Risk Rating 2.0 is Equity in Action

FEMA is updating the National Flood Insurance Program's pricing methodology to communicate flood risk more clearly, so policyholders can make more informed decisions on the purchase of adequate insurance and on mitigation actions to protect against the perils of flooding.

The 21st century rating system, Risk Rating 2.0—Equity in Action, provides actuarially sound rates that are equitable and easy to understand. It transforms a pricing methodology that has not been updated in 50 years, by leveraging improved technology and FEMA's enhanced understanding of flood risk.

The National Flood Insurance Program provides about $1.3 trillion in coverage for more than 5 million policyholders in 22,500 communities across the nation. Understanding the magnitude of even the smallest changes of a program of this scale, FEMA devoted thousands of hours to develop the new pricing methodology to ensure equity and accuracy.

In developing the new rates, FEMA coordinated with subject matter experts from the U.S. Army Corps of Engineers, U.S. Geological Survey and the National Oceanic and Atmospheric Administration along with experts from across the insurance industry and actuarial science to ensure alignment with federal regulations, systems, guidance and policies.

Risk Rating 2.0 is Equity in Action

The new methodology allows FEMA to equitably distribute premiums across all policyholders based on the value of their home and the unique flood risk of their property. Currently, many policyholders with lower-value homes are paying more than they should and policyholders with higher-value homes are paying less than they should.

To provide more equity, FEMA now has the capability and tools to address rating disparities by incorporating more flood risk variables. These include flood frequency, multiple flood types—river overflow, storm surge, coastal erosion and heavy rainfall—distance to a water source and property characteristics such as elevation and the cost to rebuild.

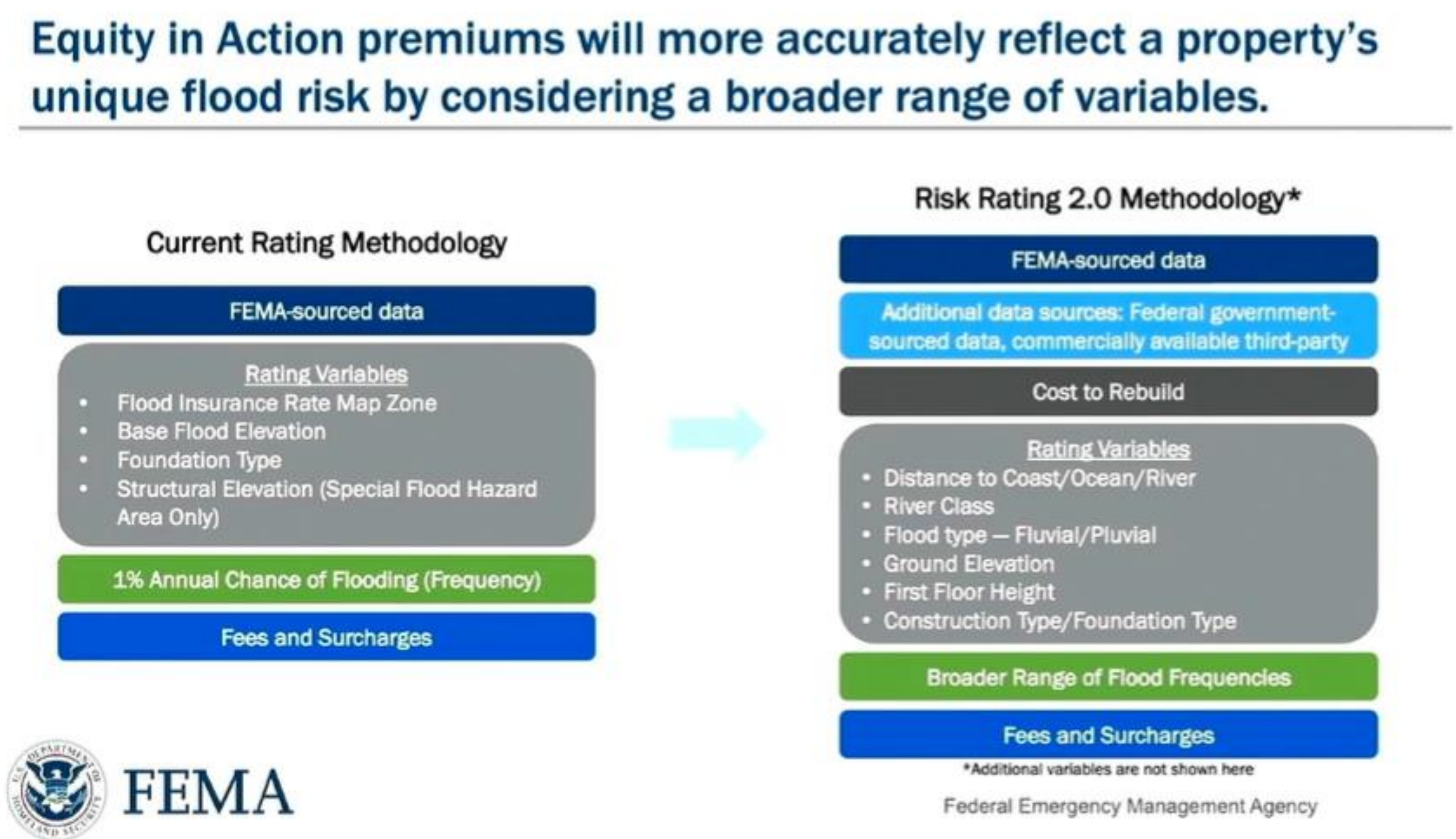
In year one at their next renewal, 82% of single-family homeowners will see monthly **decreases**, or increases of $5 or less, with Risk Rating 2.0 (compared to the current rating system)

