



PREPARE.

Flood insurance changes to the Sacramento area could soon affect your business. In early 2005, the Federal flood insurance purchase requirement will be removed from nearly 50,000 Sacramento property owners. Most will have the option to cancel their flood insurance or to purchase a low-cost, **Preferred Risk Policy (PRP)**. Many will turn to their agent for help.



The Sacramento Area Flood Control Agency (SAFCA) is responsible for reducing the flood risk for the more than 400,000 people in the region's floodplains.

916.874.7606
www.safca.org

PREPARE for Change.

Improvements to local flood controls have reduced but not eliminated the risk of a flood disaster in the American River floodplain. (See Map.) Because of this on-going risk, the Sacramento Area Flood Control Agency (SAFCA) and the U.S. Army Corps of Engineers will urge property owners, who have been removed from the Federal flood insurance requirement, to maintain flood insurance with a low-cost **PRP**.

PREPARE to Protect.

The Federal Emergency Management Agency (FEMA) created **Preferred Risk Policies** to reduce the cost of flood insurance, for homes and businesses, in areas with a *moderate-to-low* flood risk.¹

- **Protect Your Clients:** Most agents strive to write the policy that best meets the needs of their clients. At about half the price of *Standard* flood insurance, **PRPs** save clients money *and* protect them against flood loss.
- **Protect Yourself:** In most cases, policyholders who qualify for a **PRP** also have the option to cancel their flood insurance. Agents can retain policies and increase customer satisfaction by offering clients a cost-saving **PRP**. *Further, the National Flood Insurance Program states that agents who do not offer PRPs to eligible clients risk exposing themselves to Errors & Omissions liability.*

¹ Property must be located in a B, C or X flood zone to qualify for a **PRP**. To determine additional **PRP** eligibility criteria, agents should consult their underwriting department or check the **Preferred Risk Policy** section of their FEMA Flood Insurance Manual.



PREPARE to Convert.

In October 2004, FEMA simplified its rules for converting policies from Standard to Preferred Risk flood insurance.² Now, property owners can switch from Standard to Preferred Risk flood insurance, in the middle of a policy term, without first having to cancel their flood insurance. Property owners who convert mid-term will not have to pay additional money to obtain a PRP. And they can keep their original policy effective date. Agents with questions about this simple conversion process should contact their company's underwriting department in the coming month. This will prepare agents for client calls that are likely to follow the early 2005 removal of the flood insurance requirement. Agents can also learn about PRPs and other flood insurance issues at a January 10, 2005 flood insurance training seminar. This packet includes an invitation to this event.

If one of the following conditions exists, regardless of any change(s) in ownership of the building, then the building is not eligible for a PRP:

- 2 flood insurance claim payments, each more than \$1,000; or
- 3 or more flood insurance claim payments, regardless of amount; or
- 2 Federal flood disaster relief payments (including loans and grants), each more than \$1,000; or
- 3 Federal flood disaster relief payments (including loans and grants), regardless of amount; or
- 1 flood insurance claim payment and 1 Federal flood disaster relief payment (including loans and grants), each more than \$1,000.

Cost Comparison: Standard vs. Preferred Risk Flood Insurance

Preferred Risk Policies are sold only in the building/contents packages shown below. For example, property owners who purchase a \$200,000 PRP to protect their home against flood damage will receive \$80,000 in "bonus" contents coverage. Further, the PRP will cost \$494 a year less than a Standard policy with the same coverage levels.

Per FEMA guidelines, agents who convert policyholders *mid-term* from Standard to Preferred Risk flood insurance must write the PRP for the building limit issued under the Standard policy or the next higher limit available under the PRP if there is no PRP option to the Standard policy building limit. For more information and for PRP limits for *non-residential* buildings, agents should refer to their FEMA Flood Insurance Manual.

| Amount of Coverage: | | Type of Flood Insurance: | | Annual Savings |
|-----------------------|-----------|-------------------------------|------------------------|----------------|
| Building ³ | Contents | Standard Premium ⁴ | Preferred Risk Premium | |
| \$20,000 | \$8,000 | \$207 | \$112 | \$95 |
| \$30,000 | \$12,000 | \$294 | \$138 | \$156 |
| \$50,000 | \$20,000 | \$466 | \$180 | \$286 |
| \$75,000 | \$30,000 | \$520 | \$207 | \$313 |
| \$100,000 | \$40,000 | \$574 | \$233 | \$341 |
| \$125,000 | \$50,000 | \$628 | \$249 | \$379 |
| \$150,000 | \$60,000 | \$682 | \$264 | \$418 |
| \$200,000 | \$80,000 | \$790 | \$296 | \$494 |
| \$250,000 | \$100,000 | \$896 | \$317 | \$579 |

² FEMA issued this rule change in Bulletin No. W-04047.

³ Home or residential building with 1-4 dwelling units.

⁴ Single family home. No basement. AR/A99 Flood Zone.