Risk Rating 2.0: Equity in Action

National Flood Insurance Program

10/25/2021
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.
Equity in Action premiums will more accurately reflect a property’s unique flood risk by considering a broader range of variables.

Current Rating 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 Pricing Methodology*

- FEMA-sourced data
- Additional data sources: Federal government-sourced data, commercially available third-party
- Cost to Rebuild
- Rating Variables
  - Distance to Coast/Ocean/River
  - Stream Order
  - Flood type — Fluvial/Pluvial
  - Ground Elevation
  - First Floor Height
  - Construction Type/Foundation Type
- Broader Range of Flood Frequencies
- Fees and Surcharges

*Additional variables are not shown here
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
What is Changing?

FEMA is communicating full-risk premiums:

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

The New Pricing Methodology communicates every policy’s full-risk premium.
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.
Equity in Action – Texas State Profile

Under the **current rating methodology**, every year at renewal, policyholders on average see premium increases of $8 per month.

- **On Average, $86 Per Month Immediate Decreases**
- **On Average, $0-$10 Per Month Increases**
- **On Average, $10-$20 Per Month Increases**
- **On Average, greater than $20 Per Month Increases**

- **14%**
- **79%**
- **4%**

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

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Single-Family Home Maximum Policy Cost*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Rating Methodology</td>
<td>$45,925</td>
</tr>
<tr>
<td>Risk Rating 2.0</td>
<td>$12,125</td>
</tr>
</tbody>
</table>

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

*Amounts shown include premium, fees, assessments, and surcharges
Equity in Action – Phased Approach

New single-family home policies

New multi-unit home policies

New commercial property policies

Existing single-family home policies

Existing multi-unit home policies

Existing commercial property policies

New Policies

October 1, 2021

Existing Policies

April 1, 2022
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
Questions?