

National Conference of Insurance Legislators (NCOIL) Summer Annual Meeting

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Risk Rating 2.0: Equity in Action

Why Risk Rating 2.0: Equity in Action



RESPONSIBILITY: FEMA has the statutory mandate to set actuarially sound rates and clearly communicate risk.



EQUITY: Individuals will no longer pay more than their share in flood insurance premiums based on the value of their homes. Roughly 2/3 of policyholders with older pre-FIRM homes will see a premium decrease.

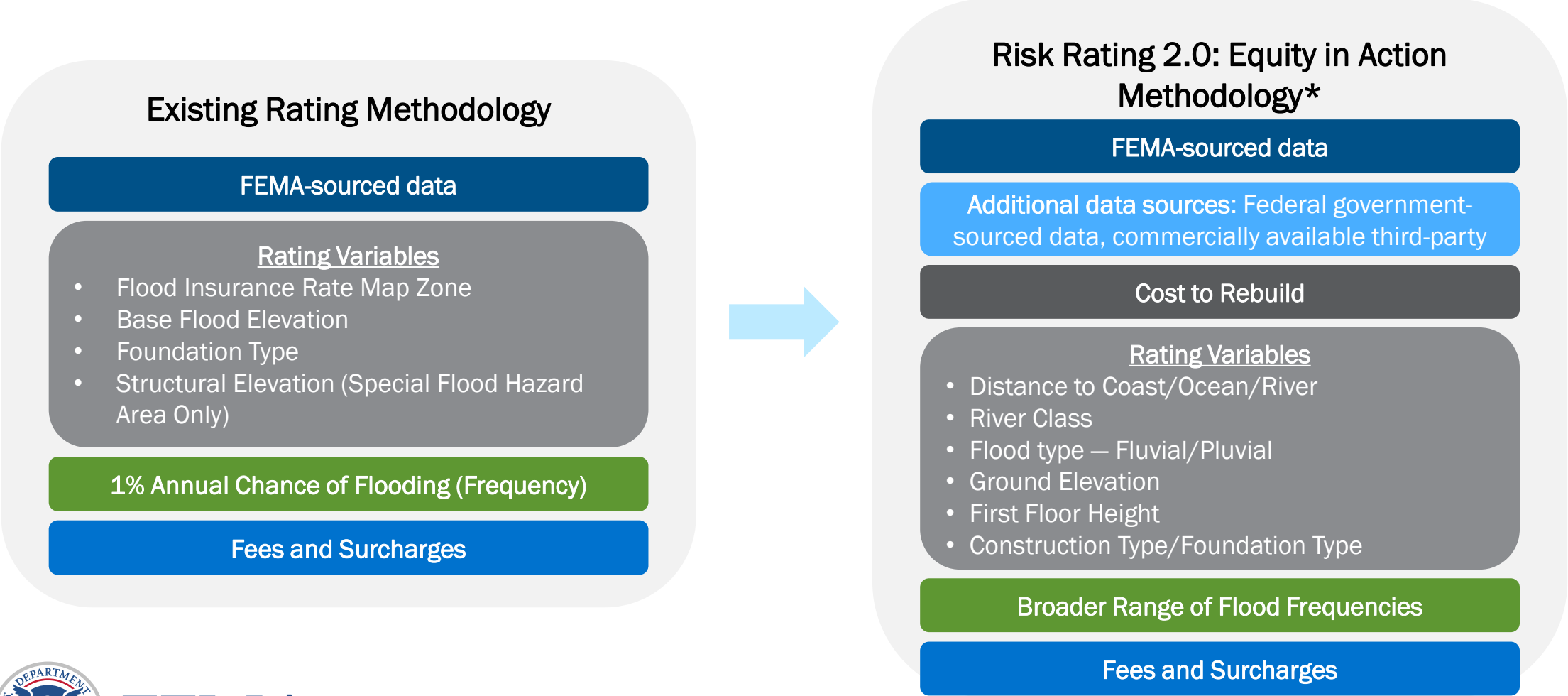


SUSTAINABILITY: Risk Rating 2.0: Equity in Action sets the NFIP on a path to become more financially resilient.



