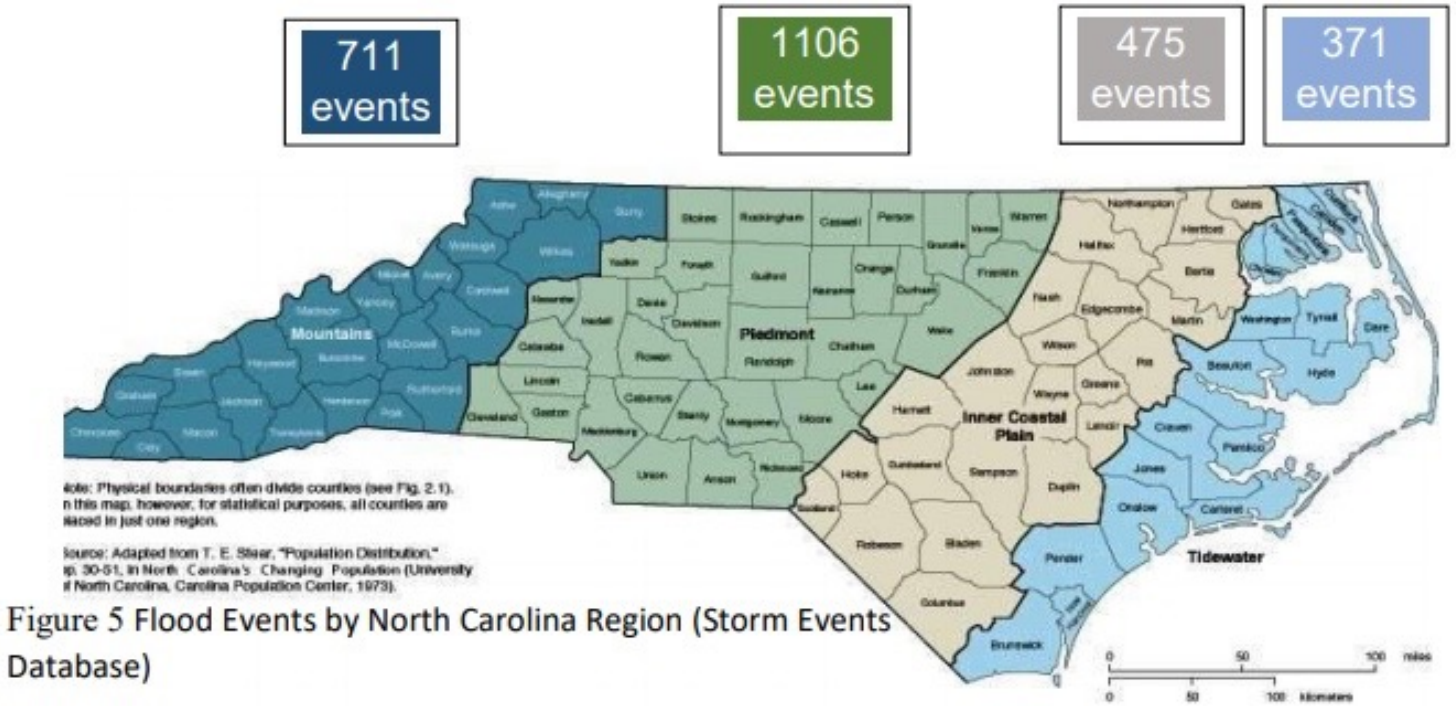

Figure 5 Flood Events by North Carolina Region (Storm Events Database)

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Flood Risk

- 62 million US homes have a moderate to extreme risk of flooding
- 14 million people were impacted by the “Great Flood of 2019” which also flooded over 1 million acres of farmland
- NC ranks 7th in the nation for flood risk

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Recovering from a Flood

According to FEMA, 40% of businesses damaged during a natural disaster never reopen

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You Can't Just Move

98% of the US population lives in a county that has experienced a flood disaster

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Or Ignore It

Flooding is the most costly and most lethal natural disaster

$7.96 Billion average losses per year

114 deaths on average per year

90% of natural disasters involve flooding

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Most people aren't insured…

US Homeowners with NO flood coverage:

95+%

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Even here…

In areas with MANDATORY coverage requirements only

25%

have flood insurance

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In North Carolina…

NC Homeowners with

NO Flood Insurance

97%

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Even with insurance…

Annual uninsured economic losses from flooding exceed insured losses by $10 billion (Swiss Re)

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Hurricane Florence

- 39 deaths in NC
- Over 1100 road closures
- Had a bigger impact to the state than Hurricane Hazel (1954)
- **$10B-13B uninsured flood losses**
- **85% of flood losses were uninsured**

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Stories from Florence

"It's kind of tough when you're operating a shelter and you see one of your teachers walk into that shelter and all she's got – all that's left – is what she's carrying in her hands."

(School superintendent)

We wouldn't ever imagined flooding like we've seen with this storm. Our home and everything in it was taken by the flood. Since we sit so far above historical flood levels, removing or insuring our belongings never happened.

Old River Farms

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Record River Levels

- Floyd in 1999: 39 record river levels
- Matthew in 2016: 14 record river levels
- Florence in 2018: 28 record river levels
- Isaias in 2020: Cape Fear River record high level in downtown Wilmington

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Subtropical Storm Alberto

- Max intensity 65 mph (prior to landfall)
- Landfall near Laguna Beach, FL
- Five deaths in NC
- 11th storm to reach Lake Huron as a tropical depression
- Brown ocean effect – warm moist soil allowed the storm to retain tropical characteristics

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Flood risk is just a statistic...

Until it happens to you

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What Qualifies as a Flood?

"A flood is a **general and temporary condition** where **two or more acres** of normally dry land or **two or more properties** are **inundated by water or mudflow**."

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What Qualifies as a Flood?

"**Collapse or subsidence of land along the shore** of a lake or similar body of water **as a result of erosion or undermining caused by waves or currents of water** exceeding anticipated cyclical levels…"

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Historical Background

- Established in 1968 as part of HUD
- FEMA established in 1979
- Write Your Own program – 1983
- Moved under Homeland Security in 2003
- Intent was to encourage local regulation of flood plains and flood prone areas.
- 20,000+ communities have taken steps that averted over $16 Billion in losses since 2000
- Initial focus was river flooding (*Think Mississippi River*)

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Flood Insurance Exposure Shift

- NFIP created to address river flooding issues
- Population shift to the coastal areas (>50%)
- 2005 Hurricane Katrina – huge impact to NFIP
- 2016-2021 saw record flooding triggered by hurricanes

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River Flooding Issues

- Long lead time – weeks to months
- Snow melt is primary cause
- Repetitive losses
- Known problem areas with some predictability
- Levees and floodgates are primary control mechanisms

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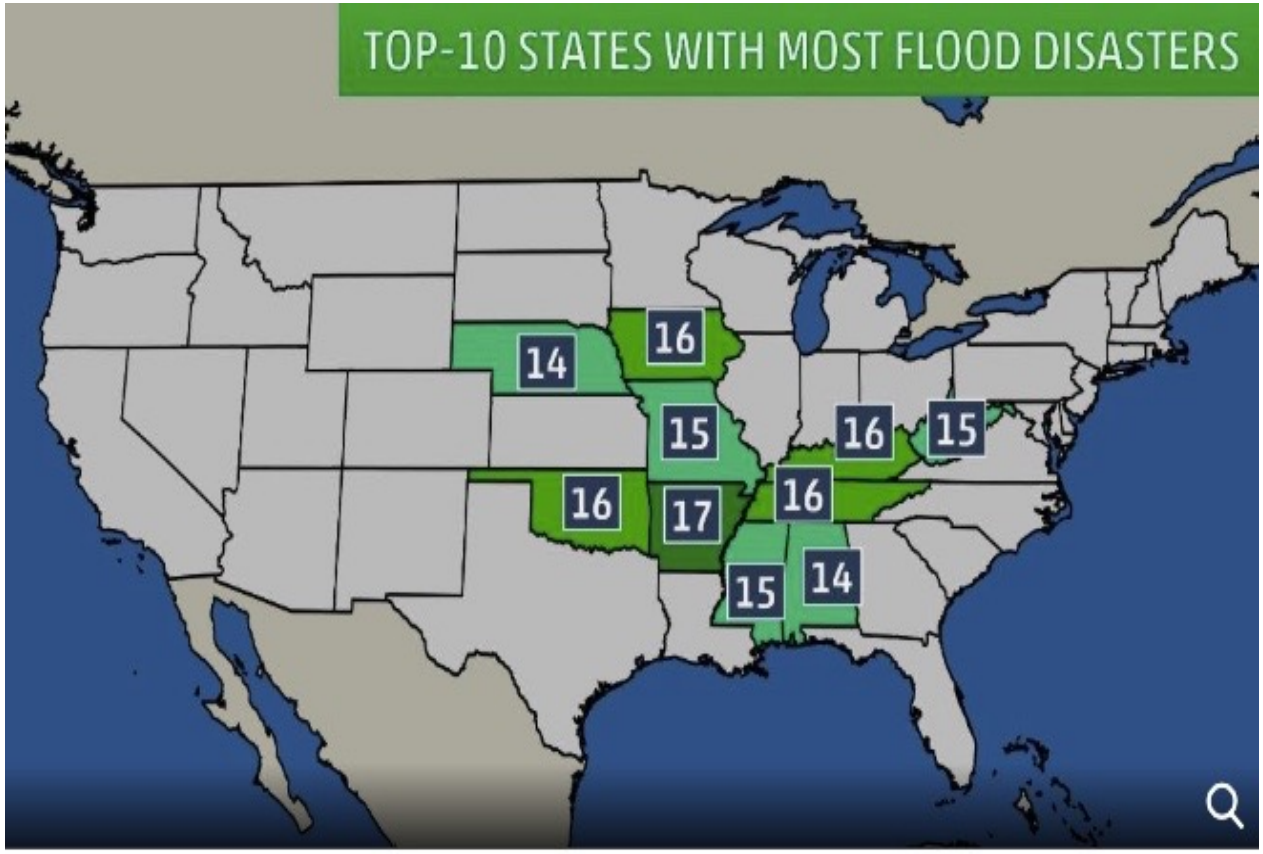
River Flooding – most frequent



