Getting It Right: Annual Premium Rate Increases

How do policyholders ensure they have received the correct annual premium rate increase for non-residential property covered by their National Flood Insurance Program (NFIP) flood insurance policy?

Requirement

Recent flood insurance reform legislation, specifically Section 100205 of the Biggert Waters Flood Insurance Reform Act of 2012 and Section 5 of the Homeowner Flood Insurance Affordability Act of 2014, require the National Flood Insurance Program (NFIP) to:

- phase out pre-Flood Insurance Rate Map (pre-FIRM) subsidies on non-residential business properties through premium rate increases of 25% per year;
- phase out pre-FIRM subsidies on other non-residential building policies through annual premium rate increases averaging no less than 5%, and no more than 15%, per class
- cap annual premium rate increases on individual policies at 18%.
- increase annual premium rates for both non-residential policy types until they reach full risk rate

In order to ensure policyholders receive the correct annual premium rate increase for policies covering their non residential property, the policyholder, or their agent, will need to complete and submit an **NFIP Building Use Questionnaire** to the insurer to identify whether their policy covers a "non-residential business property" or "other non-residential property". The process of identifying these policies will begin on November 1, 2015, and rate increases will begin in the Spring of 2016.

Ensuring policyholders receive the correct annual premium rate increase.

To ensure policyholders receive the correct annual premium rate increase for their policy covering non-residential property beginning November 1, 2015, they or their agent must submit a completed **NFIP Building Use Questionnaire**, no less than 60 days prior to the expiration of their non-residential policy. The criteria used to distinguish a "non-residential business policy from an "other non-residential" policy are outlined below.

Completing the NFIP Building Use Questionnaire.

The NFIP requires verification of non-residential status through the **NFIP Building Use Questionnaire**.

To ensure policholders receive the correct annual premium increase, they or their agent must complete the questionnaire to identify whether**:**

- the building occupancy is **non-residential business** or **other non-residential**
- the building purpose is **mixed use,** including the percentages of use
- the insured is a **small business** with less than 100 employees
- the insured is a **non-profit entity**
- the insured building is a **house of worship**
- the insured building is an **agricultural structure**

Identifying a non-residential business property.

For NFIP rating purposes, a business property means a building where a licensed commercial enterprise is operated to generate income, and coverage is for one of the following:

(a) a building designed as a non-habitational building;
(b) a mixed-use building in which the total floor area devoted to commercial use exceeds 25 percent of the total floor area within the building; or
(c) a building designed for use as office or retail space, wholesale space, hospitality space, or for similar uses.

This occupancy includes, but is not limited to, small businesses, mercantile buildings, commercial agricultural buildings, industrial buildings, warehouses, commercial garages, nursing homes, licensed bed-and-breakfasts, and hotels and motels with normal room rentals for fewer than 6 months.

Identifying other non-residential property.

For NFIP rating purposes, "other non-residential" is used for a non-habitational building or a mixed-use building that does not qualify as a residential building or a non-residential business property. This occupancy includes, but is not limited to, houses of worship, non-profit buildings, schools, state and local government buildings, non-commercial farm buildings (including grain bins and silos), agricultural buildings not used as part of a business, tool and storage sheds, garages, pool houses, club houses, and recreational buildings.

Specifying use percentage for mixed use buildings.

For mixed-use buildings with more than one single-family unit, the building is classified as either non-residential business, or other non-residential, if more than 25 percent of the total floor area is used for business or other non-residential purposes. For a single-family building (e.g., detached house, townhouse, or row house), the building is classified as either non-residential business or other non-residential if 50 percent or more of the total floor area is used for business or non-residential purposes.