



Introduction to Risk Rating 2.0: Equity in Action



FEMA



NFIP BY THE NUMBERS*



5 Million
Policies



\$1.3 Trillion in
Coverage



22,525
Communities

* As of May 2021

By the Numbers: NFIP Classes for Single-Family Homes*

Preferred Risk Policies

- Total: 1,708,427
- 49.6% of NFIP SFH
- Average Annual Premium: \$498

Full Risk Properties

- Total: 993,192
- 28.8% of NFIP SFH
- Average Annual Premium: \$936

Pre-FIRM Subsidized Properties

- Total: 374,181
- 10.9% of NFIP SFH
- Average Annual Premium: \$2,489

Newly Mapped Properties

- Total: 170,845
- 5% of NFIP SFH
- Average Annual Premium: \$688

Grandfathered Properties by Zone and Elevation

- Total: 165,431
- 4.8% of NFIP SFH
- Average Annual Premium: \$1,082

High Risk Coastal Zones Properties

- Total: 12,289
- 0.4% of NFIP SFH
- Average Annual Premium: \$5,470

*as of May 31, 2020

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.



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WATER DOES NOT STOP AT A FLOOD LINE



LEGACY METHODOLOGY

LEGACY METHODOLOGY

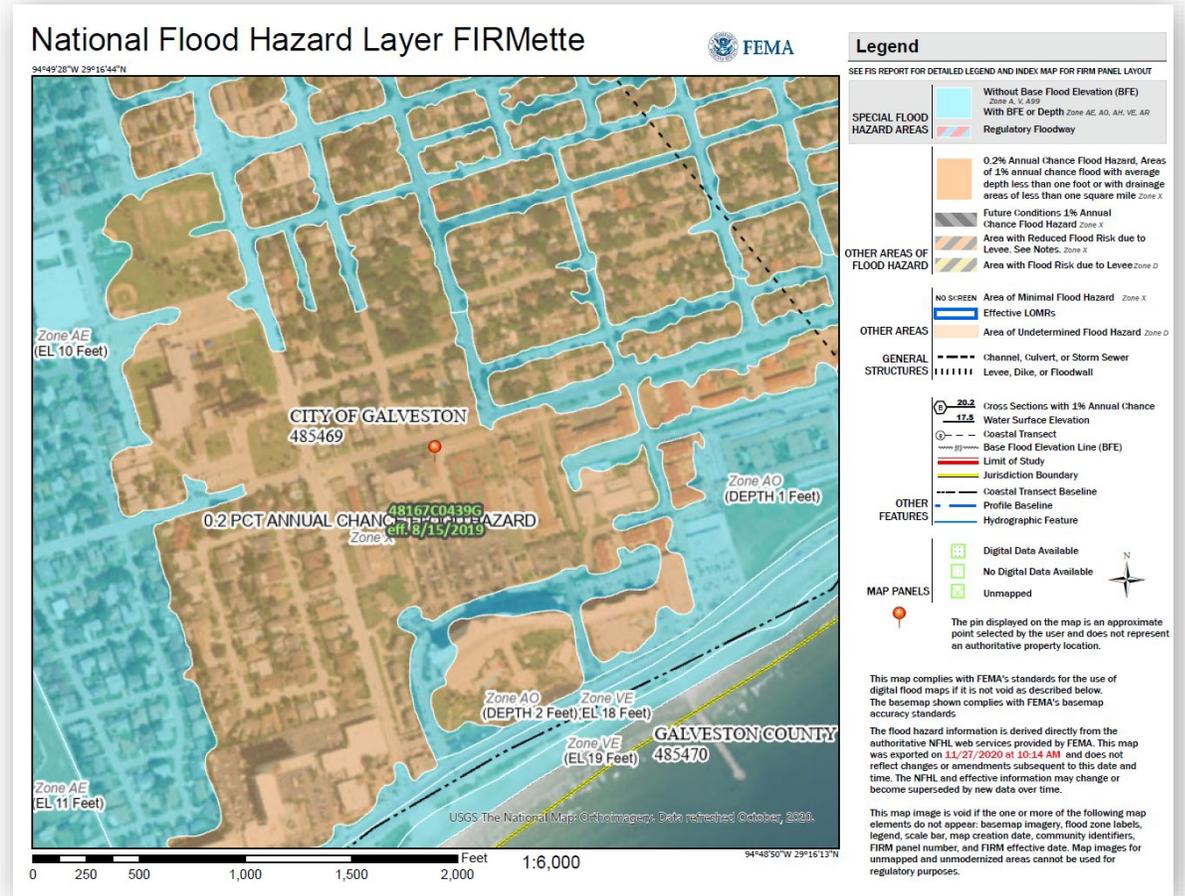
FEMA-SOURCED DATA

RATING VARIABLES

- Flood Insurance Rate Map Zone
- Base Flood Elevation
- Foundation Type
- Structural Elevation (Special Flood Hazard Area Only)

1% ANNUAL CHANCE OF FLOODING (FREQUENCY)

FEES AND SURCHARGES



NEW METHODOLOGY*

FEMA-SOURCED DATA

ADDITIONAL DATA SOURCES

- Federal government-source data, commercially available third-party

BROADER RANGE OF FLOOD FREQUENCIES

COST TO REBUILD

RATING VARIABLES

- Distance to Flooding Source & Flood Type
- Building Occupancy
- Construction Type
- Foundation Type
- Ground Elevation
- First Floor Height
- Number of Floors
- Prior Claims

FEES AND SURCHARGES

**Additional variables are not shown here*

Legacy Pricing Methodology Perils

Takes into consideration
predominantly two perils:
Riverine or Coastal

New Pricing Methodology Perils



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WHAT IS CHANGING

NEW PRICING METHODOLOGY



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NATIONAL FLOOD
INSURANCE PROGRAM

FEMA-SOURCED MAP DATA

- Flood Insurance Rate Maps

NEW PRICING METHODOLOGY*

FEMA-SOURCED MAPPED DATA

ADDITIONAL DATA SOURCES

BROADER RANGE OF FLOOD FREQUENCIES

COST TO REBUILD

RATING VARIABLES

FEES AND SURCHARGES

**Additional variables are not shown here*

ADDITIONAL DATA SOURCES

- Uses new risk considerations to better quantify the real risk to a structure.
- To do this, FEMA has integrated additional datasets into the rating structure.
- This will be included in the new rating and will be automated.