Numbers on the map indicate the number of flood disasters in each of the top 10 states, 2008-17.

(The Pew Charitable Trusts/FEMA Database of Disaster Declarations)

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Mississippi River 2019

- Longest flood in recorded history
- Over 200 days above flood stage in several locations
  - Red River Landing was above flood stage from December 28, 2018 until August 10, 2019
- Triggered by record rains on top of snow melt
  - “Bomb cyclone”
  - Hurricane Barry – Arkansas record rainfall from a tropical system

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Coastal Flooding

- Hurricanes less frequent than river flooding
- Much less predictable
- Storm surge vs. rising water
- Erosion during storms (winter and summer)
- “Wind driven water” misconception
- Wind versus water/flood problems when settling claims

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Coastal Flooding – most expensive

- TS Allison (2001) - $1,105,003,344
- Ivan (2004) – $1,607,512,533
- Katrina (2005) – $16,257,744,061
- Ike (2008) - $2,702,388,727
- Sandy (2012) – $8,804,242,152
- Irma (2017) – $1,054,248,877
- Harvey (2017) – $8,908,547,689

(FEMA paid losses only – over 40B)

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Challenges

- Coastal development – risk more difficult to quantify
- NFIP is not actuarially sound
- Wind/water loss allocation is problematic
- Issues with additional living expenses and loss of use
- Map and modeling accuracy problems
  - Rainfall may not be modeled

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True Flood Risk

- If it rains where you live, you may have a flood risk
- Development can cause flooding, even away from a body of water
- Unless you live where there is no chance of rising water, mudflow, or shore erosion, you have a flood risk.

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Current NFIP Exposure

- Total Insured Value = $1.3 trillion
- Policies in Force = 4,995,870 down from 5.7 million in 2009
- 95% of flood policies are residential policies
- 35% are in Florida (1.7 million policies)

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Current Flood Policies

- North Carolina has 139,109 NFIP policies
- For 4.6 million homes
- Harsh reality: Many NC residents aren’t protected from the risk of flood losses

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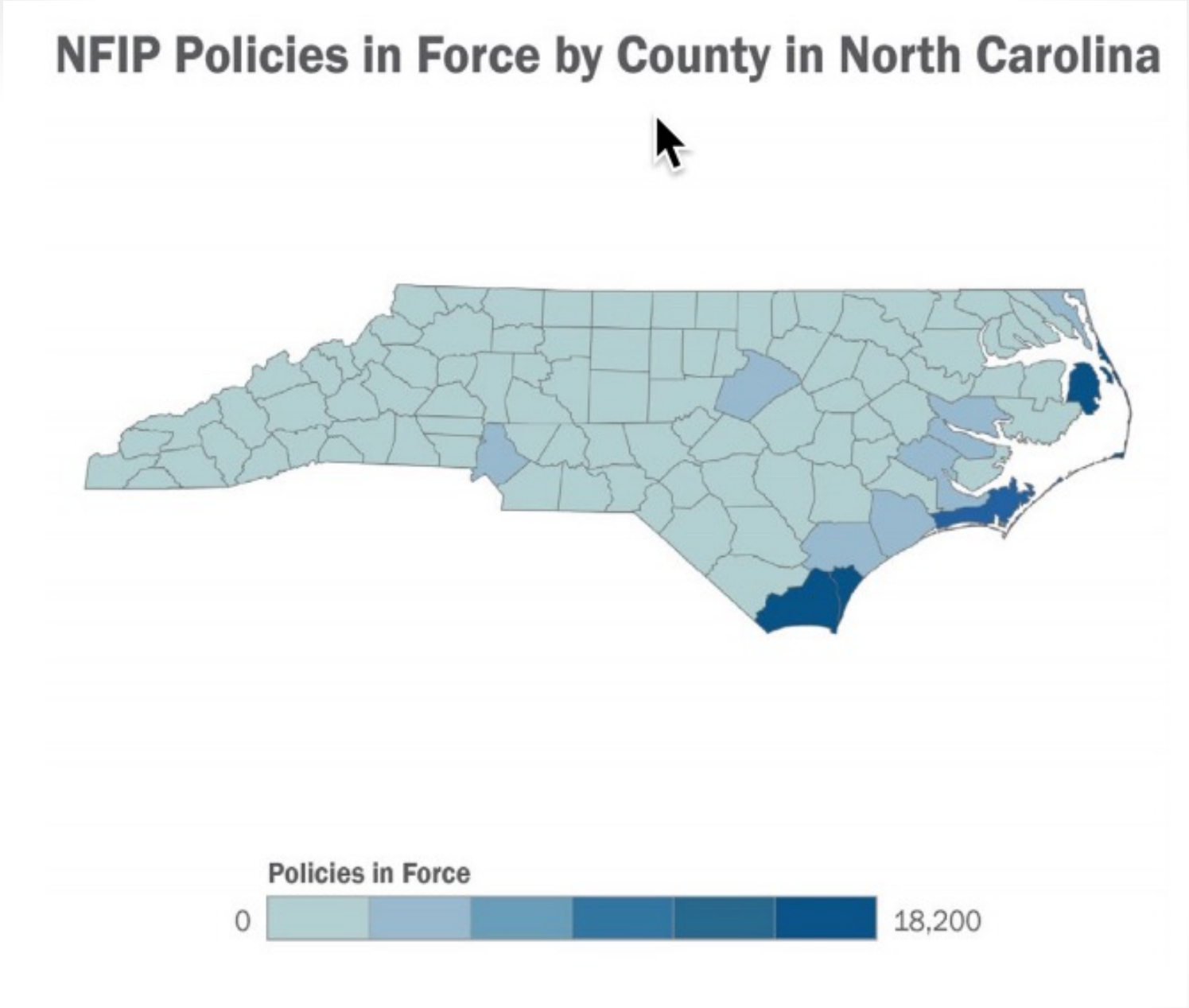

(Image credit: FEMA)

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Private Flood Coverage

- 3% - 4% of total flood market
- **NC has approved forms and rates for private market flood coverage (admitted)**
- Surplus lines market has over $1B in flood insurance (mostly commercial)
- New flood companies in Florida (non-admitted in NC)

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Reauthorization and Major Changes

- NFIP is not a permanent program – must be reauthorized and funded through the federal budget
- Many short-term extensions causing market disruption
- Biggert-Waters passed in 2012 (BW12), extended the program through September 30, 2017
- Homeowners Flood Insurance Affordability Act (HFIAA) passed in March 2014 fixed problems from BW12

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Groundhog Day…

- Since September 30 2017 there have been repeated short-term reauthorizations
- The longest was one year, the shortest was just one week
- Two lapses have occurred since 2017
- One unfunded extension

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What Happens when NFIP Lapses?