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Risk Rating 2.0: Equity in Action premiums will more accurately reflect a property's unique flood risk by considering a broader range of variables.



*Additional variables are not shown here
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What Is Risk Rating 2.0: Equity In Action

Staying

- Policy Forms
- Policy Coverages
- Mandatory Purchase Requirement
- Statutory Discounts & Caps

Going

- Preferred Risk Policies
- Mortgage Portfolio Protection Program
- Flood Zone & Base Flood Elevation (for rating purposes)

Changing

- Full-Risk Premium Communication
- Building Elevation
- Mitigation Credits
- Number of Floors & Unit Floor
- Construction Type
- Replacement Cost
- Prior NFIP Claims
- Community Rating System
- Workflows



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Risk Rating 2.0: Equity in Action — What Is Not Changing

- Statutory **rate caps** on annual premium increases
- Availability of **premium discounts**
- **Transfers of policy discounts** to new homeowners
- **Use of Flood Insurance Rate Maps (FIRMs)** for mandatory purchase and Floodplain Management
- Availability of **premium discounts** for Community Rating System (CRS) participation



What Is Risk Rating 2.0: Equity In Action

Going

- Preferred Risk Policies
- Mortgage Portfolio Protection Program
- Flood Zone & Base Flood Elevation
(for rating purposes)

Preferred Risk Policies

- Individually rated using the same rating characteristics as SFHA
- No coverage & deductible limitations

MPPP

- Rarely used (~100 policies)

Flood Zone & BFE

- Flood Zone: Does not drive the rating but used in some minor cases – AR, A99
- Base Flood Elevation: Not used in rating

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What Is Risk Rating 2.0: Equity In Action

Changing

- Full-Risk Premium Communication

Risk Rating 2.0: Equity in Action communicates every policy's full-risk premium.

Building Premium	\$1,200
Contents Premium	\$500
CRS and Other Discounts	(\$200)
Full Risk Premium	\$1,500
Annual Increase Cap	(\$500)
Statutory Discounts	\$0
Adjusted Premium	\$1,000
Total Fees	\$225
Total Amt Due	\$1,225



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What Is Risk Rating 2.0: Equity In Action

Changing

- Full-Risk Premium Communication
- Building Elevation

- Elevation used for **all** policies
- Ground elevation instead of Base Flood Elevation
- 6 Simplified Foundation Types
- Elevation Certificate
 - Not required for Post-FIRM
 - Available to all policies (including Section E)



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What Is Risk Rating 2.0: Equity In Action

Section E

ELEVATION CERTIFICATE

OMB No. 1660-0008
Expiration Date: November 30, 2022

IMPORTANT: In these spaces, copy the corresponding information from Section A.			FOR INSURANCE COMPANY USE
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No.			Policy Number:
City	State	ZIP Code	Company NAIC Number
SECTION E – BUILDING ELEVATION INFORMATION (SURVEY NOT REQUIRED) FOR ZONE AO AND ZONE A (WITHOUT BFE)			
<p>For Zones AO and A (without BFE), complete Items E1–E5. If the Certificate is intended to support a LOMA or LOMR-F request, complete Sections A, B, and C. For Items E1–E4, use natural grade, if available. Check the measurement used. In Puerto Rico only, enter meters.</p> <p>E1. Provide elevation information for the following and check the appropriate boxes to show whether the elevation is above or below the highest adjacent grade (HAG) and the lowest adjacent grade (LAG).</p> <p>a) Top of bottom floor (including basement, crawlspace, or enclosure) is _____ <input type="checkbox"/> feet <input type="checkbox"/> meters <input type="checkbox"/> above or <input type="checkbox"/> below the HAG.</p> <p>b) Top of bottom floor (including basement, crawlspace, or enclosure) is _____ <input type="checkbox"/> feet <input type="checkbox"/> meters <input type="checkbox"/> above or <input type="checkbox"/> below the LAG.</p> <p>E2. For Building Diagrams 6–9 with permanent flood openings provided in Section A Items 8 and/or 9 (see pages 1–2 of Instructions), the next higher floor (elevation C2.b in the diagrams) of the building is _____ <input type="checkbox"/> feet <input type="checkbox"/> meters <input type="checkbox"/> above or <input type="checkbox"/> below the HAG.</p> <p>E3. Attached garage (top of slab) is _____ <input type="checkbox"/> feet <input type="checkbox"/> meters <input type="checkbox"/> above or <input type="checkbox"/> below the HAG.</p> <p>E4. Top of platform of machinery and/or equipment servicing the building is _____ <input type="checkbox"/> feet <input type="checkbox"/> meters <input type="checkbox"/> above or <input type="checkbox"/> below the HAG.</p> <p>E5. Zone AO only: If no flood depth number is available, is the top of the bottom floor elevated in accordance with the community's floodplain management ordinance? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown. The local official must certify this information in Section G.</p>			