NEW PRICING METHODOLOGY*

FEMA-SOURCED MAPPED DATA

ADDITIONAL DATA SOURCES

- Federal government-source data, commercially available third-party

BROADER RANGE OF FLOOD FREQUENCIES

COST TO REBUILD

RATING VARIABLES

FEES AND SURCHARGES

**Additional variables are not shown here*

BROADER RANGE OF FLOOD FREQUENCIES

Flooding sources other than what is listed on the FIRM

Examples:

- Catastrophe modeling
- Urban Flooding

NEW PRICING METHODOLOGY*

FEMA-SOURCED MAPPED DATA

ADDITIONAL DATA SOURCES

BROADER RANGE OF FLOOD FREQUENCIES

COST TO REBUILD

RATING VARIABLES

FEES AND SURCHARGES

**Additional variables are not shown here*

COST TO REBUILD

- The building replacement cost will be a **new** rating element for **all properties**.
- The replacement cost will be determined using a tool that is part of the rating engine.
- The rating engine will determine the replacement cost based on the information provided on the application.
- The replacement cost tool **will not be used** for RCBAPs, but the RCV **will** be captured during rating. The agent will be able to enter a figure using the appropriate documentation.

NEW PRICING METHODOLOGY*

FEMA-SOURCED MAPPED DATA

ADDITIONAL DATA SOURCES

BROADER RANGE OF FLOOD FREQUENCIES

COST TO REBUILD

RATING VARIABLES

FEES AND SURCHARGES

**Additional variables are not shown here*

RATING VARIABLES

- Standardized rating tables will no longer be used, rates will be calculated using an algorithm.
- The flood zone and Base Flood Elevation (BFE) will no longer be used in rating.
- Elevations will be considered for all properties.

NEW PRICING METHODOLOGY*

FEMA-SOURCED MAPPED DATA

ADDITIONAL DATA SOURCES

BROADER RANGE OF FLOOD FREQUENCIES

COST TO REBUILD

RATING VARIABLES

- Distance to Flooding Source & Flood Type
- Building Occupancy
- Construction Type
- Foundation Type
- Ground Elevation
- First Floor Height
- Number of Floors
- Prior Claims

FEES AND SURCHARGES

**Additional variables are not shown here*

RATING VARIABLES

DISTANCE TO FLOODING SOURCE & TYPE OF FLOODING

- Legacy methodology versus the new pricing methodology.
- Include Inland, Storm Surge, Tsunami, Coastal Erosion, and Great Lakes – that are likely to impact the structure.
- Both are determined automatically using geospatial information (GIS) data.
- Based on the property location entered by the agent.



RATING VARIABLES

BUILDING OCCUPANCY

- Single Family Dwelling
- Single Family Home
- Residential Mobile Home/Manufactured Home
- Residential Unit
- **Multi-Family Building**
- 2-4 Family Building
- Other Residential
- Residential Condo Building Association Policy
- Non-Residential



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NATIONAL FLOOD
INSURANCE PROGRAM

RATING VARIABLES

CONSTRUCTION TYPE

FRAME:

- A type of construction in which the structural parts are made of wood or metal and are dependent on a wooden/metal frame for support.

MASONRY:

- Consists of building structures by laying individual masonry units (brick, concrete block, and stone).

OTHER:

- Use other when the first floor above ground level is constructed with materials other than wood frame walls or masonry walls for the full-story.



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INSURANCE PROGRAM

RATING VARIABLES

FOUNDATION TYPES

There will now be 6 simple foundation types.



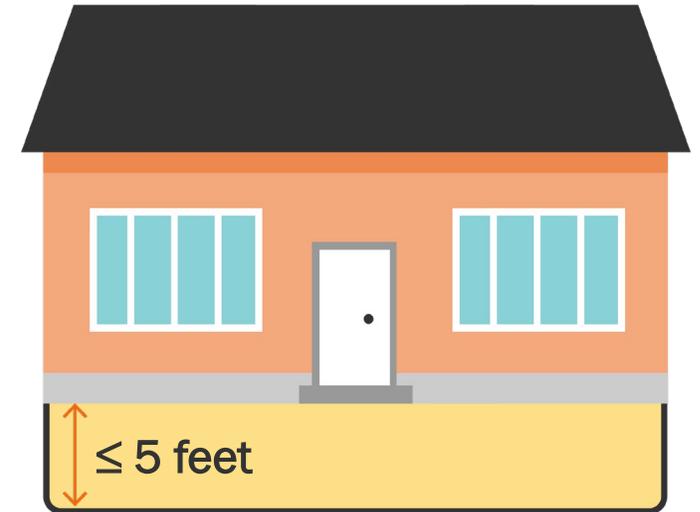
Slab on Grade
(*Non-Elevated*)

Includes EC Diagram numbers
1A, 1B, and 3



Basement
(*Non-Elevated*)

Includes EC Diagram numbers
2A, 2B, and 4



Crawlspace
(*Elevated, including non-elevated
sub-grade crawlspace*)

Includes EC Diagram number 8
and 9

RATING VARIABLES

FOUNDATION TYPES

There will now be 6 simple foundation types.



