

# FLOOD INSURANCE POLICY LAPSE AND REINSTATEMENT

## INFORMATION FOR INSURANCE AGENTS >>



FEMA



## FOUR REASONS YOUR CLIENTS SHOULD RENEW THEIR FLOOD INSURANCE POLICY EACH YEAR

### 1. PEACE OF MIND

It comes from knowing your clients' most valuable investment—their home or business—is protected from the high cost of flooding.

### 2. LOSS OF PRE-FIRM SUBSIDIZED RATES IF YOU CANCEL OR REINSTATE YOUR POLICY

If a client's building is in a high-risk area and was constructed before the community's first Flood Insurance Rate Map (FIRM) went into effect (pre-FIRM), it probably qualifies for, and will continue to qualify for, subsidized pre-FIRM flood insurance rates for as long as the policy remains in effect. Once a pre-FIRM policy has lapsed for more than 90 days, or lapsed twice regardless of the number of days, it must be rewritten at full-risk rates. There are only two exceptions:

- The lender no longer required the insured to maintain flood insurance at the time of lapse or cancellation; or
- The insured is in a community that was suspended from the National Flood Insurance Program (NFIP) and the policy was reinstated within 180 days of the community's reinstatement as a participant in the NFIP.

FEMA also considers a policy lapsed if coverage was switched to a non-NFIP policy. A lapse resulting from a late payment made by a lender is not exempt from the loss of subsidized rates.

### 3. LOSS OF NEWLY MAPPED SAVINGS AND CONTINUOUS COVERAGE GRANDFATHERING IF YOU CANCEL OR REINSTATE YOUR POLICY

When new maps show a property to be at higher risk, clients should get and keep their flood insurance. The NFIP provides two rating procedures for property owners affected by these map revisions: the continuous coverage grandfathering procedure and the Newly Mapped procedure. Continuous coverage grandfathering is a rating procedure that allows clients to use a prior map for policy rating when the client has maintained continuous coverage. The Newly Mapped procedure allows clients to gradually transition to full-risk rates when they are newly mapped into a higher-risk zone. Eligibility for both rating procedures may be lost if coverage is allowed to lapse.

The NFIP's Newly Mapped procedure can be used only when the policy is maintained without a lapse in coverage. Once a policy has lapsed more than 90 days, or lapsed twice regardless of the number of days, it cannot be reinstated under the Newly Mapped procedure. Similarly, properties benefiting from the continuous coverage grandfathering procedure will lose that benefit after a lapse of more than 90 days or after a second lapse. They will need to be rated based on the current map information. However, the built-in-compliance grandfather procedure may be used for post-FIRM buildings constructed in compliance with the map effective at the time of construction.

Make sure your clients maintain their flood insurance coverage. After a lapse, clients paying subsidized rates, grandfathered rates, or discounted rates available through the Newly Mapped procedure could lose out on the premium savings they now enjoy.

#### **4. INSURANCE SAVINGS TRANSFER AT TIME OF SALE WITH CONTINUOUS COVERAGE**

When your clients sell a property, they can transfer the policy to the purchaser, including its Newly Mapped or grandfathered rating. Home buyers are rightly concerned that flood insurance can add to a property's cost. The good news: Maintaining continuous coverage offers real benefits that can be passed on to the new owner.

Policy renewal makes sense for agents too. You keep a client, you avoid Errors and Omissions problems, and you maintain an ongoing source of income.