In year one at their next renewal, 94% of single-family homeowners will see monthly **decreases**, or increases of $10 or less, with Risk Rating 2.0 compared to the current rating system. **Under the current rating system, policyholders do not receive premium decreases.**

Risk Rating 2.0 is Equity in Action

“The Millman Report”-RR 2.0 Methodology and Data Sources, April 2021

- https://www.fema.gov/sites/default/files/documents/fema_risk-rating-2.0-methodology-data-sources_4-21.pdf



FEMA

Risk Rating 2.0 is Equity in Action

•**In Phase I:** New policies beginning Oct. 1, 2021 will be subject to the new 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 remaining policies renewing on or after April 1, 2022 will be subject to the new rating methodology.

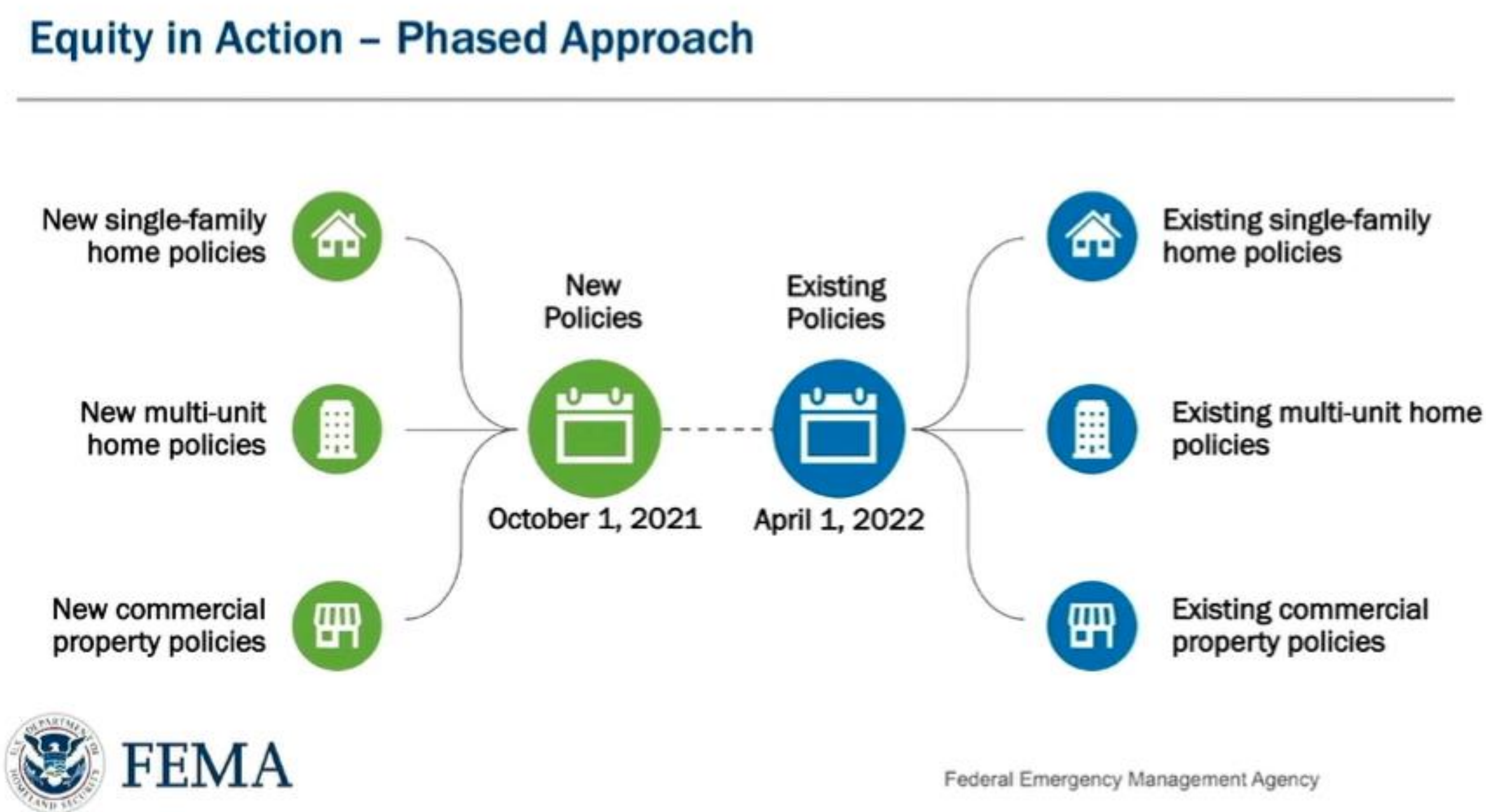
•The new rating engine will help agents more easily price and sell policies. It’s expected that this engine will provide transparency to policyholders to better understand their property’s flood risk and how it is reflected in their cost of insurance. This will also eliminate the longstanding problem of people going to multiple insurance agents and getting different rate quotes for a property. FEMA is working on a public-facing interface, due later this summer.