Elevated without Enclosure on
Post, Pile, or Pier

Includes EC Diagram number 5



Elevated with Enclosure on
Post, Pile, or Pier

Includes EC Diagram number 6



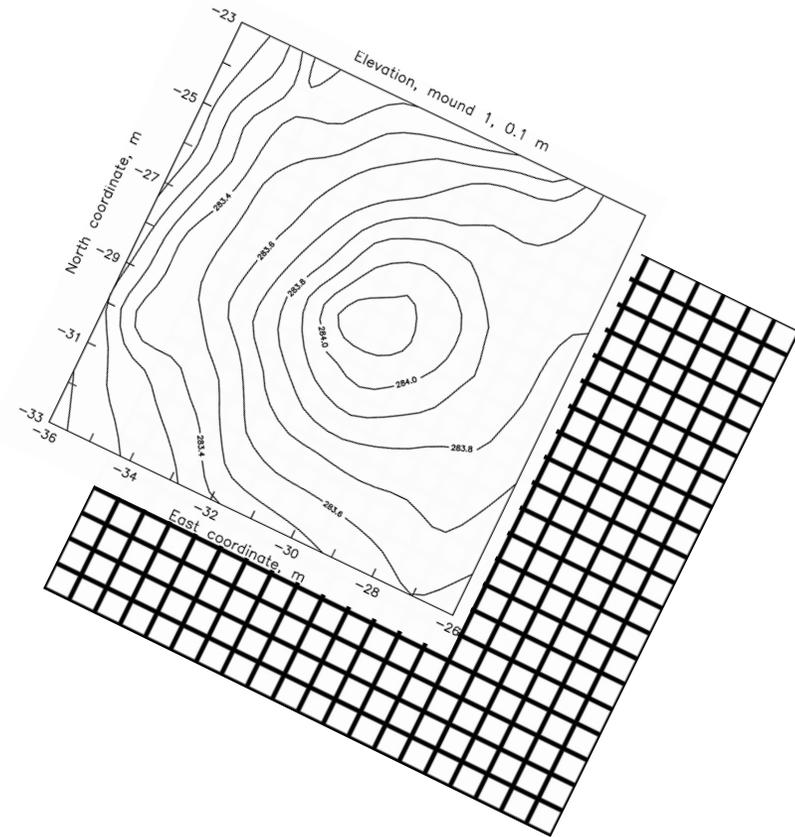
Elevated with Enclosure
Not Post, Pile, or Pier

Includes EC Diagram number 7

RATING VARIABLES

Under the New Pricing Methodology, FEMA converts a building's address to latitude & longitude and uses GIS to derive geospatial variables like:

-  Distance to nearest flooding sources (e.g., river, coast, ocean, Great Lake)
-  Ground and surrounding elevation
-  Is it protected by a levee?
-  What kind of watershed is it in?
-  Is it located on a barrier island?



RATING VARIABLES

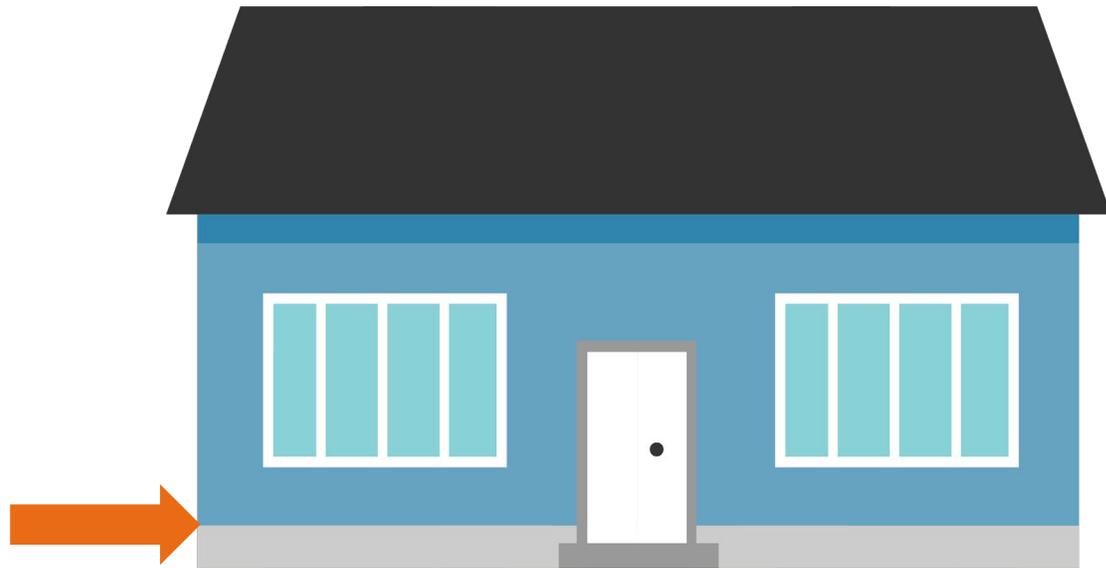
FIRST FLOOR HEIGHT

- Elevations will be used in determining rates for **all** buildings.
- The elevation of the first floor of the structure will replace the elevation difference in the legacy methodology.
- There will be 3 ways to determine first floor height for a property.



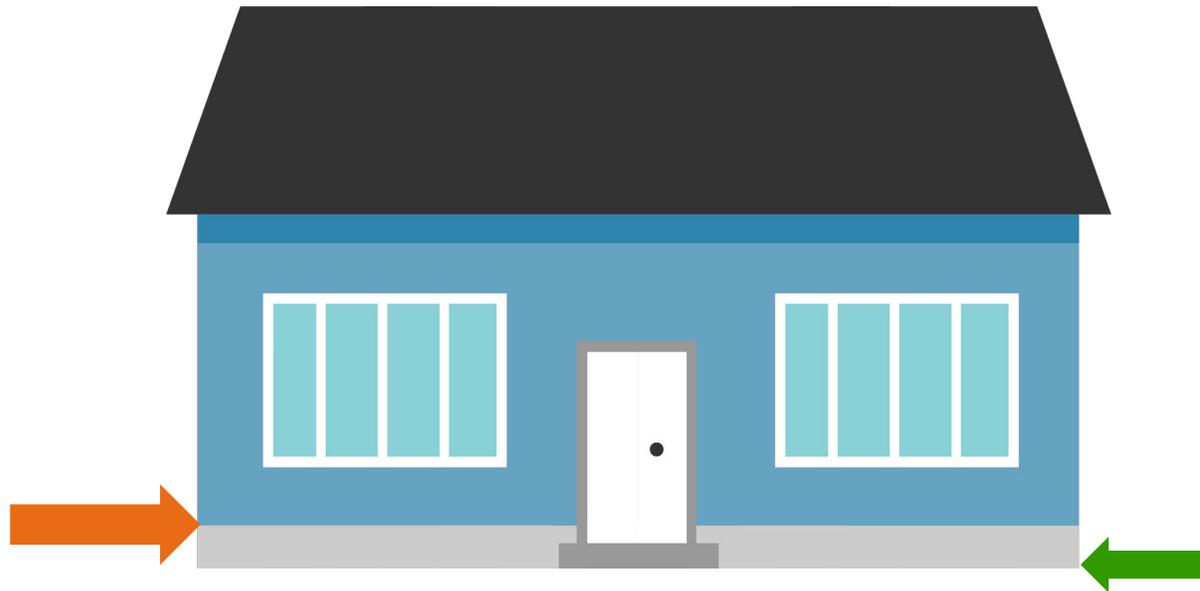
FIRST FLOOR HEIGHT EXAMPLES

Definition: The height above ground level of the building's first floor.