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What Is Risk Rating 2.0: Equity In Action

Changing

- Full-Risk Premium Communication
- Building Elevation
- Mitigation Credits

Machinery & Equipment

- Available to all properties
- Discount for elevating appropriate machinery & equipment

Flood Openings

- Available to all properties
- Same requirements as existing methodology



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What is Risk Rating 2.0: Equity In Action

Changing

- Full-Risk Premium Communication
- Building Elevation
- Mitigation Credits
- Replacement Cost

Replacement Cost

- Used in rating for all policies
- Third-party estimating tool used for single-family home, two-to-four family building, mobile/manufactured building, and residential unit occupancy types
- User provided replacement cost for all other occupancy types



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What Is Risk Rating 2.0: Equity In Action

Changing

- Full-Risk Premium Communication
- Building Elevation
- Mitigation Credits
- Replacement Cost
- Prior NFIP Claims
- Community Rating System

Prior NFIP Claims

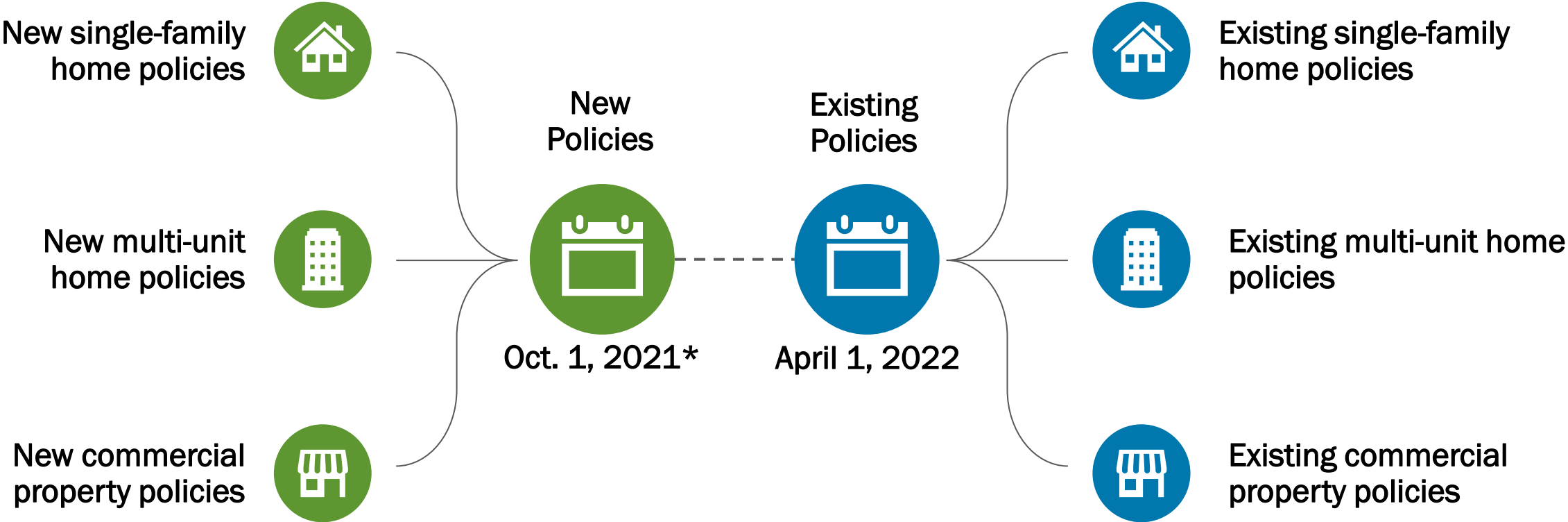
- Prior 20 years history used in rating
- First claim is not counted
- After first claim in new methodology then used in rating
- No change in SRL requirements

