

Reduce Disaster Suffering

David I. Maurstad

FEMA Deputy Associate Administrator for Insurance and Mitigation
senior executive of the National Flood Insurance Program

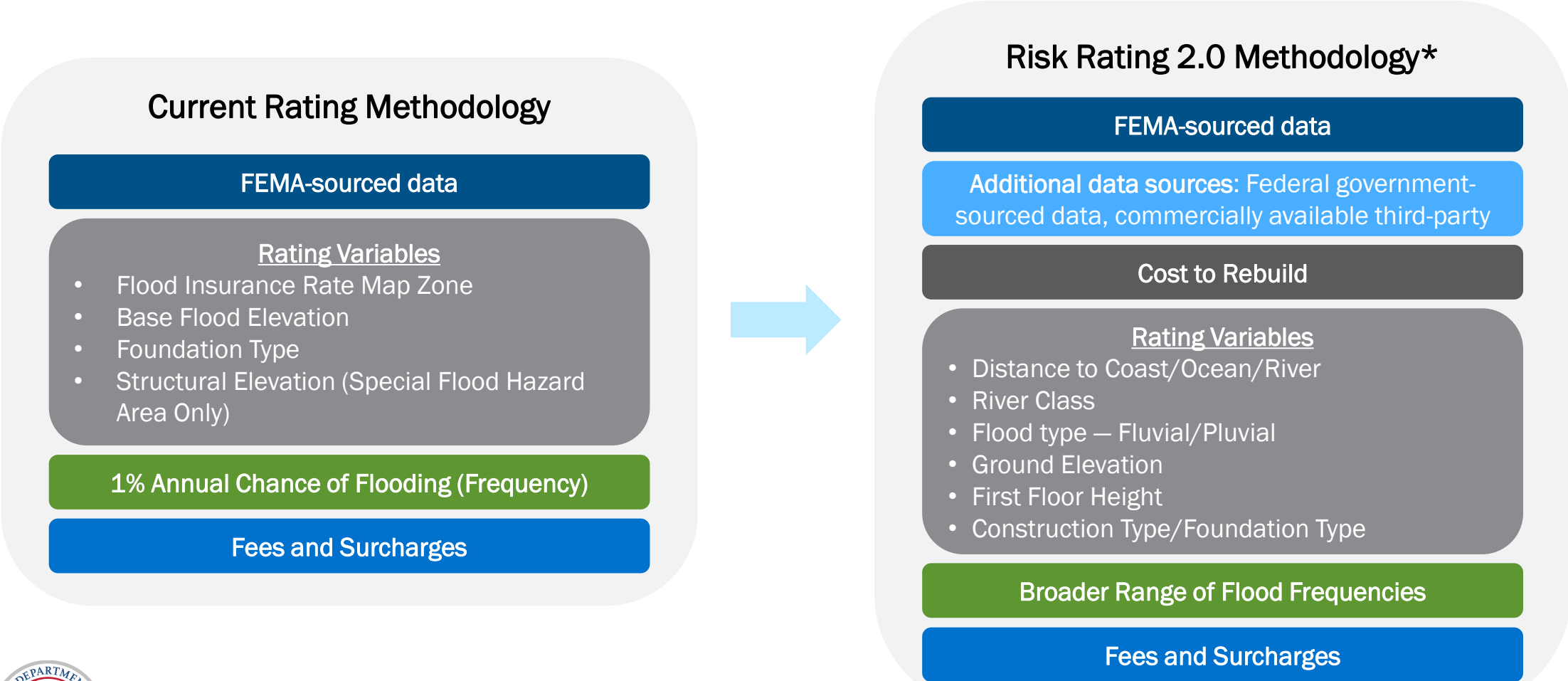


FEMA



Risk Rating 2.0: Equity in Action

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



FEMA

*Additional variables are not shown here

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 sets the NFIP on a path to become more financially resilient.



FEMA

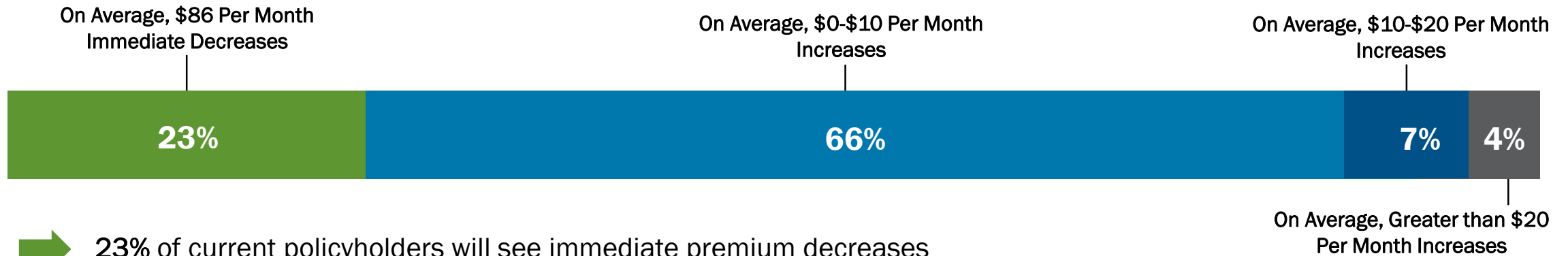
What is Not Changing

- 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



Equity in Action – 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



FEMA

Risk Rating 2.0 vs. Current Rating System: Rate Changes

- 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.



