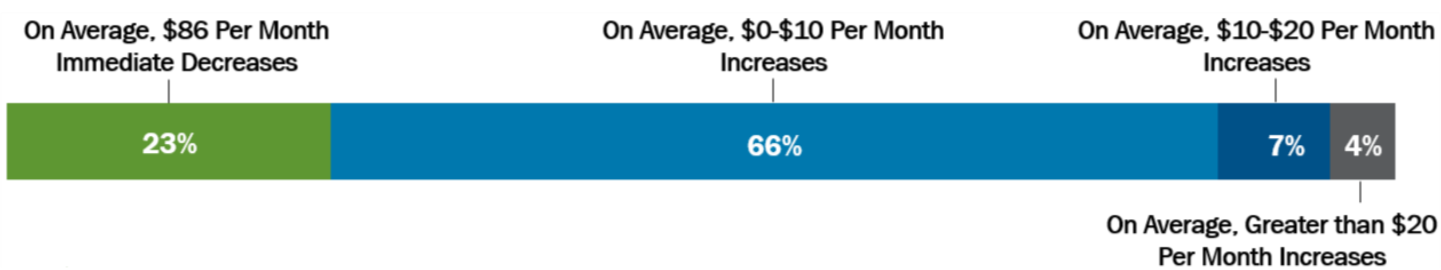
Risk Rating 2.0 is Equity in Action

FEMA is committed to transforming the National Flood Insurance Program (NFIP) into one that people value, trust, and best serves the nation. By leveraging industry best practices and current technology, FEMA aims to deliver rates that are equitable, easier to understand and better reflect a property's individual flood risk.

FEMA has a statutory responsibility to clearly communicate flood risk. Risk Rating 2.0 allows FEMA to provide individuals and communities with information to make more informed decisions on purchasing flood insurance, initiating, and informing appropriate mitigation options to help lower flood insurance rates. The current rating methodology has not changed since the 1970s. Over the years, technology has evolved and so has FEMA's understanding of flood risk. Risk Rating 2.0 allows FEMA to calculate premiums more equitably across all policyholders based on the value of their home and individual property's flood risk.

Under the **current rating methodology** policyholders on average see premium **increases of $8 per month.**

Under the **new pricing system**, 96% of current policyholders will see either an **immediate decrease** or **$20 or less per month increase** in their premiums. (Figure 1 Bar Graph)



A key part of developing nationwide preparedness is transforming the NFIP to ensure disaster survivors and communities can recover more quickly and more fully following flooding events. FEMA will reduce disaster-related suffering and disaster-related costs through Risk Rating 2.0 by leveraging advances in industry best practices, advanced actuarial practices, technology, flood risk modeling and the emphasis on mitigation efforts.

Over the last 50 years, FEMA has collected $60 billion in NFIP premiums, but has paid $96 billion in costs (including losses, operating expenses, and interest). Taxpayers and policyholders are adversely impacted when the program does not generate the revenue needed to pay claims. Risk Rating 2.0 will help put the NFIP on solid financial footing by creating a more stable program that is accountable to taxpayers.

FEMA

Risk Rating 2.0 is equity in action. FEMA, through the new pricing methodology, will better inform individuals and communities about flood risk, set premiums to strongly signal those risks and promote actions to mitigate against them. Individuals will no longer pay more than their fair share in flood insurance premiums.

All NFIP policyholders have been subject to premium increases every year. However, under Risk Rating 2.0, rate increases will not continue indefinitely. FEMA recognizes that under the new pricing plan each policyholder will be affected differently based on their property's individual flood risk. Some premiums will go up, some will go down, and some will stay about the same. Under Risk Rating 2.0, roughly two-thirds of policyholders with older pre-Flood Insurance Rate Map (FIRM) homes will see their premiums decrease. For policyholders whose premiums will be going up, their policies will be transitioned using the existing statutory limits on increases imposed by Congress. In general, that means that the annual increases will be capped at 18%, only increasing until the full risk rate has been reached. Additionally, FEMA will allow existing policyholders to transfer their current discount with the sale of their property.

To begin these changes, FEMA is updating Congress and other key industry partners, state agencies, private sector and organizations to ensure a clear view and understanding of the implementation process of Risk Rating 2.0. Working with the Write Your Own companies, FEMA will communicate with policyholders to understand what these changes will mean to them.

Mitigation Options

No one entity is responsible for mitigation. There are several mitigation opportunities at the state, tribe, and territory and community levels and actions that individuals can implement to collectively help reduce policyholders' flood insurance rates.