Community Rating System

- CRS discount not based on zone



Risk Rating 2.0: Equity in Action — Phased Approach



**Also beginning Oct. 1, 2021, existing policyholders eligible for renewal will be able to take advantage of immediate decreases in their premiums.*



What can policyholders with steep flood insurance costs today expect under the new pricing methodology?

Methodology	Single-Family Home Maximum Policy Cost*
Existing Rating Methodology	\$45,925
Risk Rating 2.0: Equity in Action	\$12,125

Policyholders paying the most under the existing methodology will see dramatic decreases when they transition to Risk Rating 2.0: Equity in Action.



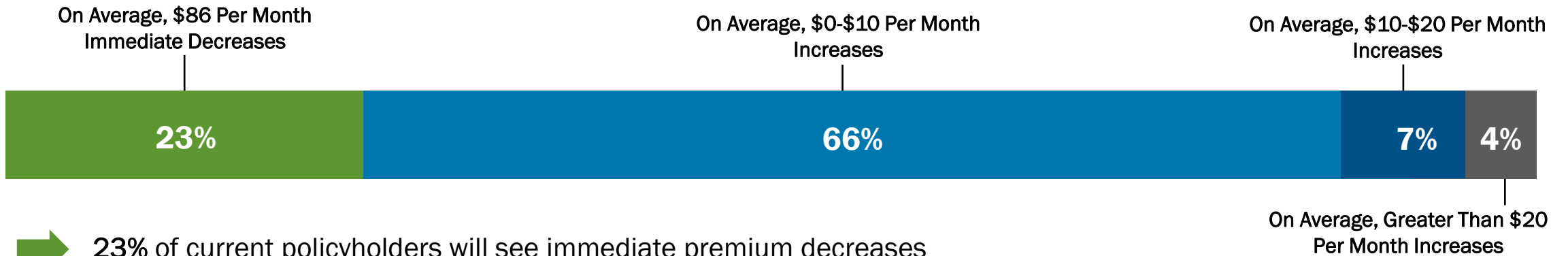
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*Amounts shown include premium, fees, assessments, and surcharges

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Risk Rating 2.0: Equity in Action — National Rate Analysis

Under the **existing rating methodology**, every year at renewal, policyholders on average see premium increases of **\$8 per month**.



- ➔ 23% of current policyholders will see immediate premium decreases
- ➔ An additional 66% of current policyholders will see, on average, \$0 - \$10 per month increases
- ➔ 7% of current policyholders will see, on average, \$10 - \$20 per month increases
- ➔ And 4% of current policyholders will see, on average, a \$20 or more per month increase



Risk Rating 2.0: Equity in Action vs. Existing Rating System — Rate Changes

- At their next renewal, **82% of single-family homeowners** will see monthly **decreases**, or increases of **\$5 or less**, with Risk Rating 2.0: Equity in Action compared to the existing rating system.
- At their next renewal, **94% of single-family homeowners** will see monthly **decreases**, or increases of **\$10 or less**, with Risk Rating 2.0: Equity in Action compared to the existing rating system.