- No new flood policies or increases in coverage
- No renewals of flood policies
- NFIP recommends agents/WYO companies NOT accept payments
- NAR estimates impact at 40,000 home closings a month
- Existing policies stay in force and claims are paid
- BUT borrowing authority goes from $30B to $1B
- Claims only paid to the extent of cash on hand and received during lapse

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Or an Unfunded Extension?

- Reauthorized BUT…
  - No federal budget or continuing resolution
  - Partial government shutdown
- 12/27 NFIP ruled NFIP can't be renewed during the shutdown
  - No new policies, no renewals processed
  - No coverage extensions
  - Claims still paid
- 12/28 NFIP reversed decision and resumed business as usual

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Status of NFIP

- Currently authorized until December 3, 2021
- ~~A slim~~ Virtually no possibility of relief from impacts of Risk Rating 2.0
- Most likely – another short-term extension without changes

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Legacy vs Risk Rating 2.0

- Risk Rating 2.0 is a shift to more accurate and more equitable rating
- Effective October 1, 2021 for all new policies and optional for renewal policies
- Effective April 1, 2022 for all renewal policies

** Today we will be discussing both schemes in parallel as we go through the session because both still apply

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NFIP Policy Forms and Rules

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3 NFIP Policy Forms

1. Dwelling Form
2. General Property Form
3. Residential Condominium Building Association Policy (RCBAP)

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Dwelling Form

- 92% of NFIP policies
- Single family detached homes – own or rent
- Up to four units if not a condo
- Dwelling unit in a residential condo building
- Townhouse

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General Property Form

- Residential with 5 or more units
  - Extended stay hotels, apartments, co-ops
  - Dorms
  - Assisted Living Facilities
  - Non-residential buildings
- Not for condo associations
- Business unit contents in a non-residential building

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Residential Condominium Building Association Policy (RCBAP)

- Sold to Condo Associations only (not unit owners)
- Building and common contents
- Up to $250,000 per unit
- 75% or more is residential use
- Unit owners can buy coverage for contents on the dwelling form

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2 Additional Classifications

1. Preferred Risk Policy
2. Property Newly Mapped (into the SFHA)

Note: These designations will go away under Risk Rating 2.0

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Preferred Risk Policy (PRP)

- 37% of NFIP policies (1.8 million policies)
- Outside of the SFHA
- **30% of flood claims are paid on properties not in the SFHA**
- Last day to apply for a new PRP was **August 31, 2021**

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Going Away: Preferred Risk Policy

- Starting October 1, 2021 all new policies in Zone X will be standard policies
- PRP policies may be renewed as is until April 1, 2022
- When the policy converts to RR 2.0, you can adjust the coverage levels and deductibles
- CRS discount will apply if they are paying the full rate
- Premium increases limited to 18% (primary homes) or 25% (others)

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Going Away: Property Newly Mapped into SFHA

- Existing policies will be put on a path to the full rate with premium increases limited to 18% (primary homes) or 25% (all others)
- They can be renewed under the legacy rating system until April 1, 2022, then all policies will be rated using the new rates.
- CRS discount will apply once they are paying the full rate

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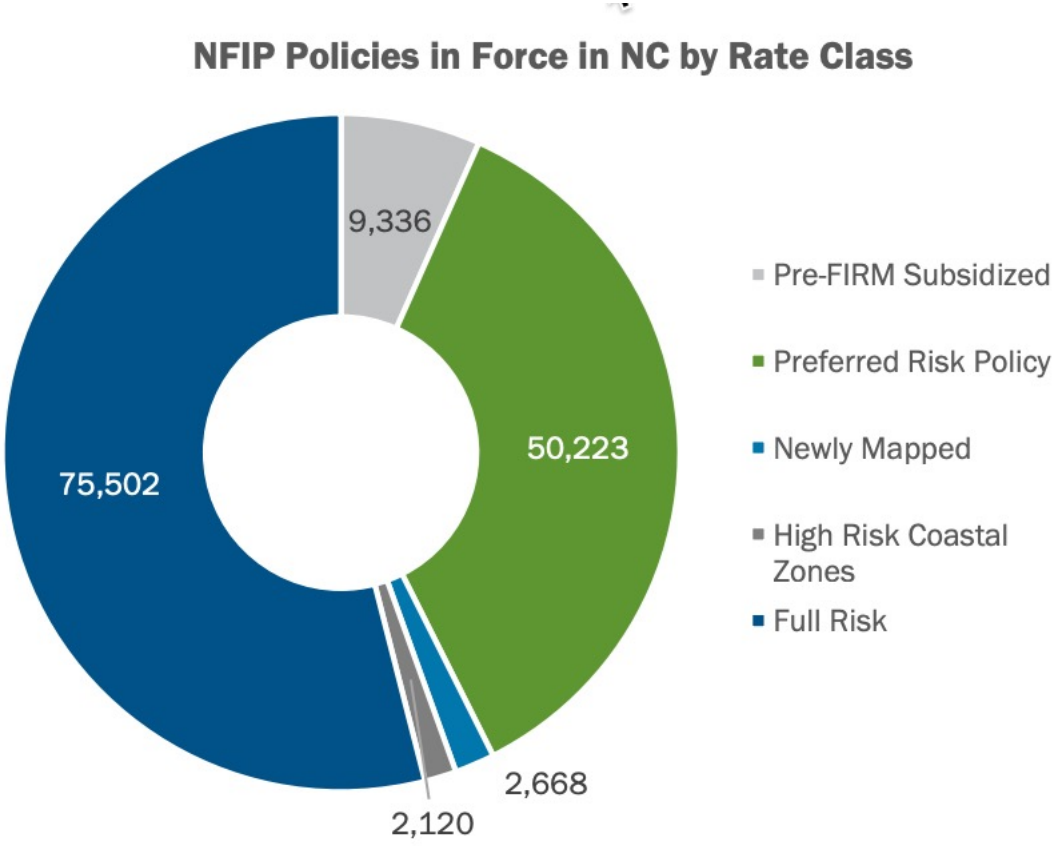
NC NFIP Policy Distribution



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Building Eligibility

- Eligibility of buildings is not changing
  - No buildings over water
  - No buildings below grade
  - No buildings without at least 3 walls, roof

- All eligible buildings will be able to be rated online
  - Concerns about new construction
  - Concerns about accurate information from local planning departments
  - Concerns about structures that did not get a building permit
  - No more submit for rate!

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Participating Community

- Community must participate in order for residents to purchase flood insurance from NFIP
  - Adopt a resolution of intent to participate
  - Adopt and submit a floodplain management ordinance and Flood Insurance Rate Map

- NOTE: Private flood may be available!

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Community Rating System (CRS)

- 70% of all flood policies are written in CRS communities.
- Class 1 – 9 with 1 being the best (10 is no rating)
- CRS communities qualify for premium discounts
- Each step produces an additional 5% discount
- IBC Interaction – Wrightsville Beach went from a class 5 to a class 8 due to NC opting out of IBC update (now 7)

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Community Rating System (CRS)

- Must recertify every year
  - Repetitive loss property review
  - Information on all new/improved structures in SFHA
  - Submit 30 elevation certificates
- Over 1,500 communities have qualified (7% of total)
- Mitigation much higher in CRS communities

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Participating Community

- Communities identified as flood prone/withdrawn/suspended
  - Residents not able to purchase NFIP flood insurance
  - Existing policies not renewed
  - No federal grants or loans in flood hazard areas
  - No federal disaster assistance for insurable buildings
  - No federal mortgage insurance or loan guarantees in SFHA
- $50 policy surcharge for communities on probation

