An Overview of Flood Insurance in Kentucky
Outline

• Kentucky’s Insurance Numbers
• Community Rating System in the Commonwealth
• Future of Flood Insurance
  • Issues with Flood Insurance Policy Rating
  • Risk Rating 2.0
Flood Insurance Overview
The National Flood Insurance Program (NFIP)

- A voluntary program based on a mutual agreement between the federal government and the local community.
- In exchange for adopting & enforcing a Floodplain Management ordinance, federally-backed flood insurance is made available to property owners throughout the community.
- 401 KAR Chapter 4 sets the minimum requirements in the Commonwealth
  - The Flood Damage Prevention Ordinance (FDPO) sets the minimum requirements in local communities.
Kentucky Flood Insurance Overview

- 20,086 active policies
  - 13,586 in SFHA (67.6%)
  - 3,828 PRP policies (19.1%)
- Approximately 140,000 structures in an identified floodplain in KY
  - Less than 10% are insured
- $3.565B Total insurance coverage in Kentucky
- $20.4M Total in annual premiums
  - $1018.29 Average per policy
Kentucky Flood Insurance Overview Cont.

**Policies by Structure Type**

- Single Family: 15714
- 2-4 Family: 687
- Other Residential: 1226
- Non-Residential: 2459

**Policies by Flood Zone**

- Zone A: 1963
- Zone AE: 11579
- Zone AH/AO: 56
- Zone X: 6502
Kentucky Flood Insurance Overview Cont.

- 24,456 Total Losses since 1978
- $355M Total in Paid Losses since 1978
Repetitive Loss & Mitigation

• Repetitive Loss Structures
  • 2,267 in the Kentucky
  • 7,856 Total Paid Losses
    • 32.1% of total
  • Accounts for $177M in Paid Losses
    • Almost exactly 50% of total
    • $141M in Buildings; $36M in Contents

• Mitigation
  • 328 Total Structures
  • Top RL Mitigation funding sources:
    • HMGP  79
    • USACE  68
    • ICC    33
Flood Insurance Key Takeaways

1) Encourage property owners to check their rating
   • Unusually low number of A zone policies (9.7% vs 57.6%)
   • 9 Paid zone VE claims

2) Property owners in zone X should still carry flood insurance
   • Low Risk ≠ No Risk
     • 22.3% of all claims in Kentucky
     • Preferred Risk Policies Available

3) Repetitive Loss Structures are prime opportunities for mitigation actions
Community Rating System
Community Rating System (CRS)

- Voluntary program
  - Communities choose to participate
- Recognizes community activities above and beyond the minimum requirements of the NFIP
- CRS is a points based system
  - 500 points = +1 CRS Class
    - 1 CRS Class = 5% reduction in flood insurance premiums
    - CRS Class 1 gives a 45% discount
- Christina Groves
  - Kentucky CRS Specialist

<table>
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<tr>
<th>CRS Class</th>
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Goals of the CRS

1) Reduce flood damage to insurable property

2) Strengthen and support the insurance aspects of the NFIP

3) Encourage a comprehensive approach to floodplain management
Kentucky CRS Overview

• 34 CRS Communities
  • Class 8: Average CRS Rating in KY
    • 10% savings on premium
    • Average Savings $88/policy

• Louisville is a CRS Class 3
  • 35% savings
Risk Rating 2.0
Known Issues in Flood Insurance Rating

• Outdated rating methodology
  • Has not been updated since the 1970s
  • Doesn’t incorporate new data or industry standard practices
  • Rates based predominantly on Flood Zones and Base Flood Elevations

• “Risk Cliffs”
  • 25% of claims come from outside the regulated floodplain!
  • In vs. Out
    • Zone AE at BFE $2,136/year
    • Zone X $441/year
  • Map Change Rate Increases
Known Flood Insurance Issues Cont.

• Incentivizes living in High Risk areas
  • Encourages development because flood insurance covers any losses incurred
  • No financial penalty for locating in risky areas

• Cost of Repairing vs. Rebuilding
  • Skews premium prices toward higher-value homes

• Social inequality
  • Using cost to repair in methodology skews rates to cover higher-value homes
  • Does not account for the changing cost of housing stock

• Ignores historical flood events
  • Privacy Act Protected data; Can’t be shared!
Risk Rating 2.0

• New Rating Methodology
  • Replacement value cost
  • Commercial catastrophe models + NFIP map data
  • Intuitive rating variables
  • Easily collected data

• Not just in-or-out
  • Reflect different types of flood risk
    • Riverine
    • Flash Flood
    • Storm Surge (coastal)
Rating Variables

• Distance to flooding source
• Types of flood risk
• Past occurrences
• Individual home characteristics:
  • First floor elevation
  • Elevation of utilities
  • Presence of basement or crawlspace
• Cost to rebuild
Risk Rating 2.0 Cont.

• New rating engine
  • Enable agents to quickly and easily price & sell policies
  • Reduced Complexity

• Provide policyholders an overview of the factors affecting their flood insurance premiums
Risk Rating 2.0 Cont.

Example Rate Calculation

Example of two homes in AE zones with $250,000 limit and value for building:

- **Current Premium:** $1,169
- **Target Premium:**

Low storm surge and inland flood risk

High storm surge and inland flood risk
Risk Rating 2.0 Implementation

- April 2020*
  - FEMA will announce the rating variables

- October 2020*
  - New rating variables will be implemented nationwide
  - Will only affect policies as they come up for renewal

* Subject to Change

Source: https://t.ly/gNjLW
Likely Effects of Risk Rating 2.0 in Kentucky

• Rates are likely to decrease as you move farther away from the rivers or streams

• Rates will not dramatically change at the end of the regulatory zone

• Rates are likely to go up in neighborhoods with the greatest exposure to flood risks
  • May diminish property values in those areas

• Incentivizes mitigation actions
  • Individual or community level
    • Actions taken will reflect on the premium and the policy holders score card
  • BRIC
Don’t Panic!
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Questions