

Flood insurance changes:

Frequently Asked Questions

Why is the NFIP 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 that are easier to understand. With access to the latest industry technology and NFIP mapping data, policyholders will be able to better understand how their flood risk is reflected in the cost of their insurance. Without action, existing inequities would continue — widening the gap between rate payments and claims payouts and making it harder to meet the needs of our customers. As flooding events become more frequent and severe, Risk Rating 2.0 will allow FEMA to transform the NFIP into a financially stable program that is accountable to taxpayers, more accurately reflects flood risk to both policyholders and non-policyholders, and helps disaster survivors recover faster after floods.

When will Risk Rating 2.0 go into effect?

FEMA is conscious of the far-reaching economic impacts the pandemic has had on the nation and existing policyholders and is taking a phased approach to rolling out the new rates.

- **In Phase I:** New policies beginning Oct. 1, 2021 will be subject to the Risk Rating 2.0 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 policies renewing on or after April 1, 2022 will be subject to the Risk Rating 2.0 rating methodology.

How will the new rating methodology impact the affordability of a policy?

FEMA recognizes and shares concerns about flood insurance affordability. Currently, FEMA does not have the statutory authority to consider affordability in setting rates but will ensure the transition to new rates under Risk Rating 2.0 complies with all statutory rate increases in place by Congress. To help address the issue, in April 2018 FEMA delivered an [Affordability Framework](#) to Congress to help policymakers consider how to provide targeted assistance to existing and potential policyholders. FEMA will continue to work with Congress to examine flood insurance affordability options.

How will premium increases or decreases impact policyholders?

Current policyholders who will face premium decreases under Risk Rating 2.0 will transition to the lower rate immediately at the first renewal of their policy. Any premium increases will transition gradually and within the existing statutory limits until the full-risk rate for the property is reached.

Do changes from this initiative require legislative action or approval of Congress?

Since 1968, the National Flood Insurance Act has required FEMA to periodically review, and if necessary, revise the way we set non-discounted premium rates. FEMA has always followed the congressional mandate to set non-discounted premium rates based on accepted actuarial principles. By leveraging modern technology and advanced actuarial practices, Risk Rating 2.0 is helping FEMA better meet the objectives already laid out by Congress.

Will Risk Rating 2.0 change mandatory purchasing requirements?

No, the current effective Flood Insurance Rate Maps (FIRMs) will continue to be used by lenders to determine if a building is located within a high-risk flood area (Special Flood Hazard Area) 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.

How does Risk Rating 2.0 affect the grandfathered rating discount?

Grandfathering has been available to policyholders when a map change results in either a rating zone or base flood elevation change. However, since Risk Rating 2.0 will be able to provide each building's individual flood risk, all policies formerly eligible for grandfathering will transition to their new full-risk premium. Increases will be gradual and within the 18% annual cap imposed by Congress. Decreases will apply upon first renewal on or after October 1, 2021. Similar to other policies, some premiums will decrease, some will increase, and some will stay about the same.

While maps have changed for many policyholders, fewer than 5% of single-family homes are actually grandfathered. As of March 2020, there are approximately 151,409 grandfathered properties nationwide. These policies represent a small percentage (4.4%) of the 3.5 million single-family, non-leveed properties insured under the NFIP. The average annual premium for these grandfathered properties is \$1,077, which is lower than the average annual premium for subsidized NFIP policies (Pre-FIRM) at \$1,875.

The difference between these will gradually be adjusted under Risk Rating 2.0, as FEMA will know the full-risk rate for all properties. As a result, FEMA will be able to charge more appropriate premiums that reflect each property's individualized flood risk.

Will heat maps be created to show rate impacts geographically?

Due to the individualized rating methodology under Risk Rating 2.0, premiums will reflect each building's unique flood risk using structure-specific data and will vary from policy to policy. For example, buildings that are close together may not be rated similarly due to the potential for differences in the variables Risk Rating 2.0 considers, such as structure elevation and the cost to rebuild. Therefore, we are not able to provide a heat map of rate change data.

Rate Explanation Guide

FEMA's new rating methodology, **Risk Rating 2.0: Equity in Action**, considers specific characteristics of a building – the **Where, How, and What** – to provide a more modern, individualized, and equitable flood insurance rate. Understanding these characteristics helps to identify the building's unique flood risk and associated premium.

WHERE It Is Built (Property Address)

FEMA uses the building's property address to determine flood risk for the property. The property address is used to determine:

- **A building's distance to flooding sources**, including the distance to the coast, ocean, rivers, and Great Lakes.
- **The ground elevation** where the building is located relative to the elevation of the surrounding area and the elevation of nearby flooding sources.
- **Other characteristics** such as the community where the building is located and how that relates to the Community Rating System discount or whether the building is on a barrier island.



HOW It Is Built (Building Characteristics)

Knowing the physical characteristics of a building provides a deeper understanding of the building's individual flood risk and how it may impact premium. Relevant variables include:

Building Occupancy

The type (and use) of the building being insured sets available coverage limits and determines what is covered as indicated in the policy form.

Foundation Type

The foundation type provides important insight as to where the flood risk is likely to begin. For instance, risk varies based on whether a building's foundation is underground, at ground, or above ground.

First Floor Height

Buildings whose first floor is higher off the ground have lower flood risk.

Number of Floors

Buildings with more floors spread their risk over a higher area.



Unit Location

Individual units on higher floors have lower flood risk than units on lower floors.

Construction Type

Masonry walls perform better in different flooding events than wood frame walls.

Flood Openings

Flood openings can lower a building's flood risk as they allow floodwaters to flow through a building's enclosure or crawlspace.

Machinery & Equipment

Elevating above the first floor lowers the risk of damage to machinery & equipment covered in the policy.

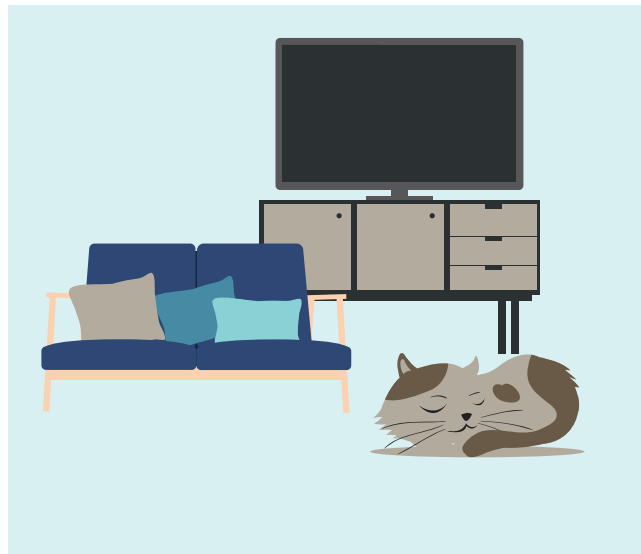
WHAT Is Built and Covered (Replacement Cost and Coverage)

The building's replacement cost value, the amount of coverage requested, and the deductible choices influence the insurance premium.



Building Replacement Cost Value*

Buildings with higher costs to repair generally result in higher losses, resulting in higher premiums.



Building and Contents Coverage

Policies with higher coverage limits have higher potential loss costs, which lead to higher premiums. Building coverage and contents coverage amounts are selected separately.



Building and Contents Deductible

Policyholders who choose higher deductibles are assuming more of the risk during a flood event, which can result in a lower overall premium. Choosing a higher deductible means policyholders will need to cover more of the cost to rebuild out of pocket.

* The Building Replacement Cost Value used for rating does not affect the replacement cost value determined at time of loss.