FIRST FLOOR HEIGHT EXAMPLES

Method 3: Difference between the reported Lowest Floor Elevation and the Lowest Adjacent Grade.



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RATING VARIABLES



DETERMINING ELEVATIONS:

Method 1: System Generated

- This is part of the new pricing methodology rating engine.
- FEMA will determine a First Floor Height value using informed assumptions, application information, and various datasets.



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RATING VARIABLES



DETERMINING ELEVATIONS:

Method 2: FEMA Assumptions

- FEMA will determine a First Floor Height value using informed assumptions, application information, and various datasets
- Based on foundation type

RATING VARIABLES



DETERMINING ELEVATIONS:

Method 3: Elevation Certificate (EC) *(Optional)*

- Under the new pricing methodology, an EC will **no longer be required** for rating.
- ECs can be used to determine the structure's elevations, including the first-floor elevation above ground level.
- ECs may still be required for floodplain management and Community Rating System (CRS).



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INSURANCE PROGRAM

RATING VARIABLES

NUMBER OF FLOORS

Will no longer include:

- Basements
- Enclosures
- Crawlspace.



RATING VARIABLES

NUMBER OF FLOORS

A unit's floor will now be determined by the actual floor on which it is located.

This is an important change for condominium and apartment unit policies.

6TH FLOOR

5TH FLOOR

4TH FLOOR

3RD FLOOR

2ND FLOOR

1ST FLOOR



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RATING VARIABLES

PRIOR CLAIMS

- FEMA will **not** include prior claims history in the **initial** rate calculation
- The prior claims variable will be applied at renewal of the policy, after first loss under the new pricing methodology
- A rolling 20-year period
- Severe Repetitive Loss (SRL) surcharge included in their premium until they have their first loss under the new pricing methodology



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NATIONAL FLOOD
INSURANCE PROGRAM

RATING VARIABLES



DEFINITION:

“Excluded
Losses”

WHAT IS AN EXCLUDED LOSS?

- Increased Cost of Compliance claim payments; or
- Claims closed without payment.

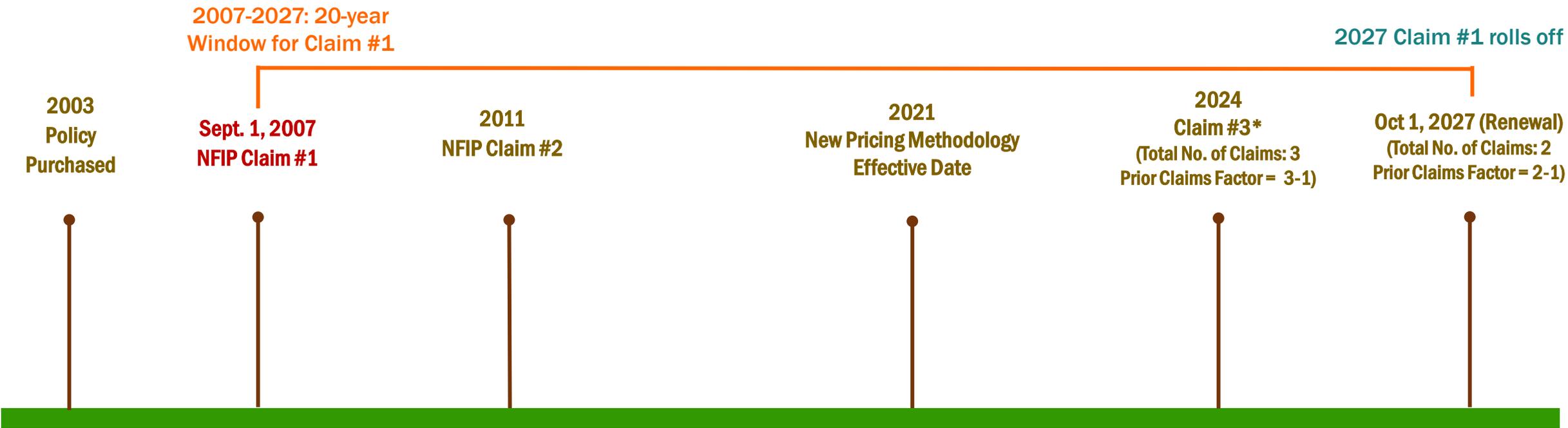


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Each Claim Has a 20-year 'Expiration Date' for Use in Rating

*The prior claims surcharge factor kicks in when Claim #3 is filed



Note: The New Pricing Methodology forgives the first claim in calculating a rate - a policy with 1 prior claim is treated the same as a policy with 0 claims

RATING VARIABLES

FEMA is providing values for:

- Geographic variables (based on provided address or lat/long)
- First Floor Height
- RCV (single-family occupancy only)
- NFIP claims history

Policyholders/agents can provide additional information for:

- Ground Elevation
- First Floor Height*
- RCV
- NFIP claims history

*Using Elevation Certificate

FEES AND SURCHARGES

The following fees and surcharges will apply to all policies.

- Reserve Fund Assessment
- HFIAA Surcharge
- Federal Policy Fee
- Probation Surcharge (if applicable)

NEW PRICING METHODOLOGY*

FEMA-SOURCED MAPPED DATA

ADDITIONAL DATA SOURCES

COST TO REBUILD

RATING VARIABLES

BROADER RANGE OF FLOOD FREQUENCIES

FEES AND SURCHARGES

**Additional variables are not shown here*

FEMA is communicating full-risk premiums:

**The New Pricing Methodology
communicates every policy's
full-risk premium**

Building Premium	\$1,100
Contents Premium	\$490
Increased Cost of Compliance (ICC) Premium	\$10
Mitigation Discount	(\$100)
Community Rating System (CRS) Discount	(\$300)
Full-Risk Premium	\$1,200
Statutory Discounts	
Annual Increase Cap	(\$200)
Pre-FIRM Discount	(\$200)
Newly Mapped Discount	\$0
Other Statutory Discounts	\$0
Adjusted Premium	\$800
Reserve Fund Assessment	\$144
Premium [HFIAA] Surcharge	\$25
Federal Policy Fee	\$47
Probation Surcharge	\$0
Total Annual Payment	\$1,016