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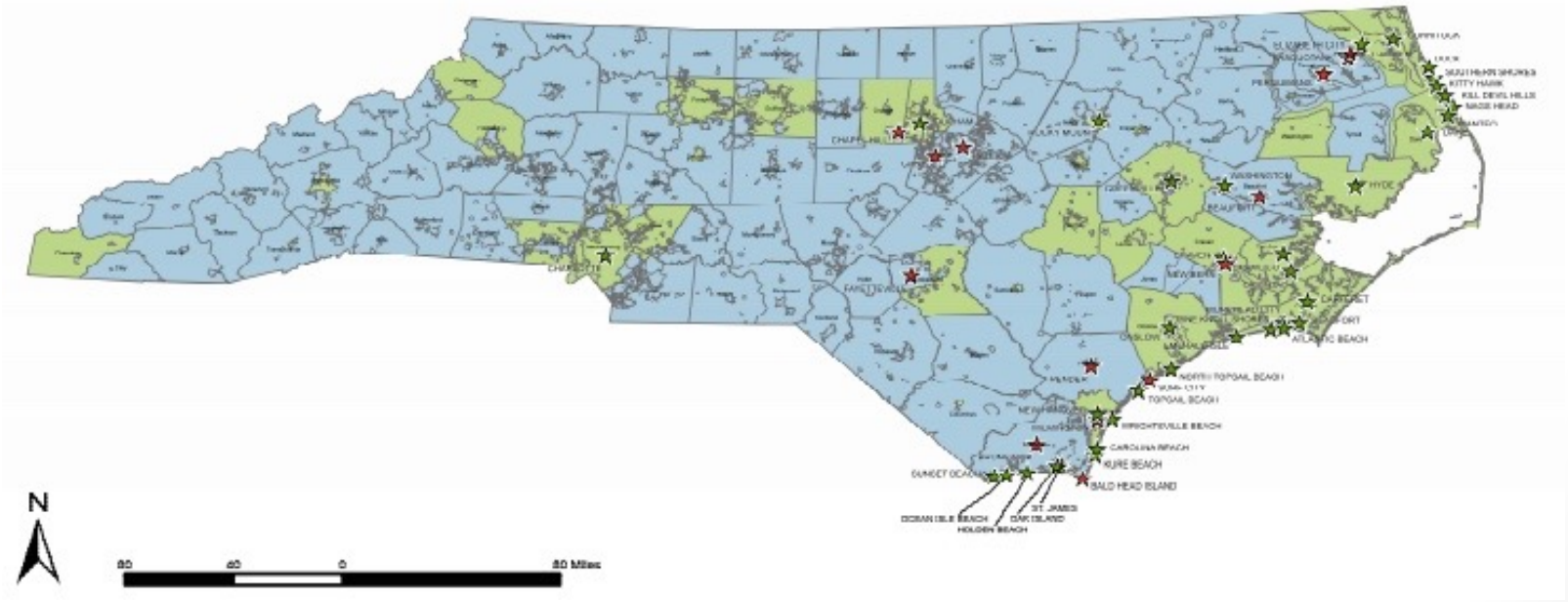
NC CRS Participating Communities



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FLOOD ZONES, MAPPING, AND MODELING

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Flood Zones

- AE and VE zones: 1% annual risk, 1 in 4ish (30%) chance during 30-year mortgage
- AE is newer format, replaces A1-A30
- VE zones include the ability of building to withstand the impact of waves over 3 feet

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Coastal A Zone (CAZ)

The flood maps also show the Coastal A Zone or “CAZ” which have the potential for wave heights over 1.5 feet

- Typically, landward of a V zone or open coast
- Principal source of flooding is tides, storm surge, seiches, or tsunamis

They are delineated by a line which is designated as the Limit of Moderate Wave Action or “LiMWA”

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Flood Zones

- X Zone (was B): .2 % chance of annual flooding
- X Zone (was C): < .2% chance of annual flooding
- D – undetermined risk
- Coastal Barrier Resources System – NO NFIP insurance unless built prior to 1982 & participating community

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Multiple Zones

- Must use highest risk zone building occupies
- Zones on the property that the building doesn't occupy aren't considered
- **Watch additions** – may put the structure into higher zone even if the addition isn't covered by flood insurance

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Who is in a Flood Zone?

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Everyone!

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Discrepancy resolution

- Is the property in a SFHA?
- If so, is it in an AE or VE zone?
- Can appeal to lender's company to determine if you have better information
- Can appeal to FEMA (Letter of Determination Review)

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Limitations of Flood Zones

- Risk varies within flood zones
- Modeling limitations
- Mapping errors
- Changes to surrounding terrain

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NFIP Flood Maps

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Flood Maps

- Flood Maps
  - Flood Hazard Boundary Map (FHBM) for initial hazard ID
  - Flood Insurance Rate Map (FIRM) for regular communities
  - Letter of Map Change (LOMC) includes Letter of Map Amendment (LOMA) and Letter of Map Revision (LOMR)

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Flood Map Limitations

- Not all flood maps take rainfall impacts into consideration
- Current maps created with technology that has limitations
- FEMA has limited time and money to create maps
- Maps aren’t updated annually or immediately after a major event
- Wide variance of risk within zones

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Flood Map Limitations

- Higher populated areas get more attention
- Wealthier areas can afford to hire engineers and protest the maps
- Recent study says true flooding risk is 3X FEMA's current maps (41 million people at risk)
- FEMA warns not to use flood maps as blueprints for risk – they are not "absolute lines" where flooding will happen

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Flood Map Limitations

A recent study by The Nature Conservancy and Arizona State University found that the flooding from Hurricanes Matthew in 2016 and Florence in 2018 impacted a footprint **23% greater** than the 100-year floodplain and well beyond what flood hazard maps had predicted.

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Flood Zones under Risk Rating 2.0

- Still triggers the requirement to buy flood insurance
- Will be used by local government for floodplain management
- Are still helpful for assessing risk from flooding
- Are NOT part of policy rating under Risk Rating 2.0

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Flood Maps

FEMA Flood Map Service Center (MSC):
https://msc.fema.gov/portal

NC Flood Risk Information:
https://fris.nc.gov/fris/

Real-time Flooding Information:
https://fiman.nc.gov/

NC Resource: https://flood.nc.gov/ncflood/

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Elevation Certificate

- Updated in 2019, expires 11/30/22
- Must be prepared and certified by a Licensed Land Surveyor, Registered Professional Engineer, or Architect who is authorized to certify elevation information.
- Local planning offices will still require them for floodplain management compliance purposes
- **No longer required for policy rating under RR 2.0**

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NFIP Rating

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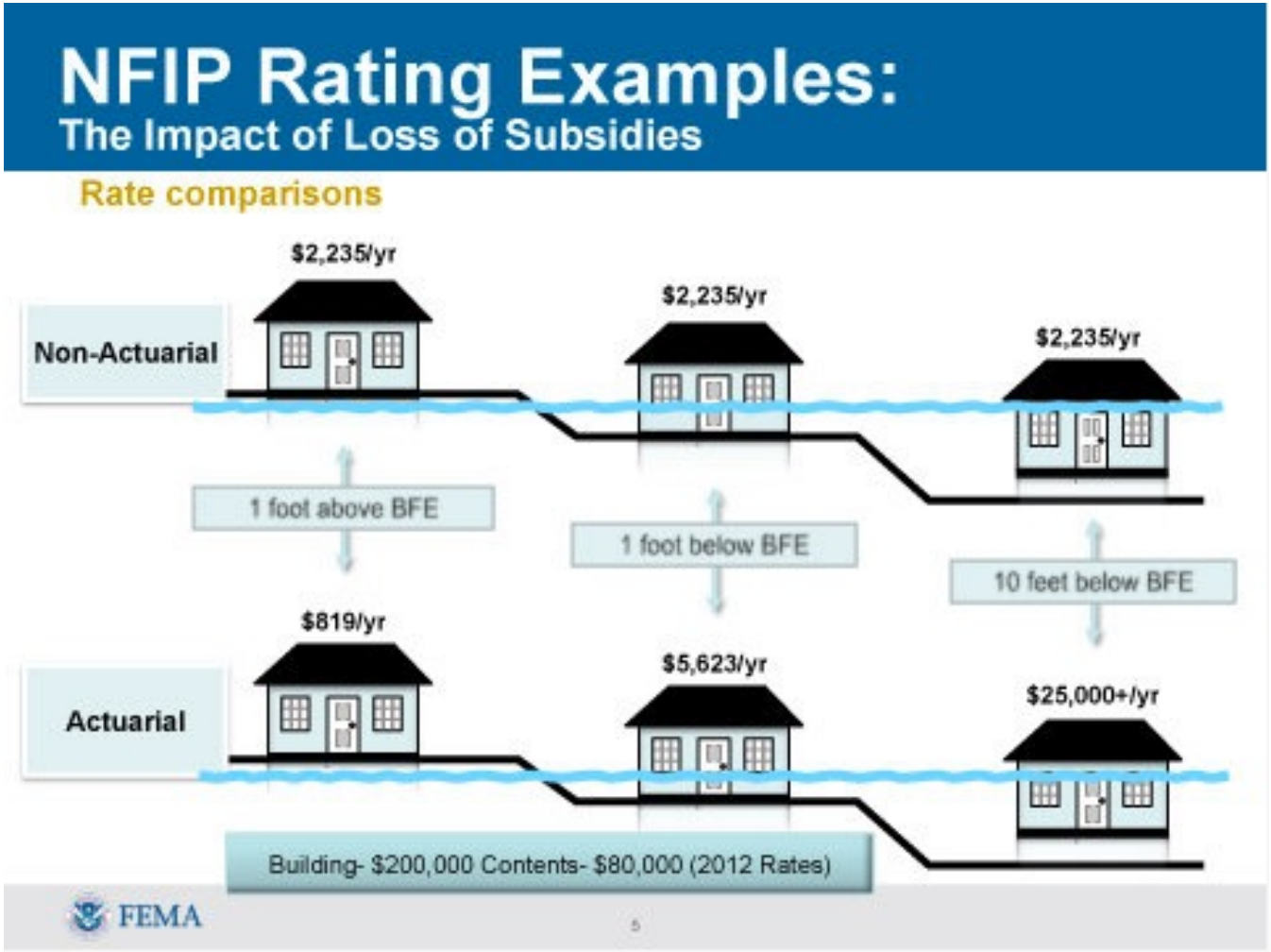
Biggert-Waters 2012



