

March 2, 2020

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Private Flood Insurance Program for Residential Property

The Rate Bureau is introducing the rates, rules, and forms for a private flood insurance product designed for the residential market. This program was filed in September 2019 with the Department of Insurance. This new product was approved by the Commissioner of Insurance with minor changes to the filed minimum premium and inland flood loss cost multiplier on February 28, 2020. In developing this program, the Rate Bureau’s Flood Subcommittee enlisted the expertise of leading industry experts, including ISO, Milliman and KatRisk.

INTRODUCTION OF PRIVATE FLOOD INSURANCE PROGRAM

Historically, the National Flood Insurance Program (NFIP) has been the primary insurer of residential flood risks in North Carolina. In the last several years, advancements in flood risk modeling and geospatial data provide better tools for the private market, allowing the industry to offer sophisticated residential flood insurance products as an alternative to the NFIP.

The Rate Bureau’s private flood insurance program is intended to provide a long term, quality flood insurance solution for the state of North Carolina that is accepted by lenders and offers residential flood insurance coverage equal to or greater than the current NFIP policy. The program is designed as a stand-alone policy program, and the coverage is not eligible to be written as an endorsement to a current residential property insurance policy. The program developed by the Rate Bureau is optional for member companies that wish to offer a private flood insurance policy. However, a company choosing to offer private flood insurance in North Carolina for residential real property with not more than four housing units must use the Bureau program.

The Rate Bureau policy has several enhancements when compared to the policy offered in the federal program, as well as optional endorsements to customize coverage. A high level comparison of some notable coverages is provided in the chart below:

Program Detail	NFIP	NCRB
Coverage A: Dwelling Limits	\$250,000 maximum	No limit
Coverage C: Personal Property	\$100,000 maximum	No limit
Coverage D: Add'l Living Expense	Not Covered	Optional
Deductible	Separate deductibles for Coverages A & C	One deductible per policy
Personal Property	Covered at actual cash value	Optional replacement cost endorsement
Contents in Below Ground Areas	Not covered*	Optional coverage

Increased Cost of Compliance	\$30,000 max	\$30,000 min (higher limits available)
Ordinance or Law	Not Covered	Optional

* certain appliances are covered

Flood risk can vary significantly from property to property. The flood risk of adjacent properties may be very different depending on the local geography and hydrography. Because of these risk-by-risk variances, the Rate Bureau developed a 30 meter by 30 meter grid across the entire state of North Carolina, creating unique rates for more than 140 million locations across the state. After a property address is mapped (geocoded) to determine its latitude and longitude, rates are calculated that are specific to the property location.

In addition, the Rate Bureau’s flood insurance program utilizes property characteristics such as first floor height, type of basement, and number of stories to more accurately price flood insurance for each property. The replacement value of the dwelling is also considered, providing equitable rates for all levels of insurance to value. Rating is done through a modern, multiplicative rating algorithm, which is described in more detail in the North Carolina Flood Manual.

RATES, RULES, and FORMS

The North Carolina Flood Manual, which includes the rates, rules and forms for the Rate Bureau’s private flood insurance program, is now available through the Rate Bureau’s [Member Portal](#). (Please note only NCRB member companies have access to the web portal. If you are a member company and need access please contact your web administrator or call NCRB at 919-783-9790.)

The Rate Bureau also offers instructional videos in its Training and User Guides section of the website that provide a high-level overview of the program. This two-part series includes one video on the coverages and one video on the rates. Access to these videos can be found [here](#).

As an additional resource, the Rate Bureau has posted Flood FAQs on its website. A copy of those FAQs is also attached to this circular.

Rate Bureau staff is willing and interested in working with member companies to assist in any way it can. Whether you would like an overview of the program or have implementation questions, staff is here to help.

MEMBER IMPLEMENTATION OF PRIVATE FLOOD PROGRAM

The Rate Bureau Flood program will require companies to consider the following:

Rating Implementation

Unlike a traditional manual, because of the volume of data required, rates must be obtained in one of two ways. The carrier must sign a usage agreement based on the option selected.

Option 1: Member Carriers can determine AAL and/or rates via the North Carolina Flood Tool (an API tool). This solution offers speed to market for a nominal fee. This has been implemented through the Rate Bureau's vendor Milliman.

Option 2: Member Carriers can obtain from the Rate Bureau the entire set of data (140 million records) required in order to map properties to the base grid location and obtain the base AAL. This requires more development and infrastructure to be created by the member carrier.

Property Address

The Rate Bureau's program requires a property's latitude and longitude. Member companies will need to use mapping capabilities to determine the geocode (latitude and longitude) associated with a property.

Underwriting Rules

Member carriers are encouraged to consider appropriate underwriting rules. Some items that might be considered include:

- Does the carrier wish to implement a "waiting period" on obtaining insurance?
- What will be the source of first floor height? Will an elevation certificate be required?
- Does the carrier wish to offer coverage to properties identified in the Coastal Barrier Resources Act (CBRA)? By federal law, these areas are not eligible for NFIP coverage.
- Insurance-to-value is an important part of how the rating structure is applied. What source will the carrier use for determining replacement cost for a property?
- Does the carrier wish to cap coverage A limits?
- Does the carrier wish to use rate deviations and/or consent-to-rate (CTR)? If so, the same rules apply as those that apply to other Rate Bureau property insurance programs.

