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Floodplain insurance redux: Risk, reward and cost

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After a week's vacation on the Massachusetts coastline, without any storms, it occurred to me an update on a previous year's hurricane/floodplain story would be interesting. Part of the impetus came from several anecdotal comments by friends complaining about floodplain insurance, in context of new legislation which has changed both the mapping and the rates to most everyone's detriment. One waterfront owner had decided to self-insure, through saved money by foregoing floodplain insurance. Another decided that they would just stop paying, because if the house were swept away, they would not want to rebuild to new code, in their case, 15 feet up in the air. A few others have decided to fight the mapping designation on their properties.

What's changed over the years? A quick history starts with the 2012 Biggert-Waters Act which was passed after the two big storms of Katrina and Sandy. Essentially this act increased the breadth of floodplain designation, as well as allowed insurance rates to float up to market. Previously, floodplain insurance was easily available at subsidized rates by FEMA, the Agency under the Federal Emergency Management Act, which provides up to \$250,000 of subsidized flood insurance.

In any case, the Biggert Waters Act was so onerous that Congress was deluged with complaints and so recently passed the Homeowners Flood Insurance Affordability Act of 2014 (HR3370) to roll back insurance rates to more manageable levels. Under the 2012 Act, rates had increased to anywhere from double to ten times. Under the new 2014 Act, rate increases would range from 5% to a maximum of 18% per year, and people who had already paid under the old Act were eligible for reimbursement. For the most part, the more aggressive floodplain mapping was kept in place, although, as noted, individuals are fighting that town-by-town with engineer and other consulting help.

Additional rollbacks under the new 2014 Act will allow old insurance policies to be extended at their then current rates, upon a property sale as opposed to new rates; will provide refunds to people who paid more during the interim years; allows grandfathering of changes in re-mapping if houses were constructed under the old mapping according to building and floodplain codes then in place. It is clear that when the floodplain regulations were changed in 2012, to put most of the cost on those people choosing to live in the floodplain, those people caused a lot discomfort for Congressmen. They quickly pushed to move back closer to the old rules, which reduced rates and spread the risk across the nation.

All of these changes also caused considerable focus and introspection on flooding and hurricane issues. Most would agree that weather continues, and is potentially increasing, its volatility leading to larger and more destructive storms. The Federal Government can subsidize some of the existing conditions, but regulations clearly are necessary in the way of floodplain mapping to curtail further development in the floodplain. At some point, market conditions have to prevail.

As part of this new focus, private insurers have been looking for opportunities to get deeper into the floodplain insurance market. Currently, firms like Lloyd's of London and Chubb are already in this market, insuring values above the \$250,000 FEMA maximum. Private insurers do, and will continue to charge greater rates, and the customers at this level can certainly afford to pay. However, until these insurers perfect their models, it is not clear whether forays into this market are sustainable, thus creating uncertainty for homeowners. Further, private insurers can step away from flood insurance when they choose, as opposed to FEMA which requires agreement by the Congress and the President.

In summary, if you are in the floodplain or in hurricane prone areas, expect some insurance rate increases. Don't let your policy lapse, as it may be difficult or impossible to get a new one in the future. Be prepared for problems when you want to sell your property, as buyers are very aware of these issues. Enjoy those waterfront properties as best you can, knowing that they are in a risky territory.

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