Individual-Level Mitigation Actions

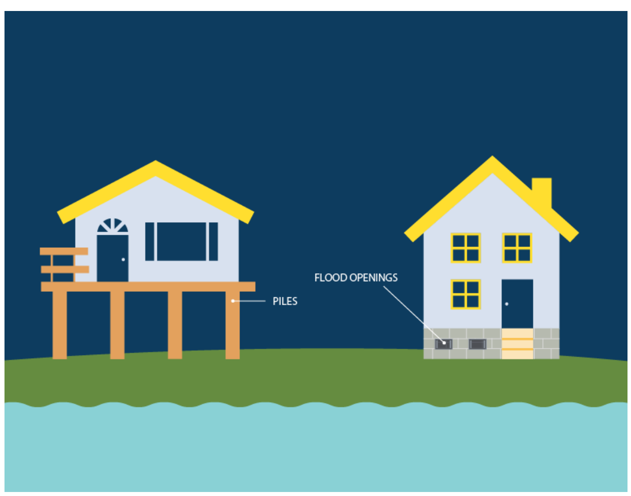


Figure 2. Two examples of individual mitigation actions to protect from future flooding

FEMA is expanding policy discounts by making them available to properties located outside of high-risk flood areas. When property owners take steps to mitigate their property, flood insurance policyholders may receive a reduced premium. Mitigation efforts, such as elevating a building or installing proper flood openings in a crawlspace, will help to reduce flood damage and potentially decrease the cost of flood insurance.

While not required, policyholders may acquire an elevation certificate, which provides more refined elevation information about their building, and submit it to their agent to determine if it will lower their rate. In addition, a benefit of the flood insurance policy is the Increased Cost of Compliance (ICC) coverage. This coverage is part of most standard flood insurance policies under the NFIP.

ICC coverage provides protection to residents with homes and businesses that have been substantially or repetitively damaged by flooding. This coverage can provide up to $30,000 to help cover the cost of bringing their buildings into compliance with the elevation requirements of their local floodplain management ordinance.

- ICC coverage can be used for elevating, moving, or demolishing damaged structures that qualify for the coverage. Non-residential buildings may choose floodproofing as an option as opposed to elevation, relocation, or demolition.
- For a structure to qualify as being substantially damaged, the total cost of repairs must be 50% or more of the structure's pre-flood market value.
- For residents to be eligible to claim ICC funds in the "repetitively damaged" provision, the community must have a repetitive loss provision in its floodplain management ordinance and determine that the home or business was damaged by a flood two times in the past 10 years, where the cost of repairing the flood damage, on the average, equaled or exceeded 25% of its market value at the time of each flood. This is called "repetitive damage." Additionally, there must have been flood insurance claim payments for each of the two flood losses.

Community-Level Mitigation Options

FEMA offers several hazard mitigation assistance pre- and post-disaster grants to states, tribes and communities. These grants — received by communities through coordination with states — may fund actions that reduce rates both inside and outside the Special Flood Hazard Area (SFHA).

Pre-disaster Hazard Mitigation Grants

- BRIC — Building Resilient Infrastructure and Communities
  - FEMA funds BRIC from a 6% set-aside from federal post-disaster grant funding.
  - $500 million available (FY21).
  - Emphasis on evaluation, adoption, and enforcement of modern building codes can improve grant competitiveness.
- FMA — Flood Mitigation Assistance
  - $200 million available (FY21).
  - Prioritizes projects benefiting NFIP-insured Multiple Loss Communities, Severe Repetitive Loss and Repetitive Loss properties, and Community Rating System participation.

Post-disaster Hazard Mitigation Grants

- HMGP — Hazard Mitigation Grant Program
  - Funding available is a percentage of funds spent on public assistance and individual assistance for major declared disasters.
  - Projects may include mitigation plans and actions to mitigate floods and other natural hazards.
- HMGP Post-fire — Hazard Mitigation Grant Program Post-fire
  - Funding based on number of state Fire Management Assistance Grant declarations and type of hazard mitigation plan.
  - Wildfire mitigation measures, such as those that reduce the risk of flooding after a fire, are given funding priority.

In addition, participating in the Community Rating System (CRS) can reduce flood insurance rates as policyholders will continue to earn NFIP rate discounts of 5% - 45%, based on their community participation and classification. The discount is uniformly applied to all policies throughout the CRS-participating communities, regardless of whether the structure is in the SFHA. The exception is for structures in violation of NFIP regulations as noted in the Federal Code of Regulations Title 44, Section (44 CFR 60.3).

State and Local-Level Mitigation Actions

States administer all FEMA grants and help to identify priorities for mitigation and prevention projects.

Adopt and enforce modern building codes and zoning regulations.

Development in floodplains and flood prone areas should be discouraged through adoption and enforcement of codes and zoning regulations that meet or exceed the latest published editions of the International Codes and related standards.

Apply for Hazard Mitigation Assistance (HMA) grants.

FEMA HMA grants (Flood Mitigation Assistance, Building Resilient Infrastructure and Communities, Hazard Mitigation Grant Program, and Hazard Mitigation Grant Program Post-fire are available to states and communities pre- and post-disaster for mitigation projects such as installing flood openings or elevating buildings and outdoor utilities above the base flood elevation. Additional information is available at: https://www.fema.gov/grants/mitigation.

Establish and maintain a revolving loan fund for flood risk reduction projects.

Projects to mitigate existing structures in SFHAs should be prioritized, and participation in the CRS could be a prerequisite to increase insurance rate discounts.