FEMA continues to engage with Congress, its industry partners and state, local, tribal and territorial agencies to ensure clear understanding of these changes.

For more information, please see the link below

https://www.fema.gov/flood-insurance/work-with-nfip/risk-rating

Risk Rating 2.0 is Equity in Action



Risk Rating 2.0 is Equity in Action

Things to consider:

- Risk Rating 2.0 is designed to establish insurance premiums.
  - It does not change how Flood Insurance Rate Maps (FIRMs) and Flood Insurance Studies (FIS) are used for floodplain management regulatory purposes; nor for
  - Lender compliance with the mandatory purchase requirement. The Special Flood Hazard Area (SHFA) will remain.

- What this new methodology will mean for policyholders will vary, of course, but most can expect a reduction or minimal change in premium costs. Fewer will see an increase in premiums. Only 4% of policy holders nationwide are expected to see substantive increases, this percentage however, varies from state to state. In a national rate analysis of current policy holders, FEMA says:

  - 23% will see immediate premium decreases;
  - 66% will see, on average, premium increases of $0-$10/month (which is around what the average is now);
  - 7% will see, on average, premium increases of $10-20/month;
  - 4% will see, on average, premium increases of $20 or more per month.

FEMA

Risk Rating 2.0 is Equity in Action

Things to consider (cont):

FEMA says Risk Rating 2.0 will provide the following key benefits to policyholders, communities, and the flood insurance industry:

- Creates an individualized picture of a property's risk
- Provides rates that are easier to understand for agents and policyholders
- Reflects more types of flood risk in rates
- Uses the latest actuarial practices to set risk-based rates
- Reduces complexity for agents to generate a quote

Risk Rating 2.0 is Equity in Action

What's Not Changing Under Risk Rating 2.0

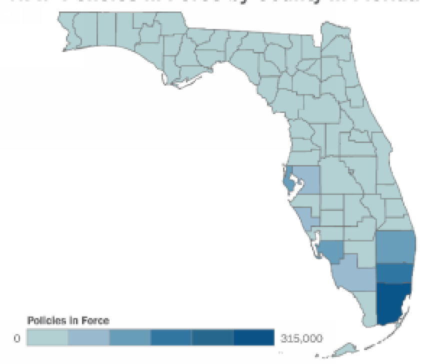
- **Limiting Annual Premium Increases**
  - Most rates cannot increase more than 18% per year
- **Using Flood Insurance Rate Maps (FIRMs) for Mandatory Purchase and Floodplain Management**
- **Maintaining Features**
  - Pre-FIRM subsidized rates
  - Newly Mapped Procedure option
  - Policyholder transfer option
  - CRS Discounts
    - Collier County provides a 25% discount to NFIP policyholders as a Class 5 CRS Community

Florida — Risk Rating 2.0

With the implementation of Risk Rating 2.0, FEMA delivers rates that more accurately reflect flood risk and ensure the National Flood Insurance Program will be here for this generation and generations to come.

National Flood Insurance Program in Florida

NFIP Policies in Force by County in Florida



A significant part of FEMA's NFIP Transformation is Risk Rating 2.0, which will fundamentally change the way FEMA prices insurance and determines an individual property's flood risk.