EFFECTIVE DATE APPROVED

As a new program, the Rate Bureau's Flood program was filed to be effective upon approval. As noted above, the program has been approved by the Commissioner of Insurance, and the program is available now.

In connection with the implementation of these rates, your attention is further directed to G.S. 58-36-30(a) which provides in part as follows:

....no insurer and no officer, agent or representative of an insurer shall knowingly issue or deliver or knowingly permit the issuance or delivery of any policy of insurance in this State that does not conform to the rates, rating plans, classifications, schedules, rules and standards made and filed by the Bureau. An insurer may deviate from the rates promulgated by the Bureau if the insurer has filed the proposed deviation with the

Bureau and the Commissioner, if the proposed deviation is based on sound actuarial principles and if the deviation is approved by the Commissioner....

Note: Mobile homes insured under the North Carolina MH(C) or MH(F) programs are provided flood insurance coverage in accordance with the terms and provisions of those programs.

Please see to it that this circular is brought to the attention of all interested personnel in your company.

Sincerely,

Andy Montano

Director, Personal Lines

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Attachments
P-20-1

Flood FAQs

1. Am I eligible for flood insurance?
If you own or rent a property in North Carolina, you are eligible for coverage in the North Carolina program. However, companies may place restrictions based on their own underwriting practices.
2. Is flood insurance a separate policy or is it part of my Homeowners policy?
Flood insurance under the NCRB program is a separate policy, and is separate from the Homeowners policy. The NCRB Homeowners and Dwelling policies do not cover flood. The NCRB Mobile Home Programs (Mobile Home Casualty, or MHC, and Mobile Home Fire, or MHF) do provide flood coverage on the policy.
3. I live in a low risk flood area; do I really need flood insurance?
Yes. Anywhere it rains has potential for flooding. The North Carolina Piedmont area has been particularly affected; it is estimated that 60% of flood losses from Hurricane Matthew were uninsured and that up to 85% of flood losses from Hurricane Florence were uninsured.
4. How do I purchase Flood Insurance?
Contact a licensed insurance agent or insurance company for coverage.
5. Why do I need flood insurance if I live on a hill?
Floods can occur in any area and can be caused by heavy rains, melting snow, inadequate drainage systems, failed protective devices such as levees and dams, and tropical storms and hurricanes.
6. Will the NCRB Flood Program be accepted by lenders?
The NCRB private flood program is designed to meet lender acceptance requirements. Additionally, a conforming conditions endorsement is available to make sure that coverage is at least as great as what is offered by the NFIP (National Flood Insurance Program).
7. What is a Special Flood Hazard Area or SFHA?
Special Flood Hazard Areas are areas indicated on Flood Insurance Rate Maps (FIRMs), which are utilized by FEMA as reflecting areas of greater flood risk. In these areas, according to FEMA, there is at least a 1 in 4 chance of flooding during a 30-year mortgage.
8. Is there a limit on Building coverage (Coverage A) under the NCRB program?
No. Unlike the current NFIP cap of \$250,000, the NCRB program has no limit on this coverage. However, companies may place restrictions based on their own underwriting guidelines.
9. Does the coverage under the NCRB program match the coverage under the NFIP program?
The NCRB program was designed to provide coverage equal to or greater than that of the NFIP. The program also includes a Conforming Condition to match coverages in instances where there may be a gap.
10. Is the definition of flood the same as in the NFIP?
There is a slight variation in the definition of flood in the NFIP versus the definition in the NCRB program. The NFIP definition of flood requires a complete inundation of water of *two or more* properties, one of which being your property. The NCRB program does not specify how many properties must be affected to be considered a flood event. In addition, the NCRB program specifically includes both mudflow and mudslide as part of a flood event, whereas the NFIP definition specifies mudflow only.
11. I have a flood policy through the NFIP at maximum limits. Can I get a private flood policy for increased limits above the NFIP limits?
No, not under the NCRB program. Increased limits coverage may be available through the Surplus lines market. The NCRB program is designed to offer a single policy to cover the entire risk.
12. How many structures are covered under my policy?
The basic NCRB flood policy covers the dwelling and 1 detached garage. Coverage is available for additional structures by endorsement.
13. Is flood insurance available on a non-owner-occupied rental property under the NCRB program?
Yes

Flood FAQs

14. Do the NCJUA (“FAIR Plan”) or the NCIUA (“Beach Plan”) write flood insurance?

No. The residual market for flood insurance is the NFIP.

15. Do I need an elevation certificate under the NCRB program?

An elevation certificate may be required by some carriers. Contact your carrier or agent for their requirements.

16. Is there a waiting period for my policy to take effect?

This is determined by your company’s underwriting guidelines. Contact your agent or carrier for more information.

17. What is CBRA? Can properties located in a designated CBRA zone be covered by the NCRB program?

The Coastal Barrier Resources Act was passed in 1982 in order to restrict coastal barrier development. CBRA designated various undeveloped coastal barriers as ineligible for direct and indirect federal expenditures which are believed to encourage development of fragile and ecologically sensitive coastal barriers. As a result, properties located in a CBRA zone may not be eligible for flood insurance in the NFIP. There is no bar to coverage for such properties under the NCRB program, and whether these properties can be covered is determined by your company’s underwriting guidelines. Contact your agent or carrier for more information.

18. Are flood insurance policies under the NCRB program eligible for the protections offered by the Insurance Guaranty Association?

Yes