

NFIP – Flood insurance Policy Renewals Risk Rating 2.0 Takes Effect TODAY – April 1, 2022

The National Flood Insurance Program (NFIP), administered by the Federal Emergency Management Agency (FEMA), is the principal provider of flood insurance in the United States. Risk Rating 2.0 is a program of significant NFIP premium pricing reforms affecting both new and existing policies. FEMA began applying the Risk Rating 2.0 to new NFIP policies on October 1, 2021, and will begin applying Risk Rating 2.0 to existing policies on April 1, 2022.

Risk Rating 2.0 has been undergoing development since 2018 and replaces FEMA's current pricing method of standardizing premiums to flood zones with a new pricing method based on probabilistic modeling that incorporates geographic and design features specific to individual structures. Under Risk Rating 2.0, Flood Insurance Rate Maps (FIRMs) will no longer be used for premium calculation but will remain in effect to delineate the applicability of statutory NFIP enrollment requirements and support local administration of floodplain management regulations.

FEMA intends Risk Rating 2.0 to better tailor each premium to the risk the specific insured property poses and help more fairly allocate among policyholders the responsibility for indemnifying losses to high-risk structures. Under Risk Rating 2.0, FEMA will use catastrophe models developed by private sector partners to calculate a full-risk, or actuarially accurate, premium rate for each insured. Policyholders will transition to the full-risk rates via a glide-path of graduated premium increases under statutorily mandated caps, which are 18% annually for primary residences and 25% annually for second homes. Policyholders currently afforded premium discounts under statutory "grandfathering" provisions, including provisions governing Pre-FIRM and newly mapped properties, will transition to full-risk rates via the same glide-path after the first policy year under Risk Rating 2.0 elapses.

FEMA projects that nationwide about 23% of premiums will immediately decrease, about half of policyholders will realize full-risk rates within five years, and all policyholders will realize full-risk rates within fifteen years. FEMA further projects that 66% of policyholders will see premium increases less than \$10 per month until full-risk rates are realized. In considering the impact of Risk Rating 2.0, it is important to remember that the current rating system does not provide for a full-risk rate and requires annual premium increases that average \$11 annually for all policyholders in perpetuity so that lower-risk properties often subsidize higher-risk properties.

Risk Rating 2.0 – National Stats

- 25% of existing policies will realize full-risk rates within one year of Risk Rating 2.0
- 50% of policies will realize full-risk rates within five years of Risk Rating 2.0
- 90% of policies will realize full-risk rates within ten years of Risk Rating 2.0
- 100% of policies will realize full-risk rates within fifteen years of Risk Rating 2.0
- Under Risk Rating 2.0, two of every three properties grandfathered under the legacy methodology will experience immediate premium decreases
- Under Risk Rating 2.0, 66% of policies will increase less than \$10 per month until full-risk rates are realized, 7% of policies will increase \$10-\$20 per month until full-risk rates are realized, and 4% of policies will increase more than \$20 per month until full-risk rates are realized
- Under the legacy methodology, 45,000 policyholders with homes with an average replacement cost value of \$399,000 will experience monthly premium increases below \$100
- Under Risk Rating 2.0, 3,000 policyholders with homes with an average replacement cost value of \$1,064,537 will experience monthly premium increases exceeding \$100

For more information go to www.fema.gov/flood-insurance/risk-rating or contact your insurer.