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Biggert-Waters (2012)

- Attempted to phase out all pre-FIRM rates
- Eliminated the assumption of policies (PROBLEM)
- Lapsed policies triggered the full rate (PROBLEM)
- Substantial improvement threshold reduced to 30% (PROBLEM)

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Biggert-Waters (2012)

- Established a 50% threshold for primary dwellings
- IF property address and mailing address are the same, it is assumed to be a primary residence
- Established an 80% threshold (292 days) for replacement cost
  - Must be insured or spouse – other family don't count!
  - MUST respond to letter verifying occupancy
  - Response is under penalty of perjury

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HFIAA (2014)

- Restored the ability to assume a flood policy
- Slowed rate increases for primary homes
- Restored 50% substantial improvement threshold
- Increased policy fee ($50), added new surcharges ($25-$250), and a new Reserve Fund Fee (18%)
- Allows policyholder and spouse to have two primary residences

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Other Changes

- Rates for structures below BFE available now
- Insurers must report current flood zone and FIRM information – full rate if determinable
- Insurers must offer lowest premium rate available based on information from agent and insured

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Legacy Flood Rates

In SFHA the rate is determined by:

Flood zone (per FIRM) and Lowest Floor (per Elevation Certificate)

Outside of SFHA:

Flat rate for given coverage amounts

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First Street Loss Modeling

Looked at expected losses over the course of a 30-year mortgage and calculated the annual cost to cover those damages

First Street's analysis estimates the current economic risk of flood is 3.7 times higher than the level the NFIP is using to price flood coverage

Average NFIP premium (SFHA) = $1,933

Average expected loss per property (SFHA) = $5,050

Wilmington is the highest risk with 4,700 flood-prone properties

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Risk Rating 2.0 — Equity in Action

- Risk Rating 2.0 is a shift to more accurate and more equitable rating
- Effective October 1, 2021 for all new policies and optional for renewal policies
- Effective April 1, 2022 for all renewal policies
- 9/1/21: FEMA released final documents on Risk Rating 2.0

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Risk Rating 2.0 – Transition

- Increases in premium are limited to 18% per year (primary homes) and 25% (all other properties)
- Initially will create a reduction in NFIP revenue of $500 million
- Fees and Surcharges will remain
  - Reserve Fund Assessment
  - HFIAA Surcharge
  - Federal Policy Fee
  - Repetitive Loss Surcharge
  - Probation Surcharge (if applicable)

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Risk Rating 2.0

- 30-day grace period – if the policy lapses MUST write a new policy at full rate! (30-day waiting period applies)
- For PRP and Newly Mapped policies, the insured will be able to change the coverage amount and deductible when it renews under the new rates to be more precise
- If policy was renewed under legacy rating between 10/1/21 and 3/31/22 and RR2.0 rating would have been lower, the insurer will have to refund the difference.
- There will be TWO flood manuals during the transition (Legacy and Risk Rating 2.0)

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Risk Rating 2.0

- Considers:
  - Type of flood – Inland, storm surge, tsunami, coastal erosion and Great Lakes risks
  - Distance from potential flooding source
  - Cost to rebuild and building occupancy
    - Should provide fairer rates for lower-value homes
  - Construction type and foundation
  - First floor height and number of floors
  - Prior claims

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Prior Claims Impact

- Prior claims will NOT be included when the switch to the new pricing methodology is done
- The first loss under Risk Rating 2.0 pricing will trigger the claims lookback and inclusion in the rating algorithm
- The lookback period is a rolling 20-year period
- The claim that triggers the lookback isn't included in the calculation, only the losses in the previous 20 years.

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Prior Claims Impact

- Excluded Claims:
  - ICC payments
  - Claims closed without payment

- For Severe Repetitive Loss properties, the current surcharge will remain on the policy until the first loss, then the policy switches to pricing with consideration of past losses

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Prior Claims Example

Policy has been in force for over 20 years with prior claims:

2007 – Claim #1

2018 – Claim #2

2020 – Claim #3

May 2022 – Policy renewed under Risk Rating 2.0

September 2022 – Claim #4 (Claim lookback triggered)

Claims #1, #2, and #3 will be considered in the premium calculation.

Claim #4 will NOT be considered since it is the triggering claim.

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Prior Claims Example

Policy has been in force for over 20 years with prior claims:

2007 – Claim #1

2018 – Claim #2

2020 – Claim #3

May 2022 – Policy renewed under Risk Rating 2.0

September 2028 – Claim #4 (Claim lookback triggered)

Claims #2 and #3 will be considered in the premium calculation.

Claim #1 is outside of the 20-year window. Claim #4 will also NOT be considered since it is the triggering claim.

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Prior Claims – Loss Runs

Can I get loss runs?

Loss information is only released to the current policyholder/property owner

Call 877-336-2627 to request loss records

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Simplified Structure Types

Under Risk Rating 2.0 there are only SIX structure types:

- Non-elevated:
  - Slab on grade (Elevation Cert 1A/1B/3)
  - Basement (Elevation Cert 2A/2B/4)
  - Crawlspace of 5’ or less (Elevation Cert 8/9)
- Elevated
  - No enclosure (EC 5)
  - Elevated with enclosure on post, pile, pier (EC 6)
  - Elevated with enclosure, not post, pile, or pier (EC7)

- First floor height is system-generated and is the difference between grade and first floor level

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Mitigation Credits

- Flood vents/Floodproofing
- Machinery and Equipment elevated above the first floor
  - Agents will certify qualified location on the application
  - List of eligible machinery and equipment will be listed in the updated Flood Insurance Manual
- CRS discount will now apply to ALL policies, regardless of flood zone (must be paying full rate to get the discount)
- Elevated structures will continue to get favorable rates

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What's NOT changing…

- Mandatory purchase requirement in SFHA for properties with a federally insured mortgage
- Floodplain management and building codes
- Flood polices may still be assigned to new owners
- Maximum coverage, deductibles, ICC coverage
- Maximum annual rate increases
- Eligibility for flood coverage
- Surcharges
- Policy forms

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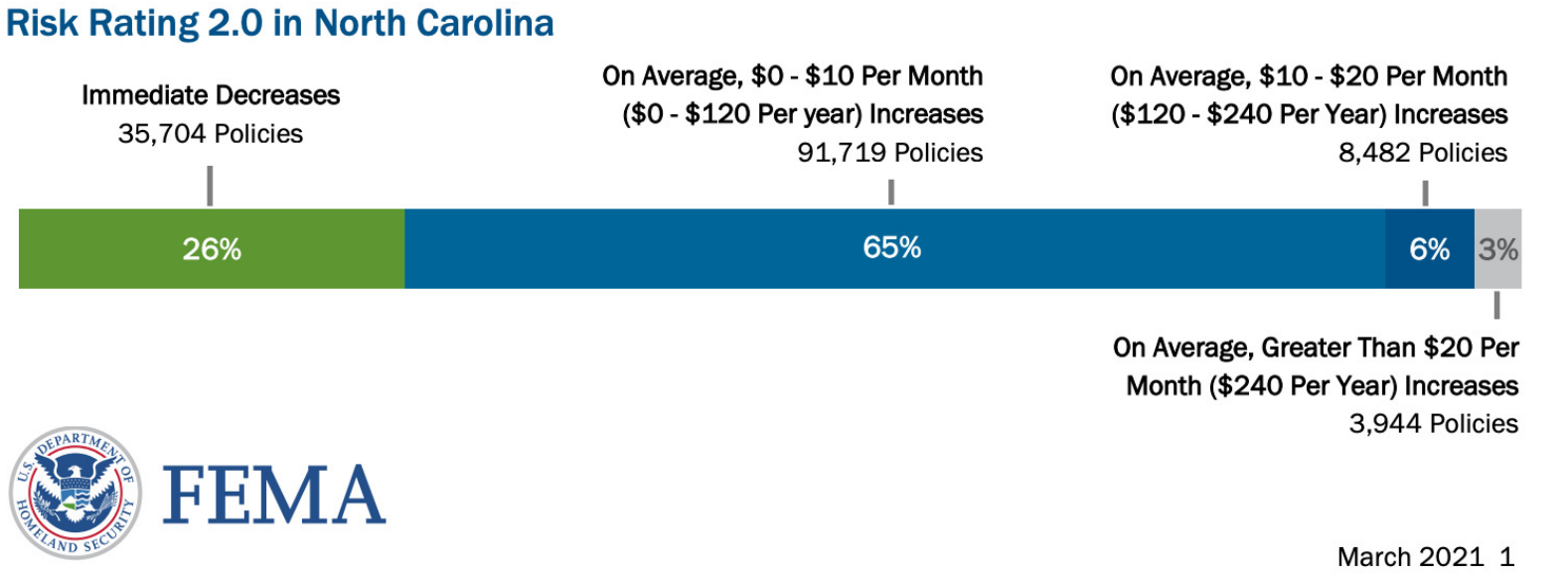
Premium Impact