**Under the existing rating system,
policyholders do not receive premium decreases.**

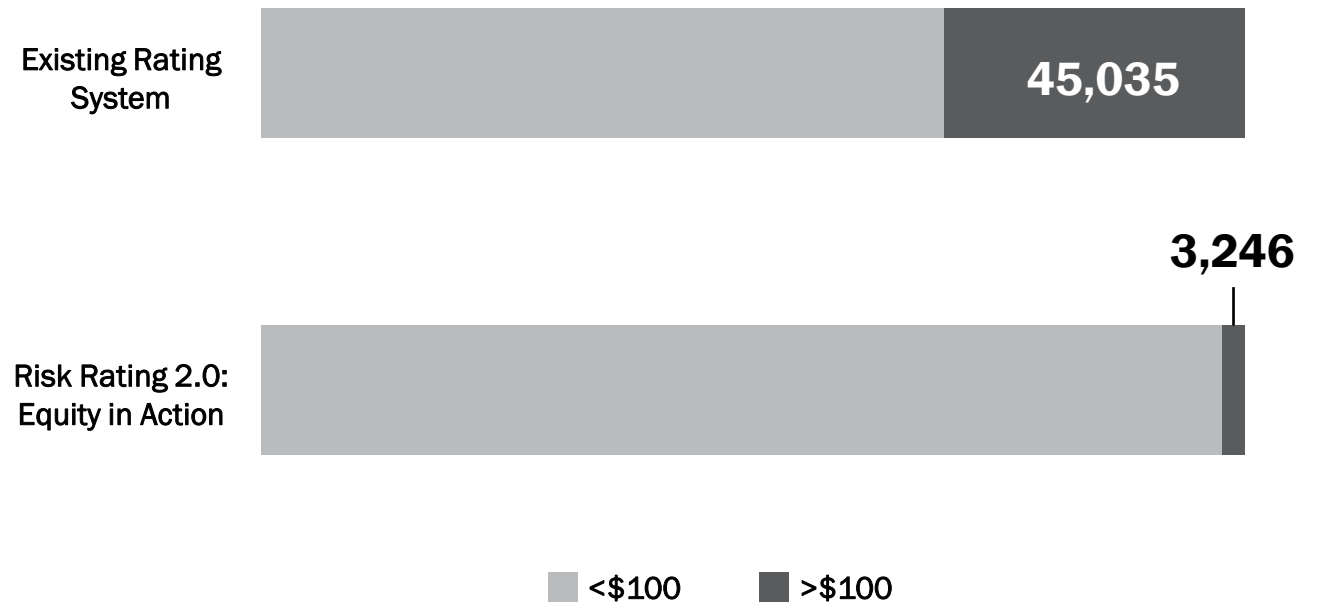


Risk Rating 2.0: Equity in Action vs. Existing Rating System — Policies Increasing >\$100/Month



Zoom in on Policies Increasing >\$100/Month

- Under the existing rating system, **45,035** policyholders have seen premium increases of more than \$100 per month. The single-family homeowners in this group have an average replacement cost value (RCV) of **\$399,643**.
- Under Risk Rating 2.0: Equity in Action, only **3,246** policyholders will see premium increases of more than \$100 per month. The single-family homeowners in this group have an average RCV of **\$1,064,537**.



Risk Rating 2.0: Equity in Action — Levee Methodology Progress

There are 661,668 levee policies in the NFIP book of business as of 2020.

When we began this initiative, we only had reliable information to evaluate risk behind **18%** of levees in the country, which account for **67%** of all buildings behind levees.

Through a partnership with the United States Army Corps of Engineers, we have increased our ability to evaluate risk behind **42%** of levees in the country, which account for **90%** of buildings behind levees.



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Risk Rating 2.0: Equity in Action — Resource Investments

TIME: Research, design, analysis, development, and testing translates to **5+ years** of work and **thousands of hours**.