Offer state tax credits for qualifying flood mitigation activities.

State tax credits could be prioritized for mitigation actions to existing structures in SFHAs, current NFIP policyholders, and/or policyholders facing rate increases.

Other federal agency programs that provide community-level risk management and hazard mitigation grants are available through the Department of Housing and Urban Development (HUD). These programs include the Community Development Block Grant (CDBG), Community Development Block Grant Disaster Recovery (CDBG-DR), Community Development Block Grant Mitigation (CDBG-MIT), and other similar planning grants.

Frequently Asked Questions

Why is the NFIP doing this now?

FEMA has a statutory obligation to charge actuarially sound premiums and inform policyholders of their flood risk. Under Risk Rating 2.0, rates will reflect each building's individual flood risk using structure-specific data that are easier to understand. With access to the latest industry technology and NFIP mapping data, policyholders will be able to better understand how their flood risk is reflected in the cost of their insurance. Without action, existing inequities would continue — widening the gap between rate payments and claims payouts and making it harder to meet the needs of our customers. As flooding events become more frequent and severe, Risk Rating 2.0 will allow FEMA to transform the NFIP into a financially stable program that is accountable to taxpayers, more accurately reflects flood risk to both policyholders and non-policyholders, and helps disaster survivors recover faster after floods.

When will Risk Rating 2.0 go into effect?

FEMA is conscious of the far-reaching economic impacts the pandemic has had on the nation and existing policyholders and is taking a phased approach to rolling out the new rates.

- In Phase I: New policies beginning Oct. 1, 2021 will be subject to the Risk Rating 2.0 rating methodology. Also beginning Oct. 1, existing policyholders eligible for renewal will be able to take advantage of immediate decreases in their premiums.

- In Phase II: All policies renewing on or after April 1, 2022 will be subject to the Risk Rating 2.0 rating methodology.

How will the new rating methodology impact the affordability of a policy?

FEMA recognizes and shares concerns about flood insurance affordability. Currently, FEMA does not have the statutory authority to consider affordability in setting rates but will ensure the transition to new rates under Risk Rating 2.0 complies with all statutory rate increases in place by Congress. To help address the issue, in April 2018 FEMA delivered an Affordability Framework to Congress to help policymakers consider how to provide targeted assistance to existing and potential policyholders. FEMA will continue to work with Congress to examine flood insurance affordability options.

How will premium increases or decreases impact policyholders?

Current policyholders who will face premium decreases under Risk Rating 2.0 will transition to the lower rate immediately at the first renewal of their policy. Any premium increases will transition gradually and within the existing statutory limits until the full-risk rate for the property is reached.

Do changes from this initiative require legislative action or approval of Congress?

Since 1968, the National Flood Insurance Act has required FEMA to periodically review, and if necessary, revise the way we set non-discounted premium rates. FEMA has always followed the congressional mandate to set non-discounted premium rates based on accepted actuarial principles. By leveraging modern technology and advanced actuarial practices, Risk Rating 2.0 is helping FEMA better meet the objectives already laid out by Congress.

Will Risk Rating 2.0 change mandatory purchasing requirements?

No, the current effective Flood Insurance Rate Maps (FIRMs) will continue to be used by lenders to determine if a building is located within a high-risk flood area (Special Flood Hazard Area) and if the purchase of flood insurance is mandatory under federal law. Lenders will retain the prerogative to require flood insurance even in the absence of the federal mandate to purchase coverage.

How does Risk Rating 2.0 affect the grandfathered rating discount?

Grandfathering has been available to policyholders when a map change results in either a rating zone or base flood elevation change. However, since Risk Rating 2.0 will be able to provide each building's individual flood risk, all policies formerly eligible for grandfathering will transition to their new full-risk premium. Increases will be gradual and within the 18% annual cap imposed by Congress. Decreases will apply upon first renewal on or after October 1, 2021. Similar to other policies, some premiums will decrease, some will increase, and some will stay about the same.

While maps have changed for many policyholders, fewer than 5% of single-family homes are actually grandfathered. As of March 2020, there are approximately 151,409 grandfathered properties nationwide. These policies represent a small percentage (4.4%) of the 3.5 million single-family, non-leveed properties insured under the NFIP. The average annual premium for these grandfathered properties is $1,077, which is lower than the average annual premium for subsidized NFIP policies (Pre-FIRM) at $1,875.

The difference between these will gradually be adjusted under Risk Rating 2.0, as FEMA will know the full-risk rate for all properties. As a result, FEMA will be able to charge more appropriate premiums that reflect each property's individualized flood risk.

Will heat maps be created to show rate impacts geographically?

Due to the individualized rating methodology under Risk Rating 2.0, premiums will reflect each building's unique flood risk using structure-specific data and will vary from policy to policy. For example, buildings that are close together may not be rated similarly due to the potential for differences in the variables Risk Rating 2.0 considers, such as structure elevation and the cost to rebuild. Therefore, we are not able to provide a heat map of rate change data.