

Understanding Flood Map Modernization

INSURANCE PROFESSIONALS



FLOOD RISKS ARE CHANGING: KNOW YOUR INSURANCE OPTIONS

Some properties will be mapped into high-risk zones where flood insurance is required for most mortgage holders; or Base Flood Elevations may increase. As a result, flood insurance costs may rise to reflect this higher risk. The NFIP provides “grandfathering” rules as a potential lower cost option.

Other properties will be mapped into low- or moderate-risk zones where flood insurance is optional but recommended. About 20-25 percent of all flood claims occur in these zones. The NFIP provides for an easy conversion of an existing policy to a lower-cost Preferred Risk Policy. The policyholder will receive a refund in the difference in premium and the NFIP allows the agent to retain commission on both policies.

IDENTIFYING THE RISK

Because flooding is the number one natural disaster in the U.S., it is important that property owners know their flood risk. The Federal Emergency Management Agency’s (FEMA’s) flood hazard maps, known as Flood Insurance Rate Maps (FIRMs), are an important tool for identifying flood risks and guiding communities in their floodplain management decisions.

FEMA’s Flood Map Modernization (Map Mod) program is an effort to transform the Nation’s flood maps into a more reliable, easier-to-use, and readily available product. As a result, more up-to-date flood hazard mapping data will be available to assist communities in land development. This information also enables businesses and home owners to make more informed financial decisions to protect their property.

UNDERSTANDING THE EFFECTS ON INSURANCE

FIRMs identify a community’s flood risk, and if the new maps (known as Digital Flood Insurance Rate Maps [DFIRMs]) reflect a change in flood risk, flood insurance requirements for property owners may also change. Properties may be mapped into higher risk zones, have changes in their Base Flood Elevation (BFE), be mapped into lower risk zones, or remain in the same zone. With or without changes in the level of flood risk,

insurance companies and agents should properly educate property owners about these map changes, how they affect the flood insurance requirements, and the insurance options available.

When a building is mapped into a high-risk zone (noted on the flood maps with the letters “A” or “V”) and there is a mortgage on the property through a federally regulated or insured lender, flood insurance is federally required (even if there is no mortgage on the property, flood insurance is highly recommended). If a property is already in a high-risk area, the BFE may change. Either of these changes could result in higher flood insurance premiums.

The National Flood Insurance Program (NFIP) provides a lower-cost flood insurance option known as “grandfathering”. Grandfathering is available for property owners who:

- have a flood insurance policy in effect when the new DFIRMs become effective, or
- built in compliance with the FIRM in effect at the time of construction.

Because these “grandfathered” insurance rates may be less than the rates related to the new DFIRM, it is important to compare both when discussing insurance options.

Some properties may be mapped into a low- or moderate-risk zone (shown on the new FIRMs as an “X” or shaded “X”



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zone). Although the Federal regulation for the mandatory purchase of insurance may be lifted, it is at the lender's discretion to require coverage. Property owners should be reminded that the risk has only been reduced, not eliminated. They can maintain coverage by easily converting to the lower-cost Preferred Risk Policy (PRP), with premiums starting as low as \$119 a year. A PRP offers a significant cost savings while still providing coverage and the benefit of protection.

STAYING INFORMED

Knowing when and where map changes are occurring allows insurance agents to properly educate their clients on available options. Insurance agents can prepare by staying in contact with community officials throughout the mapping process (what FEMA refers to as the Flood Insurance Study). All agents should proactively inform clients about insurance options based on the impending changes.

FEMA provides updated monthly listings of all communities that have received a Letter of Final Determination (LFD), which is a document that states that a community's new flood map will become effective in six months, and therefore, changes in insurance requirements may take place.

- For a copy of an LFD listing, visit: http://www.fema.gov/plan/prevent/fhm/st_hot.shtm#2.

- For more information about Map Modernization, visit http://www.fema.gov/plan/prevent/fhm/mm_main.shtm.
- To learn more about flood insurance, visit <http://www.floodsmart.gov> and <http://agents.floodsmart.gov>.
- To learn more about rating using the grandfather rule, visit: <http://www.fema.gov/business/nfip/manual.shtm>.

The Department of Homeland Security's Federal Emergency Management Agency (FEMA) is responsible for administering the National Flood Insurance Program (NFIP). FEMA and its partners provide flood hazard data and maps in support of the NFIP. Up-to-date flood hazard information and maps are needed to support the purchase and rating of flood insurance, enable community-based floodplain management, and increase the Nation's flood hazard awareness.

