

Risk Rating 2.0: Equity in Action

Previously, FEMA's rating methodology was a "one-size-fits-all" approach that priced flood insurance based on which flood zone a property is mapped in by FEMA. Practically, this means that two houses located right next to each other could have vastly different insurance premiums if they are mapped in different flood zones by FEMA. Now, FEMA has changed the way it calculates NFIP premiums. FEMA now uses a program called **Risk Rating 2.0: Equity in Action** to price flood insurance. They do not use the FIRM Flood Zones exclusively. Now, flood insurance rates are decided at the individual property level in an effort to give policyholders a more accurate and transparent picture of flood risk for their home.

The current effective FIRMs will continue to be used by lenders to determine if a building is located within a high-risk flood area or SFHA 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. The Homeowner Flood Insurance Affordability Act of 2014 established a subsidy for properties that are newly mapped into a SFHA on or after April 1, 2015, if the applicant obtains coverage that is effective within 12 months of the map revision date. Certain properties may be excluded based on their loss history. The rate for eligible newly mapped properties is equal to the Preferred Risk Policy (PRP) rate, but with a higher Federal Policy Fee, for the first 12 months following the map revision. After the first year, the newly mapped rate begins to transition to a full-risk rate, with annual increases to newly mapped policy premiums calculated using a multiplier that varies by the year of the map change.

The following is FEMA's explanation as to why the NFIP is 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. Without action, existing inequities would continue with a widening gap between rate payments and claims payouts. Under FEMA's current rating methodology, policyholders with lower-valued homes are paying more than their share of the risk while policyholders with higher-valued homes are paying less. This is because FEMA does not currently consider in its pricing calculation the costs required to rebuild a home if it needs to be replaced. Homes with higher values cost more to reconstruct, so Risk Rating 2.0 improves equity by ensuring home values and premiums are aligned with a property's actual risk. Risk Rating 2.0 will allow FEMA to transform the NFIP into a financially stable program. Some elements of flood insurance will not change with Risk Rating 2.0. For example, the mandatory purchase requirement will still be in place, along with the premium cap that limits rate increases to no more than 18% per year. Premiums are now calculated based on specific features of an individual property, including distance from water, type of flooding, flood frequency, structure foundation type, height of the lowest floor relative to Base Flood Elevation, prior claims, and the structure's replacement cost value.

Insurance agents who sell Flood Insurance have access to the FEMA program which uses the new methodology to calculate insurance premiums, which is extremely complicated, and they would be the proper person to explain it in greater detail. It is estimated that 80% of existing policies in Florida will see a monthly increase in rates.

What is changing with Risk Rating 2.0: Equity in Action?

- Eliminating the Elevation Certificate(EC) requirement – it's now optional(In Pembroke Pines we still require an EC to be in compliance with the Community Rating System(CRS))
- Expanding mitigation credits
- Expanding policy discounts to properties outside of SFHA's
- Expanding CRS discounts – X zones are now eligible for discounts
- Including Cost to Rebuild in rating
- Increased Cost of Compliance (ICC) coverage will be a percentage of the premium instead of a set amount for the coverage

An outline of the rating variables for two methodologies is below.

OLD FLOOD INSURANCE METHODOLOGY

NFIP Legacy Rating Methodology (FEMA sourced data):

Rating Variables:

- Flood Insurance Rate Map – Zone
- Base Flood Elevation
- Foundation Type
- Structural Elevation {Special Flood Hazard Area (SFHA) Only}
- 1% Annual Chance of Flooding {Frequency}

NEW FLOOD INSURANCE METHODOLOGY

Risk Rating 2.0: Equity in Action Methodology (FEMA sourced data; additional data sources: Federal government-sourced data; commercially available 3rd party data):

Rating Variables:

- Distance to Flooding Source: Coast/Ocean/River
- Stream Order
- Flood Type – Fluvial/Pluvial
- Ground Elevation
- Building Occupancy
 - Single Family Home
 - Residential Mobile Home/Manufactured Home
 - Residential Unit
 - 2-4 Family Building
 - Other Residential
 - Residential Condo Building
 - Non-Residential
- First Floor Height (2 options) – The height above ground level of the building’s first floor. Elevations will be used in determining for all policies and there will be 2 ways to determine first floor height for a property.
 - Method 1: System Generated
 - FEMA will determine a First Floor Height value using application information and various datasets.
 - Method 2 (Optional): Elevation Certificate
 - Under the new pricing methodology, an Elevation Certificate (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 to comply with local floodplain management regulations.
- Construction Type
 - Frame - A type of construction in which the structural parts are made of wood or metal 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.
- Foundation Type – 6 simple foundation types
 - Slab on Grade (non-elevated)
 - Basement (non-elevated)
 - Crawlspace (elevated, including non-elevated sub-grade crawlspace)

- Elevated without Enclosure on Post, Pile or Pier
- Elevated with Enclosure on Post, Pile, or Pier
- Elevated with Enclosure NOT Post, Pile, or Pier
- Number of Floors (Condo-Unit Owners) – will be determined by the actual floor it's on (1st, 2nd, 3rd, etc.) and no longer include basements, enclosures, and crawlspaces. This is an important change for condominiums and apartment renters.
- Broader Range of Flood Frequencies
- Prior Claims (not in initial rate calculation; 20 yr) - 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 the first loss under Risk Rating 2.0. The new methodology utilizes a look back in a rolling 20-year period. Severe Repetitive Loss (SRL) surcharge is included in the premium until the first loss under the new pricing methodology.
 - Excluded Loss
 - Increased Cost of Compliance claim payments
 - Claims closed without payment

The new methodology is very complicated so an insurance professional would be the proper person to explain it in greater detail.