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Changes to Maximum Cost

- Legacy rating maximum rate is $45,925
- RR 2.0 maximum rate is $12,125

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Winners…

- Lower home values – many of these are not currently insured
- In lower risk areas of high-risk zones
- Wildcard: rating errors

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Losers…

- Pre-firm and grandfathered homes
- Homes below the base flood elevation (unless a rating error)
- Homes in higher risk areas of the flood zone

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Losers…

- Higher-value homes
- Some higher-risk X Zone homes, especially higher-value homes
- New policies in higher risk areas – may be driven to the private market

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New CBO Projection

900,000 NFIP participants (2% of all policyholders) will DROP their coverage due to the increase in rates

*Opportunity!!

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Which Option is Best?

1. NFIP Legacy rating
   - Option until April 2022
   - If below full rate, premium may increase 18%/25%
2. NFIP Risk Rating 2.0
   - Some policies will decrease – some surprises
3. Private Flood
   - May be a better option or a much higher price
4. NFIP + Private Excess
   - Some NFIP rates lower than private market
   - Convert private policy to excess only

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New policy challenges

- New policies will be forced to pay the full rate under the new rating scheme
- For many, the private market will be a lower-cost option
- There's no waiting period with the private market so it's better for cash closings
- Unless Congress mitigates the new rates, higher-risk real estate will take a hit

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Mitigation

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Repetitive Loss Properties

- 2 or more claims of $1,000 or more within 10 years (since 1978)
- Over 122,000 repetitive loss properties
- To participate in the Community Rating System, must take action on repetitive loss areas (not just properties)
- 90% were built prior to 1975

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Severe Repetitive Losses (SRL)

- About 1% of covered properties, >30% of claims
- 4 or more losses over $5,000
- 2 or more claims where total > market value of property
- Within 10 years, more than 10 days apart

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Severe Repetitive Losses

- Examples:
  - Mississippi home flooded 34 times with a value of $69,900 has total claims paid of $663,000
  - Alabama home worth $153,000 paid $2.3 million
  - Houston home worth $116,000 paid $1.6 million
- Pay an additional premium of 10%, which increased to 15% on April 1, 2021

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FEMA Grant Programs

- Highest priority are severe repetitive loss properties
- Hazard Mitigation Grant Program (up to 75%)
- Pre-Disaster Mitigation and Flood Mitigation Assistance Grants
- FEMA grant is up to 75% for severe repetitive loss properties and 67.5% for repetitive loss properties
- Coordinated with state and local grants and ICC coverage

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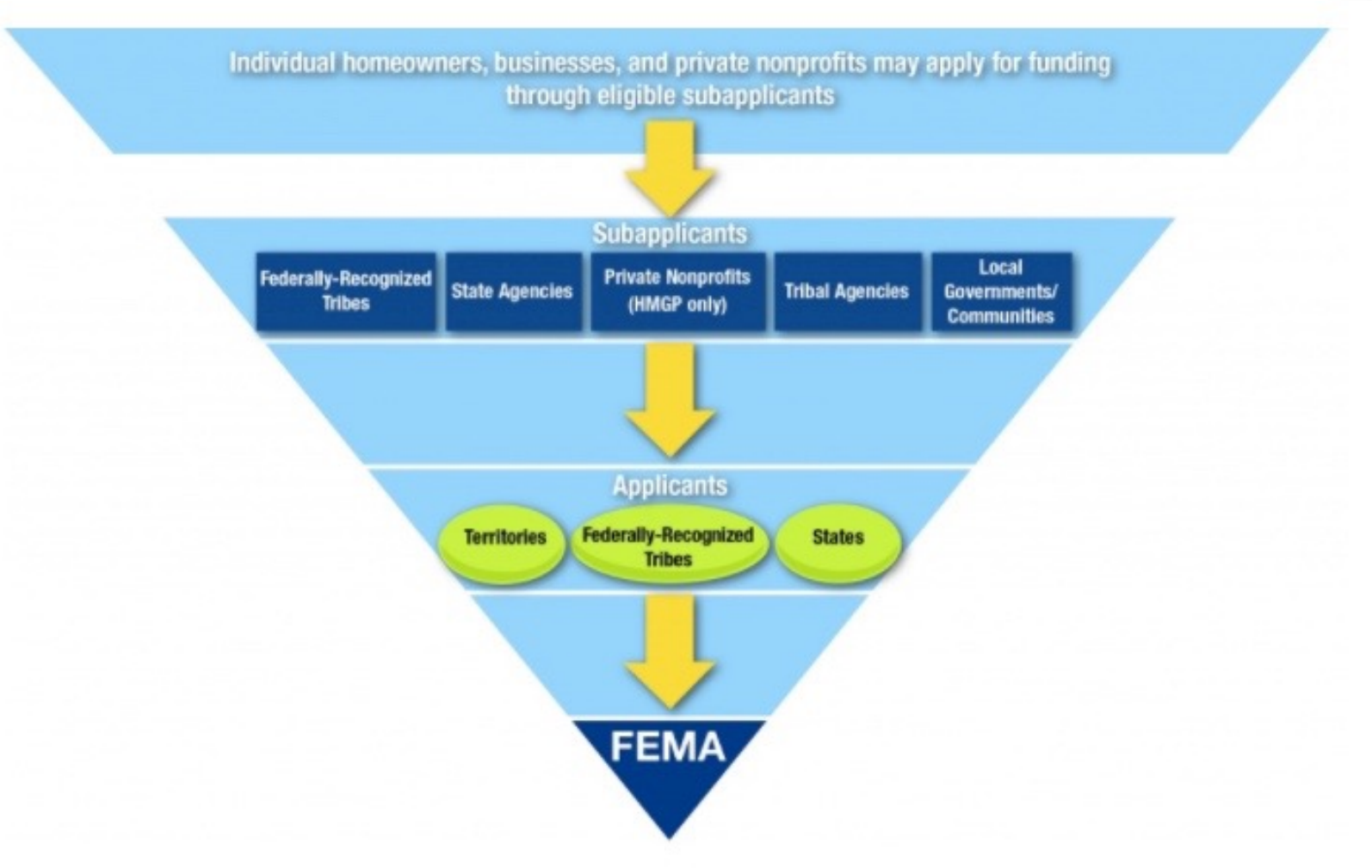
NFIP Mitigation Grants



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Mitigation Funding

The new infrastructure bill has $3.5 billion allocated over 5 years for flood mitigation

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Why Mitigation?