FEMA

Federal Emergency Management Agency

Risk Rating 2.0 vs. Current Rating System: Policies Increasing >\$100/Month

- Under the current rating system, **45,000 policyholders will see increases of more than \$100 a month.** The single-family homeowners in this group have an average RCV of **\$399,643.**
- Under Risk Rating 2.0, only **3,200 policyholders will see increases of more than \$100 a month.** The single-family homeowners in this group have an average RCV of **\$1,064,537.**



FEMA

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

Methodology	Single-Family Home Maximum Policy Cost*
Current Rating Methodology	\$45,925
Risk Rating 2.0	\$12,125

Policyholders paying the most under the current methodology will see dramatic decreases when they transition to Risk Rating 2.0.

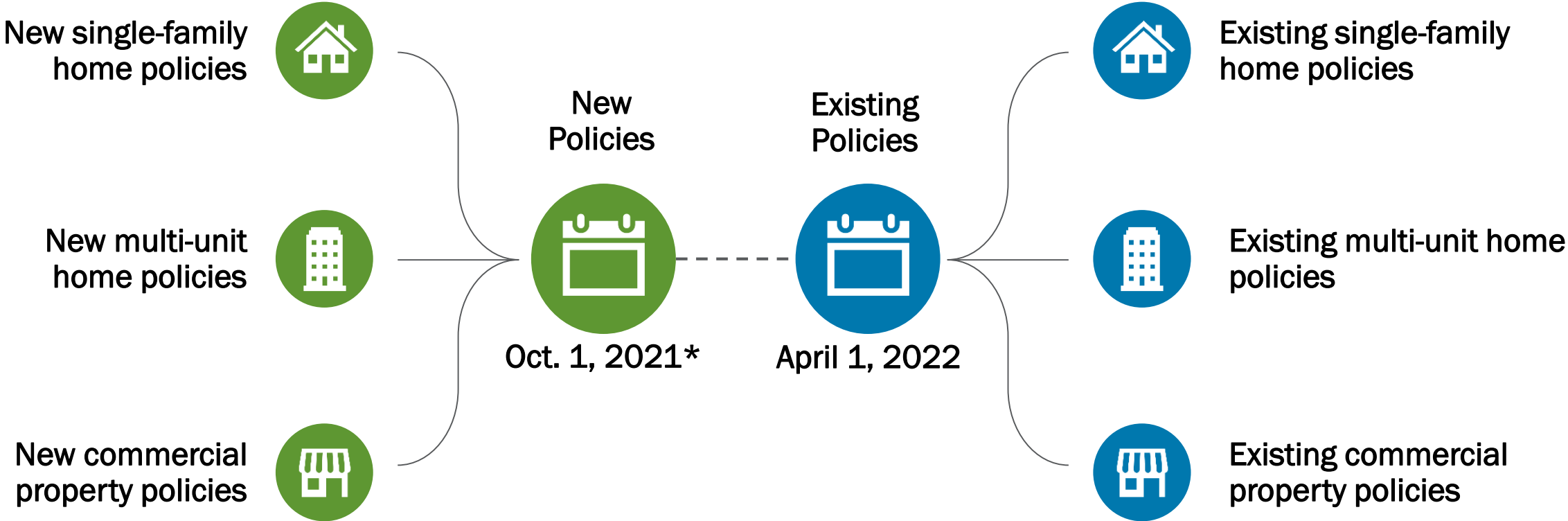


FEMA

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

Federal Emergency Management Agency

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.*



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



Risk Rating 2.0: Equity in Action – Outreach & Engagements

To date, FEMA has conducted **over 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



FEMA

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....”



FEMA

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.**”



FEMA

Equity in Action – In the Press



Opinion: *Stopping price reform won't eliminate flood risk**

“Better preparing the NFIP for the realities of climate change is an important policy task in the coming years.

Risk Rating 2.0 is the first critical step.”

**This article was written by Carolyn Kousky, executive director at the Wharton Risk Management and Decision Processes Center at the University of Pennsylvania*



FEMA

Equity in Action – In the Press

WSJ | OPINION

Op-ed: *A Step Toward Flood Insurance Fairness**

“Better pricing will help taxpayers ... More reform is needed ... But letting FEMA's changes move forward would be a small step toward fairness and solvency.”

*This article was written by WSJ's editorial board.



Photo Credit: Mario Tama/Getty Images



FEMA

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

- [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](#)



FEMA

Affordability

- The 2018 Affordability Framework is guiding policy conversations
- The President's FY22 Budget includes a legislative proposal to provide affordability assistance
- A targeted assistance program would support low to moderate income policyholders
- We will continue to engage with Congress to reduce barriers to purchasing flood insurance