WHAT IS CHANGING

STATUTORY DISCOUNTS &
MITIGATION CREDITS

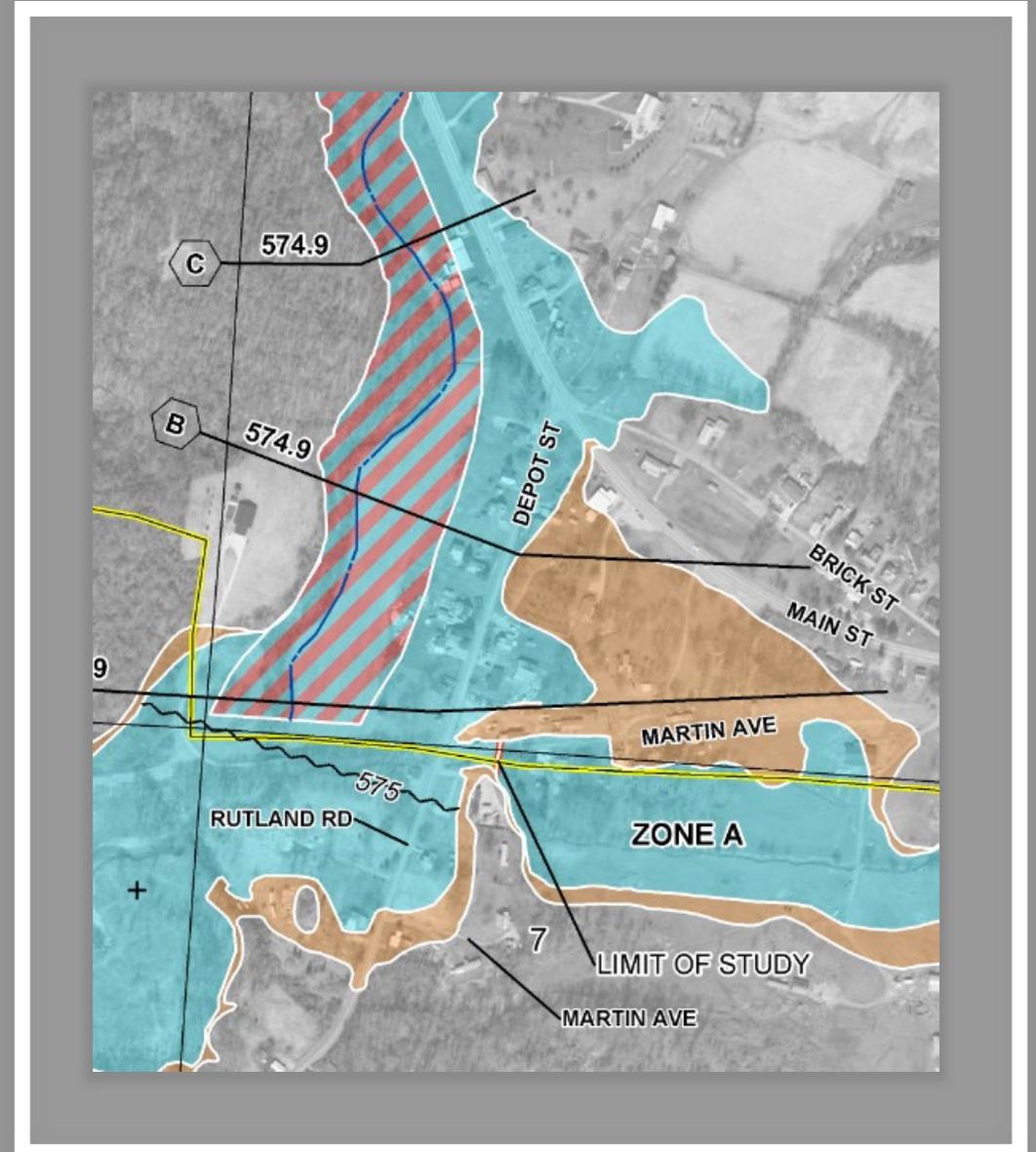


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STATUTORY DISCOUNTS

- Includes Pre-FIRM, Newly Mapped Program, and Other (A99/AR)
- The policy will transition towards its true risk rate
- In general, a policyholder loses their discount if they allow the policy to lapse more than 30 days.



COMMUNITY RATING SYSTEM DISCOUNTS

- The new pricing methodology will apply the CRS discount **uniformly** in qualifying communities - regardless of whether the structure is inside or outside the Special Flood Hazard Area (SFHA).
- The discount will be a flat percentage based on the CRS class, with no difference for flood zone.



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Community Rating System (CRS) Discount



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Community Rating System (CRS) Discount

- ▶ Communities will continue to earn National Flood Insurance Program rate discounts of 5% - 45% based on the Community Rating System classification.
- ▶ The discount will be uniformly applied to all policies throughout the participating community, regardless of whether the structure is in the Special Flood Hazard Area.
- ▶ Post-FIRM minus rated policies will be excluded from the CRS discounts.

CRS Discount Example (Class 4 Community)

	Legacy Pricing Methodology CRS Discount (%)	New Pricing Methodology CRS Discount (%)
Structure 1 – Inside the SFHA <ul style="list-style-type: none"> • Current: Standard A Zone Policy • Built in Compliance: Yes 	30%	30%
Structure 2 – Outside the SFHA <ul style="list-style-type: none"> • Current: Standard X Zone Policy • Built in Compliance: Yes 	10%	30% <i>(Once policy is full-risk)</i>
Structure 3 – Outside the SFHA <ul style="list-style-type: none"> • Current: Preferred Risk Policy • Built in Compliance: N/A 	No Discount	30% <i>(Once policy is full-risk)</i>
Structure 4 – Inside the SFHA <ul style="list-style-type: none"> • Current: New Business • Built in Compliance: No 	N/A	No Discount
Structure 5 – Outside the SFHA <ul style="list-style-type: none"> • New Pricing Methodology: New Business • Built in Compliance: N/A 	N/A	30%

MACHINERY & EQUIPMENT (M&E)

- The rating engine will apply a discount for policyholders with M&E elevated **above their first floor.**
- Agents will self-certify the position of the M&E by answering a "Yes/No" question on the application.
- The list of eligible M&E will be listed in the Flood Insurance Manual.