- FM Global found for every dollar spent on mitigation, $105 of losses are avoided
- More resilient structures reduce stress on financing mechanisms
- Mitigation is the only effective and practical solution

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NFIP Mitigation – Case Study

Santa Rosa Island, Florida

Population 2,500 29 square miles

- All A-zone properties must conform to V-zone building codes
- 3-foot freeboard
- Received some grants to assist
- Significantly less damage from Hurricane Michael than would have happened with no mitigation

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NFIP Mitigation – Case Study

House in Meyerland neighborhood
(SW side of Houston)

- 3800 SQFT home
- 2001 Hurricane Allison – 10” of flooding
- 2015 Memorial Day rain – 34” of flooding
- Approved for a $350,000 grant to raise his home 5 feet (60”)
- 2016 Tax Day Flood – 20” of flooding
- 2017 Harvey – 55” of water

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Mitigation Challenges

- Elevating structures makes them inaccessible to the handicapped/elderly/injured
- Public bathrooms – ground level or elevated
  - 20’ elevation means a 300’ ramp
  - Elevators in a high-corrosive environment also problematic

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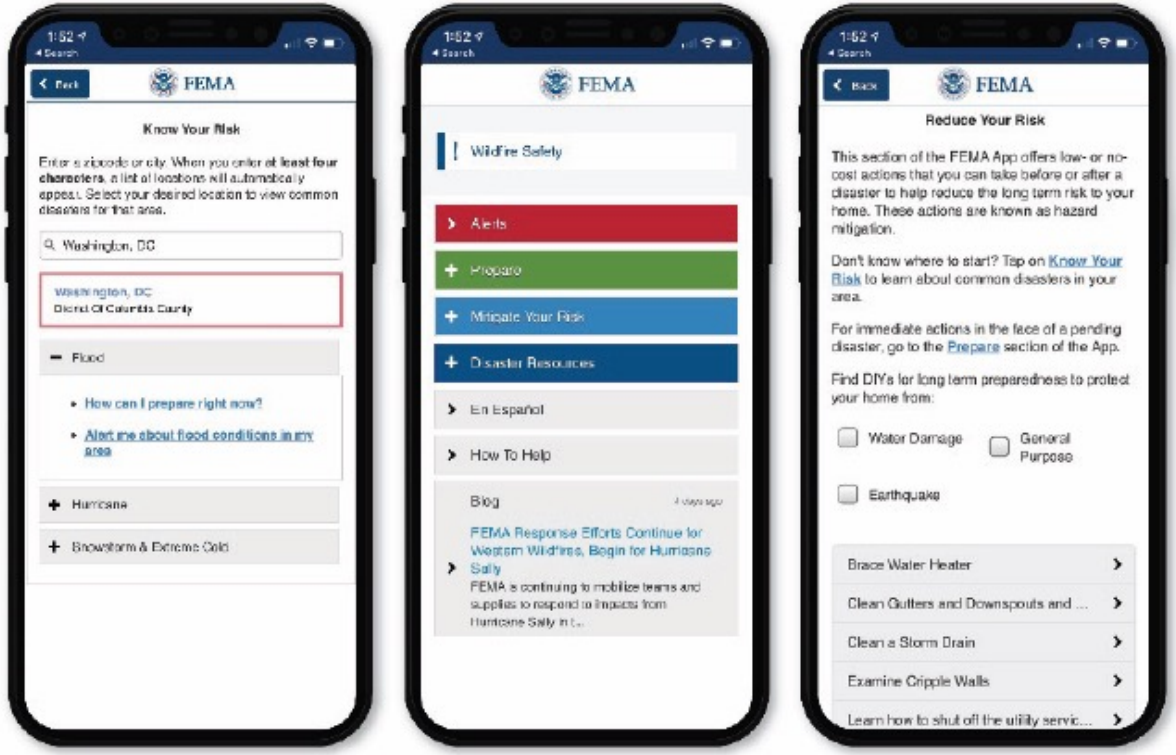
Download the FEMA app



Screenshots of FEMA app's "Mitigate Your Risk" feature on smartphone

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Private Flood Insurance

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Private Flood Options

- BW12 – lenders must accept private flood insurance if at least as broad as NFIP policy
  - Who determines “at least as broad”?
  - NOT you
  - Lenders have attorneys, let them decide

- BW12 – also increased the lender’s penalty for non-compliant private flood policies to $2,000 per policy

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The "FEMA 6"

1. Must be licensed/admitted to do business in jurisdiction
2. Or an approved surplus lines company
3. 45-day cancellation/non-renewal notice
4. Coverage must be at least as broad as NFIP
5. Mortgage Interest Clause similar to NFIP policy
6. 1 year limit to file suit

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Private Flood - Cautions

- Lender must accept
- Potential loss of NFIP subsidized rate
- Stability of private market (reinsurance impact in 2020)
- Future rate increases in the private market unknown

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Private Flood Options

- Non-admitted/Surplus Lines carriers
  - 25+ private market insurers in Florida
  - May get loss of use coverage
  - May endorse homeowners policy (low risk areas)
- Can self-insure if no lender
- New NC private market flood policy with approved forms and rates

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Excess Flood Programs

- Excess Coverage
  - Sits above NFIP policy
  - If value > NFIP limit – OFFER EXCESS
  - Must buy full NFIP limit before excess policy

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NC Private Market Flood Policy

- Goal: To develop a long term, quality flood [insurance] solution for the state of North Carolina that is accepted by lenders and offers residential risk coverage options that are equal to or greater than the current policy offered by the NFIP
- Forms and rates have been approved for use in North Carolina
- Policy more closely aligns with homeowners forms
- To date, no carriers have filed to offer but hopefully they will soon

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Key Differences from NFIP

- **Definition of Flood -** Does not have to flood two properties or two acres
- **NO waiting period** - Subject to individual company moratoriums
- **ONE deductible** - May endorse for a percentage deductible

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Key Differences from NFIP

- **Additional Living Expense & Loss of Use**
- **Higher Limits** – No need for excess flood policy
- **Replacement Cost** on building (coinsurance applies)
- **Ordinance or Law Coverage** (by endorsement)

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Key Differences from NFIP

- Higher limits available for ICC
- Replacement cost on personal property
- Loss Assessment – no exclusion for personal property and higher limits available
- Other Structures – more coverage and options
- Trees, shrubs, plants coverage

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Key Differences from NFIP

- Minimum limits apply:
  - Coverage A $15,000
  - Coverage C if tenant $6,000
  - Condo Coverage A $5,000
  - Condo Coverage C $10,000*

**No minimum for Coverage C for the owner if the unit is rented.*

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NC Private Flood Policy Rating

- SpatialKat model by KatRisk
  - Considers inland flood and hurricane wind/storm surge models
  - Considers ground water fluctuations
  - Considers sea surface conditioning (El Niño, Atlantic Multi-decadal Oscillation)
  - High resolution (10m)
  - Draws on analysis of data from past events and modeled future events

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NC Private Flood Policy Rating

- 30 meter geographic rating granularity vs Base Flood Elevation for entire flood zone
- Provides insurance to value
- Advanced algorithm
- Includes impacts of property characteristics
- Accounts for ground-up loss pattern

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NC Private Flood Policy Rating

- Grid ID
- Construction
- # of floors
- Basement type
- Height of first Floor
- Deductible
- Amount of coverage (and insurance to value)

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NC Private Flood Policy Rates

- In the highest risk zone 40% may have a lower rate
- In the lower risk zones, 95% may have a lower rate
- Will not have NFIP surcharges and fees

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NC Private Flood Policy Claims

- Under the jurisdiction of the NC Insurance Commissioner
- Three years to file claim (vs one year with NFIP)
- Can appeal to NC Department of Insurance
- Litigation will be in STATE court
- Better coordination with homeowners/wind & hail (if written with admitted company)

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NC Private Flood Policy Benefits

- Broader coverage with more consumer choice
- More precise rating and potentially lower premium
- Same structure as homeowners policy
- Under the jurisdiction of the NC Department of Insurance
- Better coordination with homeowners policy

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More Information…

Links to videos from the NCRB are on the Nowpreneur.com/iiancflood download page:

- Overview of the private flood program,
- More information on rating methodology

NCRB members can also access the flood manual in the member portal.

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Insurance Agents!

Encourage your carriers to contact the NC DOI and start selling the NC Private Flood Policy!