PEOPLE: The cross-functional team of **20+ NFIP program experts**, including **8+ full-time actuaries**, collaborated with a diverse network of experts from a wide range of disciplines:

- Academics
- Actuaries
- Building scientists
- Engineers
- Insurance industry experts
- Mappers
- Underwriters
- Mitigation experts

TECHNOLOGY: Cutting-edge technology and **best available data** used to make a **modern-day program**:

Private Sector
Rate-Setting Methods

Private Sector
Catastrophe Models

Government Models, Available Data, and
Collaborations



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Risk Rating 2.0: Equity in Action — Affordability Framework

- Using the **2018 Affordability Framework** as a guide, continue to explore ways to improve ongoing affordability issues within the limits of FEMA's statutory authority
- Ensure new rates under Risk Rating 2.0: Equity in Action **comply with all statutory rate increases** established by Congress
- **Engage with Congress** to reduce barriers to purchasing flood insurance



Risk Rating 2.0: Equity in Action — Outreach & Engagements

To date, FEMA has conducted **more than 450** outreach and engagement activities around Risk Rating 2.0: Equity in Action.

- ➔ FEMA/FIMA
- ➔ Insurance Industry
- ➔ Regions
- ➔ Congressional Offices
- ➔ Stakeholders
- ➔ Professional Organizations / Trade Associations
- ➔ GAO/OMB
- ➔ Federal Partners
- ➔ DHS Leadership
- ➔ Media



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Risk Rating 2.0: Equity in Action — NFIP Reauthorization Hearing Pt. II, Congressional Feedback

- Sen. Patrick Toomey (R-PA), Ranking Member of the Senate Banking Committee:
“FEMA is moving in the right direction with its development of Risk Rating 2.0 ... When Risk Rating 2.0 is implemented, we’ll have not only a fairer NFIP but also a more fiscally sound NFIP.”
- Sen. Thom Tillis (R-NC), Member of the Senate Banking Committee:
“I think Risk Rating 2.0 is a great development.”
- Sen. Tina Smith (D-MN), Member of the Senate Banking Committee:
“I am encouraged that this Risk Rating 2.0 strategy is going to result in a more fair allocation of costs and a better correlation with risk.”



Risk Rating 2.0: Equity in Action — Support from Insurance Commissioners

- Florida Insurance Commissioner David Altmaier:

“The goal of Risk Rating 2.0 is to bring rates more in line with what they ought to be. And I think that that could ultimately result in consumers having more options for flood insurance... I think that brings a lot of consumer benefit.”

- Mississippi Insurance Commissioner Mike Chaney:

“I agree with FEMA's assessment of the update... The NFIP has historically suffered from funding issues and needed a long-term solution to provide flood insurance for years to come. Risk Rating 2.0 ensures protection for flood policyholders going forward.”

- Louisiana Insurance Commissioner Jim Donelon:

“[Risk Rating] 2.0 will right-size big homes vs. little... In particular, those in smaller properties that have been historically overpriced, and are being right-sized in this proposal... We will not see draconian increases with this reform of the pricing mechanism at FEMA. We can make the program more fiscally sound.”



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Risk Rating 2.0: Equity in Action — Endorsements



“Based on FEMA's nationwide analysis, Risk Rating 2.0 will help ensure NFIP policyholders pay a **rate proportionate to their property risk**. The new initiative will also help FEMA identify and target mitigation grant dollars to the highest risk properties.”

NAR includes 1.4 million brokers, salespeople, property managers, appraisers, counselors, and others engaged in all aspects of the real estate industry.



“Pew fully supports FEMA’s updated approach and concludes that **Risk Rating 2.0 will better align rates with risk, create a fairer program, increase transparency and understandability, and encourage additional mitigation from policyholders and communities.**”



Risk Rating 2.0: Equity in Action — Learn More

Explore more about Risk Rating 2.0: Equity in Action by visiting www.fema.gov/nfiptransformation.

Available Products and Resources

- [Risk Rating 2.0: Equity in Action Fact Sheet](#)
- [Video: Defining a Property's Unique Flood Risk](#)
- [National Rate Analysis](#)
- [State Profiles](#)
- [ZIP Code-Level Data](#)
- [County-Level Data](#)
- [Methodology Data Source](#)
- [Premium Calculation Worksheet Examples](#)
- [Appendix D Rating Factors](#)

For additional questions, please contact FEMA-RiskRating2-Action@fema.dhs.gov.



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Thank You



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