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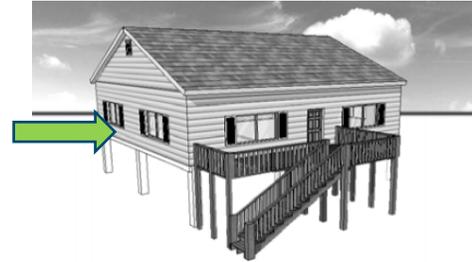
Elevation: M&E Above First Floor



Slab on Grade (Non-Elevated)

One floor: Elevated at least to the height of the attic
More than one floor: Elevated to the height of the second floor or higher
(green arrow)

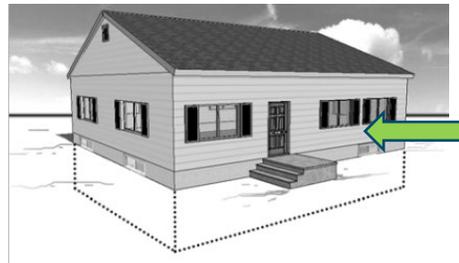
Includes EC Diagram numbers 1A, 1B, and 3



Elevated without Enclosure on Post, Pile, or Pier

Elevated to the height of the lowest elevated floor or higher (green arrow)

Includes EC Diagram number 5



Basement (Non-Elevated)

Elevated to the height of the floor above the basement or higher
(green arrow)

Includes EC Diagram numbers 2A, 2B, and 4



Elevated with Enclosure on Post, Pile, or Pier*

Located on the lowest elevated floor or higher (green arrow)

Includes EC Diagram number 6



Crawlspace (Elevated, including Non-Elevated Sub-Grade Crawlspace)*

Elevated to the height of the floor above the crawlspace or higher
(green arrow)

Includes EC Diagram numbers 8 and 9



Elevated with Enclosure Not on Post, Pile, or Pier (Solid Foundation Walls)*

Elevated to the height of the lowest elevated floor or higher (green arrow)

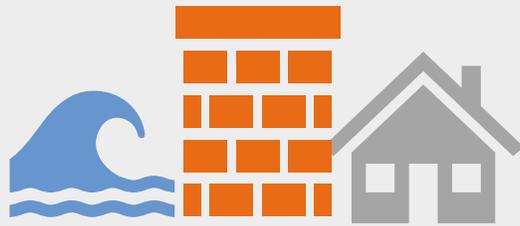
Includes EC Diagram number 7

FLOOD VENTS

- The rating engine will apply a discount to the policy for buildings in any flood zone with proper openings in the enclosure.
- The flood insurance application will need to reflect the proper information in order to receive the discount.



FLOODPROOFING



- ▶ An alternative to elevating a building at or above the Base Flood Elevation
- ▶ Residential floodproofing is only an option in approved communities
- ▶ The insurer must submit proper documentation
- ▶ Must meet eligibility requirements



WHAT IS CHANGING

WHAT'S GOING AWAY



GRANDFATHERING

- Grandfathering is being eliminated since BFEs and Flood Zones will no longer be used
- Existing grandfathered policies will be on a 18% glidepath to their full risk rate



RETIRED POLICY TYPES/RATING METHODS

U.S. DEPARTMENT OF HOMELAND SECURITY
FEDERAL EMERGENCY MANAGEMENT AGENCY
National Flood Insurance Program
PREFERRED RISK POLICY
IMPORTANT—PLEASE PRINT OR TYPE; ENTER DATES AS MM/DD/YYYY

BILLING	FOR RENEWAL, BILL:	<input type="checkbox"/> INSURED	<input type="checkbox"/> LOSS PAYEE
		<input type="checkbox"/> FIRST MORTGAGEE	<input type="checkbox"/> OTHER (AS SPECIFIED IN MORTGAGEE/OTHER* BOX)
AGENT/PRODUCER INFORMATION	NAME AND MAILING ADDRESS OF AGENT/PRODUCER:		
	AGENCY NO.: _____	AGENT'S NO.: _____	PHONE NO.: _____ FAX NO.: _____

Preferred Risk Policies
(PRPs)



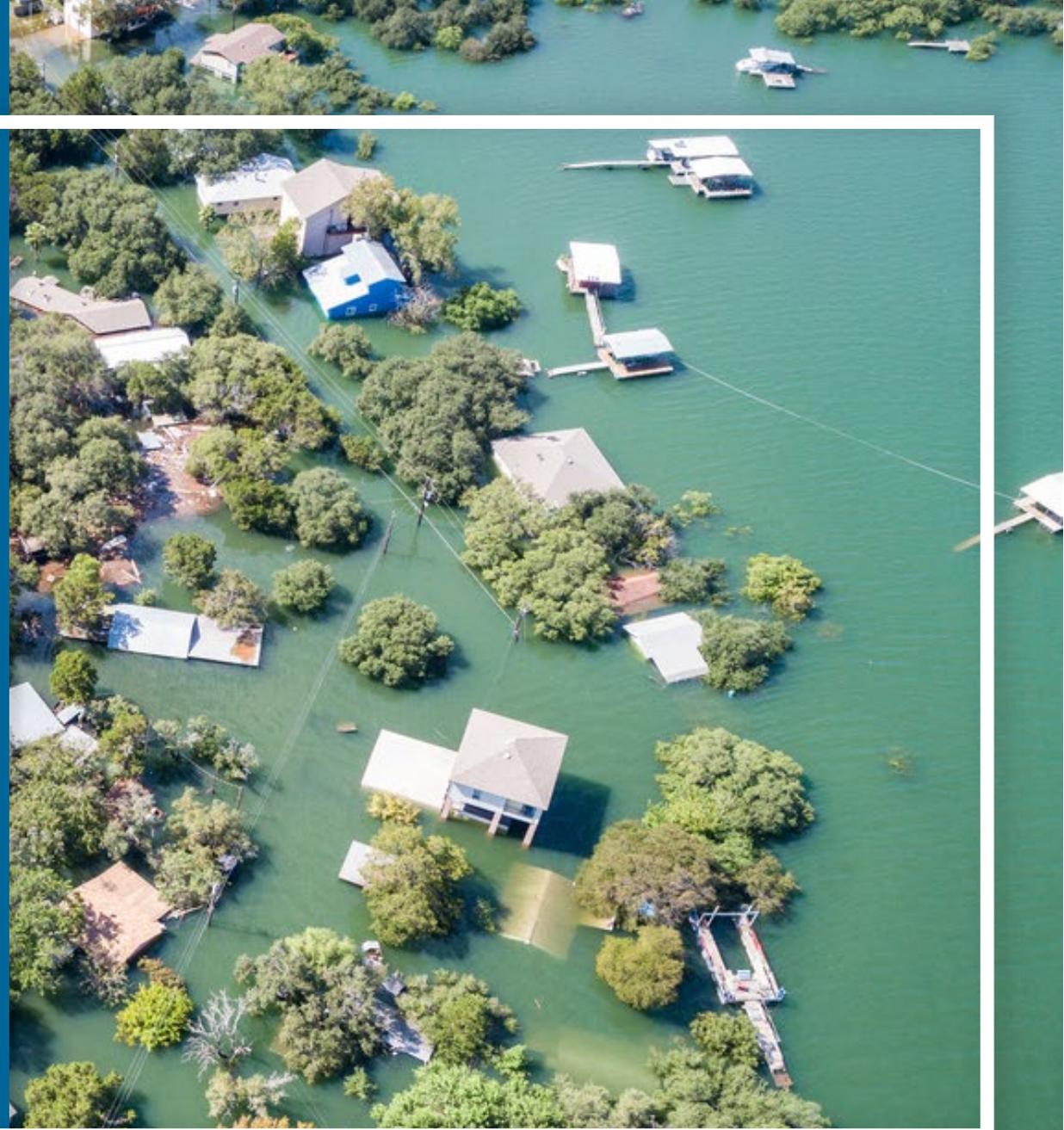
Mortgage Portfolio
Protection Program
(MPPP)