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Flood Insurance Options

1. NFIP coverage options
2. Private options (Standard and Excess & Surplus lines markets)
3. Excess flood options for higher value properties

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Selling Flood Insurance

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Blue Ocean Opportunity

- ✓ The protection gap is HUGE – 2 million new opportunities just in NC
- ✓ Plus, opportunities for those dropping NFIP policies due to pricing
- ✓ Plus, new business in flood-prone areas
- ✓ And, most agents are not up to speed on Risk Rating 2.0 so your knowledge is a competitive advantage

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Explaining the Risk (Good)

- 85% of Hurricane Florence flood losses were uninsured
- 85% of Hurricane Harvey flood losses were uninsured
- 50% of the homes flooded in Sandy were outside of the SFHA and 80% were uninsured
- 40% of businesses damaged in a natural disaster never reopen
- In Harvey, the average flood claim was more than 26 times larger than the average FEMA emergency grant

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Explaining the Risk (Better)

- Use flood maps to more clearly identify risk
- Use FIMAN site (in NC) to show modeled scenarios and how the flood water will rise
- Use local information about past flooding events

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Explaining the Risk (Best)

Tell the story…

Statistic on business loss or a story of a 3rd generation business that was lost in Matthew

Statistics on flooding in an X zone or the story of a family frantically trying to escape floodwaters

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Where to Find Stories…

- Talk to your customers who have had losses
- Search for stories in your local news
- Search for stories in other media
- Search for stories on social media
- Ask your flood carrier for claims examples

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Consumers need you to give them a visual, emotional picture of what a flood loss looks like and how their life will be different if they have coverage for their loss.

They also need the statistics in order to justify the purchase.

Give them BOTH. Lead with emotion.

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Common Objections

“I don’t live in a flood zone”

“I can see why you’d think that since flood insurance is only required in the highest hazard zone but in reality, everyone is in a flood zone. In fact, most uninsured flood losses happen outside of what most people call the “flood zone”.

One example is… [tell a story]

Let’s look at the map and see what your risk of flooding might be.

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Common Objections

“My house hasn’t ever flooded before”

“That’s great! And hopefully it never will. But it seems like every time you turn around, we’re hearing about a new weather record.

With new development and changing weather patterns, we really can’t be sure where the next first-time flood will happen. There was even a neighborhood that flooded recently because the storm sewer was clogged with garbage.

If that happened to you, what would it cost you to replace your floors, kitchen cabinets, and drywall?

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Common Objections

"Yeah, we flooded in [event] but that was a 1 in 500-year event – it can't happen again."

Yes, I remember that! And it seems like we ought to get a long break… but mother nature doesn't watch the calendar. Take Fair Bluff – that town had a 1 in 500-year flood event and a 1 in 1000-year flood event in just three years!

The next time there's a flood, it will probably look a little different – but if it's flooded there before, it's possible that it might flood there again.

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Common Objections

"It's too expensive"

You know, most people feel the same way… until they have a claim.

One thing that's unique about flood losses is what seems like a small loss can be really expensive. If you had just a few inches of water in your house that destroyed your floors, kitchen and bathroom cabinets, and damaged your furniture, what would it cost you to repair just those things?

We have several options for flood insurance – would it make sense for us to look and see what's most affordable for you?

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Common Objections

"My mortgage company doesn't require it so it's obviously not needed."

It does make you think that doesn't it? Did you know that the requirement to carry flood was established to protect the government's money – not your home? Since they guarantee the mortgage, it's in their best interest to have flood insurance in the highest hazard areas. Congress didn't want to require it in lower risk zones, even though almost 30% of flood losses happen there.

If you did have a flood loss, could you pay out of pocket to fix the damage while still paying your mortgage?

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When the Flood Zone Changes…

- Remind them the maps are based on engineering measurements and computer models that can be wrong
- If there has been flooding in the past, there's likely to be flooding in the future
- Many towns have implemented building codes based on the prior flood zone because they think the maps aren't right
- If the maps are wrong the government doesn't pay for the mistake – you do
- Look at it this way – you just got a big discount on your flood insurance premium!

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When the Flood Zone Changes…

- Look at all the available options – the private market may have a better premium
- Remind them the increase is capped and it will be a gradual increase over time
- Now's a good time to review how expensive a flood loss is and why it's important to keep the coverage (assuming they have the option to drop it)

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Lead with Flood!

- Many agencies drop the ball here...
- Flood can be your “in” for all other lines of business
- They may not even know their current agent sells flood!
- Always, always, always offer flood with every property policy
  - Protects your account
  - Protects you from E&O exposure

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Lead with Value

- Become the expert in your community
- Online videos, articles, infographics
- Social media
- Speaking opportunities – Risk Rating 2.0 gives you a hook for media, the Chamber of Commerce, and other local groups.

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Flood Claims

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NFIP Claims Handling

- Adjusters are independent
- Advanced payments not always offered
- MUST file proof of loss form!
- It generally takes longer to receive claim payment (60 days)
- Recoverable depreciation is payable
- Dispute resolution
  - Appeal to FEMA
  - Federal courts have jurisdiction

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NFIP vs. FEMA

The average FEMA grant in 2017 was $4,300.

The average flood insurance claim was $115,000.

Dave Maurstad,
FEMA Deputy Associate Administrator

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FEMA Emergency Relief

- Take photos of everything
- FEMA will ask you to apply for a Small Business Loan (you don't have to take it)
- Any money > $25,000 will put a lien on your house
- Must be current with IRS

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Was it Wind or Water?

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Claims Handling – Wind and Flood

- Flood v Wind losses
  - Policy language – concurrent causation
  - NC holds anti-concurrent causation (ACC) clauses to be enforceable
  - Most likely – determination of proportionate damage by wind and water

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Claims Handling

- Best scenario – eyewitness accounts of timeline of damage and cause
- Reality – rely on expert opinions
- Reality – courts play a significant role in final determination
- Reality – Every case is unique, no rule of thumb
- Public misconception of storm surge being wind damage “Wind driven water”

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Educating the Public and Avoiding E&O Claims

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Talking with Consumers

- Avoid abstract descriptions that confuse the public (1 in 100-year flood zone)
- **Never say "You're not in a flood zone"**
- Provide accurate information about the level of risk
- **Never tell a property owner they "don't need" flood insurance**
- Allow property owner to decide how they will handle their flood risk
- Encourage them to learn more about flood risk and insurance

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Educating Consumers – Property Acquisition

- Provide information about the flood zone, property history, and risk level
- Provide information about mitigation done on the property
- Encourage them to talk with their insurance agent about flood risk and flood insurance
- Never promise a property will “never flood”
- Never tell someone a property isn’t in a flood zone

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Educating Consumers – Property Development

- Consider landscaping mitigation measures
  - Rain gardens
  - Utilize swales, French drains, and other water diversion methods
- Assume Base Flood Elevation will rise and build accordingly
- Coordinate with wind mitigation in coastal areas
- Incorporate temporary flood water barricades

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Educating Consumers – Insuring Property

- Educate your prospects and customers on their flood risk
- Offer flood insurance with every property policy
- Document rejection of coverage and offer again at every renewal
- Advise your customer to read their policy, especially if from the NFIP

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E&O Considerations

- Most common errors
  - Failure to procure 29%
  - Failure to recommend 18%
  - Failure to identify 8%
- Type of Transaction
  - Renewal 38%
  - New business, new client 24%
  - New business, existing client 22%

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E&O Considerations

- Verify named insured(s)
- Verify mortgagee
- Any changes to the structure in the past year?
- Review deductibles
- Verify limits and match whenever possible

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E&O Considerations

- OK to talk about hurricane deductibles, not OK to talk about hurricane coverage
- Always offer!
- Always document rejection (ACORD 60)
- Offer excess if values over $250,000
- Advise policyholder to read their policy
- Don’t be an adjuster, especially in a cat situation

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Avoiding E&O Risk (Everyone)

- **Don't** tell someone they "aren't in a flood zone"
- **Don't** promise the property will never flood
- **DO** provide information and advise them to discuss their need for flood insurance with a licensed insurance agent

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Fair Bluff NC – 20 Years

1999: Hurricane Floyd

- “100 year flood event”
- $6 Billion in damage
- 10” of rainfall
- River crest 13.6’

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Fair Bluff NC – 20 Years

2016: Hurricane Matthew

- “500 year flood event”
- $4.8 Billion in damage
- 14” of rainfall
- River crest 16.65’

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Fair Bluff NC – 20 Years

2018: Hurricane Florence

- “1000 year flood event”
- $17 Billion in damage
- 17” of rainfall
- River crest 17.03’

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The risk of flood this year is not impacted by what happened last year.

You are not safe from flood this year because your property never flooded before, or because there was a record flood in the past

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Stoney Creek Neighborhood

Barbara Murdock – was flooded in Floyd in New Jersey, moved to NC and asked the question, “Do you have flood insurance?”

> *Her agent told her, “You don’t need that, it’s not in a flood zone.” (Zone X)*

Another resident was told: “You don’t need it, why are you going to pay extra for that when you don’t need it?”

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Flood Materials

Available for download at:

Nowpreneur.com/iiancflood

Any problems with access:

Email Charlotte@Nowpreneur.com

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Insurance Agency Trendsetters podcast

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