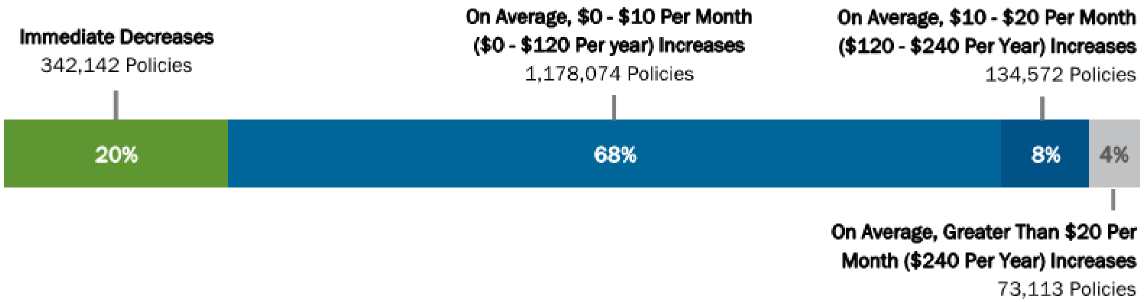
Risk Rating 2.0 is equity in action. With Risk Rating 2.0, individuals will no longer pay more than their share in flood insurance premiums based on the value of their homes. Roughly two-thirds of policyholders with older pre-FIRM homes will see a premium decrease.

FEMA will reduce disaster-related suffering and disaster-related costs in Florida through insurance and the mitigation of flood risks by leveraging advances in industry best practices, technology, and flood risk modeling.

FEMA's core mission and programs continue to emphasize purchasing flood insurance and pursuing mitigation options to achieve resiliency. While there are many policies in force in Florida, there are still opportunities to increase participation in the program to improve resilience, as shown in the table below.

NFIP Policies in Force in FL	Properties in FL Not Covered by NFIP Policy	Average NFIP Claim Payout in the Past 10 Years	Average Individual Assistance Claim Payout in the Past 10 Years
1,727,900	5.9 million	$28,100	$5,100

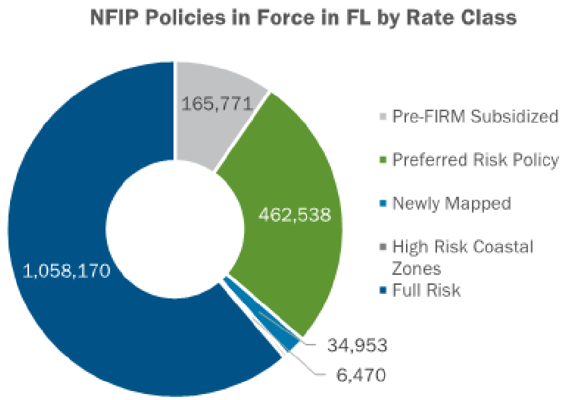
Risk Rating 2.0 in Florida



Under the current methodology, all NFIP policyholders have been subject to premium increases every year. Risk Rating 2.0, from a premium increase perspective, does not deviate significantly from the current methodology except annual increases will eventually stop under Risk Rating 2.0 once the full-risk rate is realized. Premium increases will also be subject to the 18% per year cap set by Congress for most policies.

96% of current policyholders' premiums will either **decrease or increase by $20 or less per month** under Risk Rating 2.0.

What can you do? Mitigate to Reduce Rates in Florida



The chart to the left identifies policyholders in Florida who may need the most help to reduce flood insurance rates. They will be paying their true flood risk rate under Risk Rating 2.0, and by implementing mitigation measures while on a glidepath to their full risk rate, they can help reduce their costs.

The state plays a key role in leading those mitigation efforts through coordination and collaboration with communities. States, local communities, tribes, territories, and individuals should prioritize mitigation projects, mitigation planning, and the adoption or strengthening of building codes and zoning regulations to improve resilience and reduce flood insurance rates.

Participate in the Community Rating System (CRS)

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 (SFHA).

Currently, policyholders in CRS communities save an average of $162, or 15%, per year on their flood insurance policy. To date, there are 24,500 communities that participate in the Community Rating System.

As of Oct. 1, 2020, 259 communities in Florida participate in the Community Rating System. To view the list of participating communities and their current class rating, visit www.fema.gov/community-rating-system.

Risk Rating 2.0 is Equity in Action

Important Links

- **Forerunner RR 2.0 update**
  - https://www.withforerunner.com/post/risk-rating-2-0-methodology-impact

- **The Millman Report**
  - https://www.fema.gov/sites/default/files/documents/fema_risk-rating-2.0-methodology-data-sources_3-2021.pdf

- **Congressional Research Service-National Flood Insurance Program: The Current Rating Structure and Risk Rating 2.0 d**
  - https://fas.org/sgp/crs/homesec/R45999.pdf