National Flood Insurance Program
Specific Rating Guidelines
April 2019

 FEMA

Submit-for-Rates (SFRs)

WHAT IS NOT CHANGING



WHAT IS NOT CHANGING

The Mandatory Purchase requirement

- Still required for properties in Special Flood Hazard Areas (SFHAs).
- Flood Insurance Rate Map

WHAT IS NOT CHANGING

Floodplain Management

- Community compliance
- Flood Insurance Rate Maps
- LOMAs and LOMRs

WHAT IS NOT CHANGING

Statutory caps on annual individual rate increases

- Most premium rates may not increase by more than 18% per year.

WHAT IS NOT CHANGING

Building/Contents Limits and Increased Cost of Compliance (ICC)

- Maximum coverage limits
- ICC coverage

WHAT IS NOT CHANGING

Underwriting Forms

- The application, general change endorsement, and cancellation forms will still be used the same way
- The forms have been updated for Risk Rating 2.0
- Policy forms: Dwelling, General Property, RCBAP are not changing.

WHAT IS NOT CHANGING

Assignment of a policy to a new building owner

- Policies can still be assigned to a new building owner.
- This is important under Risk Rating 2.0 specifically, because it allows the glidepath to transfer to the new building owner.

TRANSITION OF CURRENT POLICIES



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Equity in Action for Renewals

PHASE 2

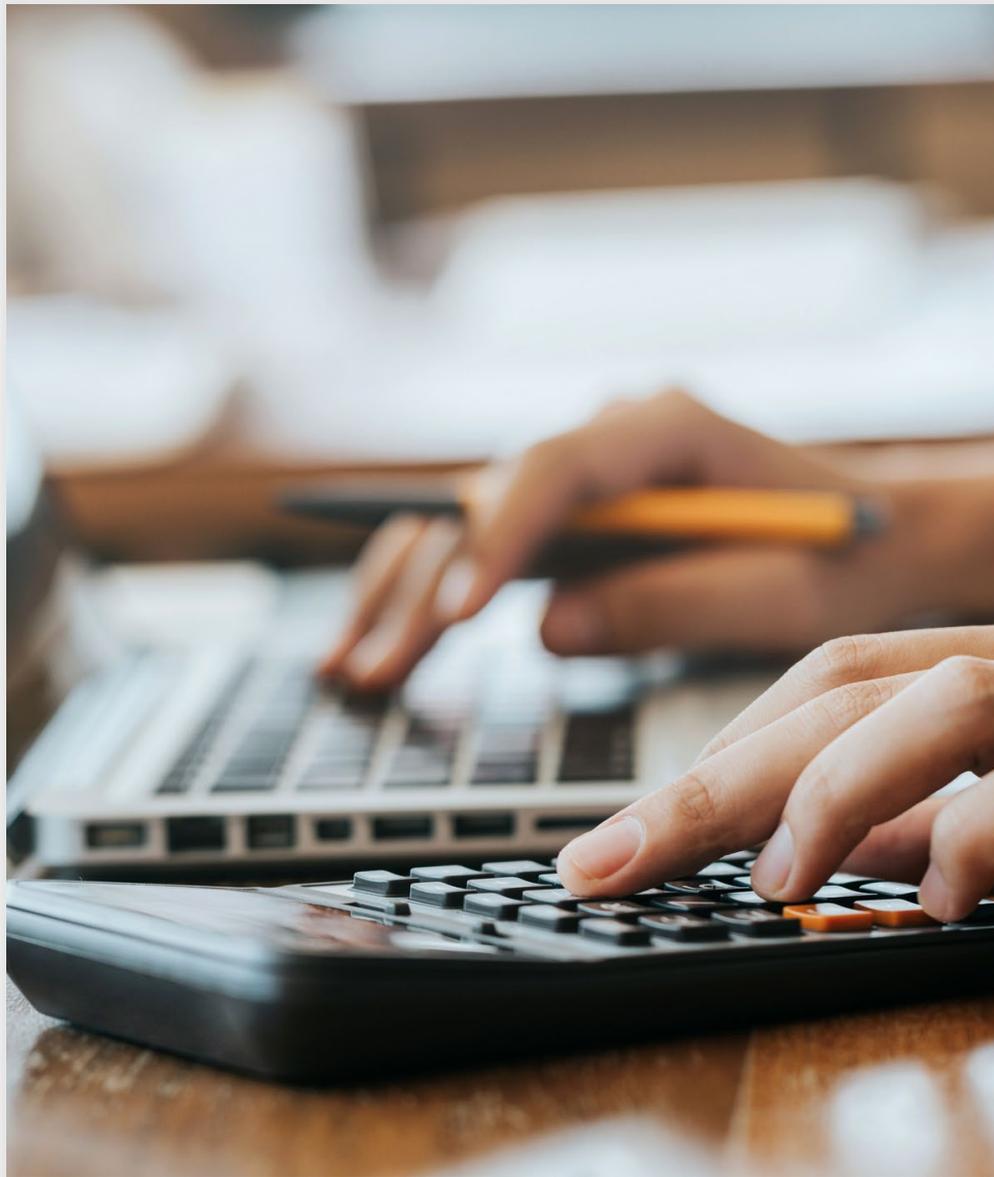


Existing policies will be subject to
the new pricing methodology



TRANSITION OF CURRENT POLICIES

- October 1, 2021 – March 31, 2022
- Existing policyholders will be able to renew under the new pricing methodology if beneficial

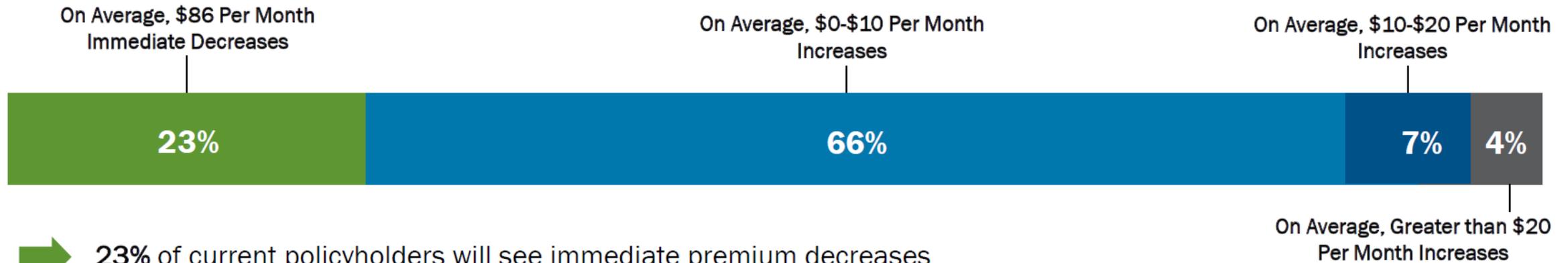


TRANSITION OF CURRENT POLICIES

- With the implementation of the new pricing methodology, any premium decreases will go into effect at renewal.
- At renewal, PRP and Newly Mapped policyholders will be able to:
 - Change their coverage amounts
 - Increase their deductible
- Lapse in Coverage after 30 days

Risk Rating 2.0 – National Rate Analysis

Under the **current 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 under Risk Rating 2.0 will see, on average, **\$10 - \$20 per month** increases
- ➔ And 4% of current policyholders under Risk Rating 2.0 will see, on average a **\$20 or more per month** increase

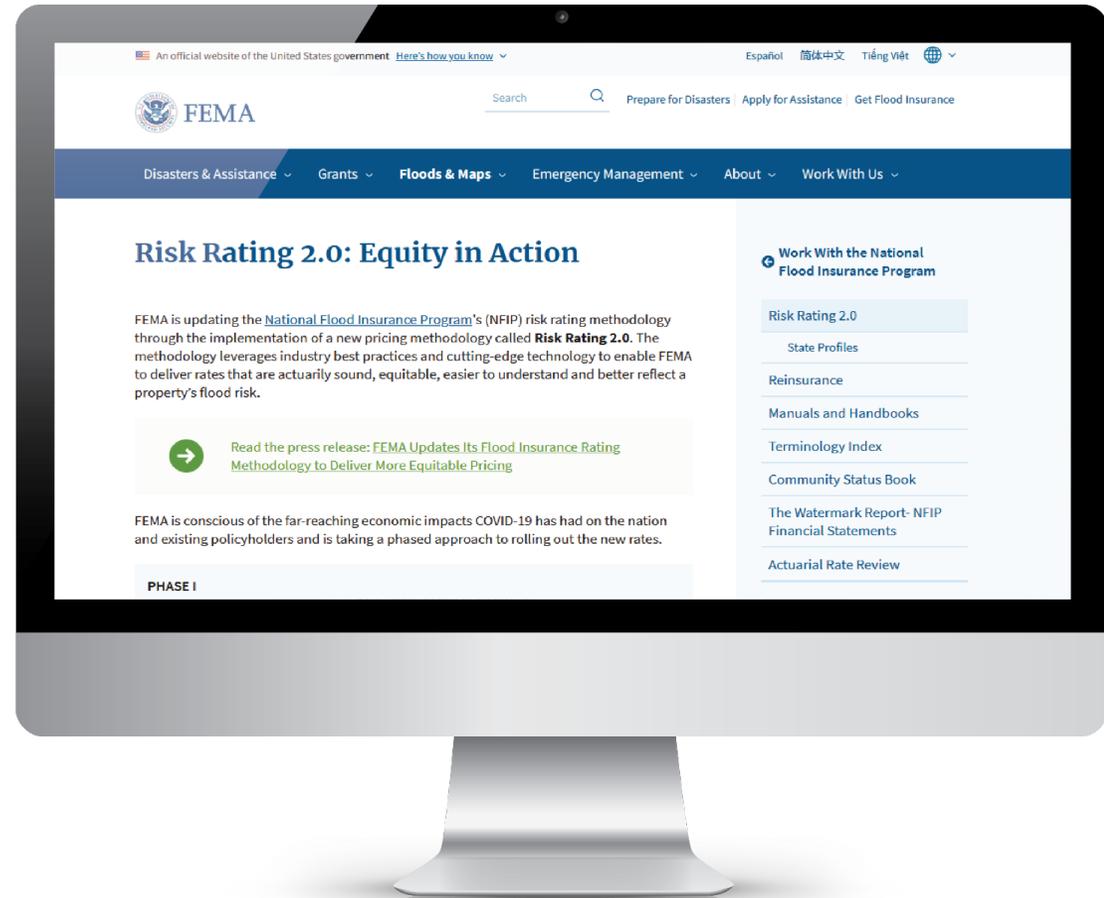


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Federal Emergency Management Agency

RESOURCES

- Risk Rating 2.0: Equity in Action Website
 - [Risk Rating 2.0](#)
- WYO Bulletin
 - [W-21003 - New Pricing Methodology](#)
- Equity in Action Fact Sheet
 - [Equity In Action](#)



QUESTIONS AND ANSWERS



THANK YOU!

To stay up to date with Risk Rating 2.0: Equity in Action, and for the latest details, please visit:

[Risk Rating 2.0: Equity in Action Website](#)

Please send questions to:
FEMA-RR2.0-Support@fema.dhs.gov

