GREATER NEW ORLEANS INC REGIONAL ECONOMIC DEVELOPMENT

CSFI coalition for sustainable flood insurance

Risk Rating 2.0 FAQs

The following answers were provided by FEMA in March 2022 in response to questions posed by CSFI.

In exchange for accepting federal funds to complete mitigation measures, policyholders are required to maintain coverage in perpetuity – what recourse is available to these policyholders, forced to maintain coverage, but now facing unaffordable rates inconsistent with previously understood mitigation benefits?

All flood mitigation projects must be in conformance with flood insurance requirements under the National Flood Insurance Act (NFIA). This means that if the project is located in a Special Flood Hazard Area (SFHA) per Section 102 of the NFIA (42 USC § 4012a(a)) or funded under the Flood Mitigation Assistance (FMA) program Section 1366 of the NFIA (42 USC § 4104c), and a building remains (elevation, reconstruction, floodproofing, etc.), the property owner(s) must obtain and maintain NFIP flood insurance policy for the life of the structure, regardless of transfer of ownership, in an amount at least equal to the project cost or to the maximum limit of coverage made available with respect to the mitigated property, whichever is less. In the event conditions change on the site, for example worsening flood conditions overtime, the property owners are still eligible to apply for future mitigation opportunities.

The mitigation actions policyholders previously completed, and the corresponding lower rates associated with those actions in the old rating methodology are the starting point by which rates would glidepath up to their full risk rate. Therefore, the actions they have taken are resulting in a premium reduction that they continue to benefit from. Additionally, mitigation actions taken under the old rating methodology often result in discounts in the new rating methodology. For example, elevating a building; in both the old and new rating methodology results in discounts. Existing NFIP policyholders are subject to statutory caps/glidepaths. Keep in mind that over 20% of existing NFIP policyholders will see decreases as they renew their policy under the new Risk Rating 2.0 pricing methodology. The new premiums are designed to reflect the structures individual risk and the mitigation discounts are designed to reflect the actual reduction in risk from implementing the mitigation measure.

FEMA recognizes and shares concerns about flood insurance affordability. Affordability was a concern under the old system, and affordability is a concern under Risk Rating 2.0. In response to those concerns, in April 2018 FEMA delivered an Affordability Framework to Congress to help policymakers consider how to provide targeted assistance to existing and potential policyholders. The Affordability Framework provides options to ensure the updated premium rates accurately reflect the current assessment of risk while recognizing the importance of equitable rates. While FEMA understands the concern that some policyholders may not be able to afford their premiums, we currently do not have the statutory authority to consider affordability in setting rates.

How can builders see exactly how their design decisions will affect rates? In greater detail than general mitigation measures identified by FEMA, how can builders anticipate specific premium savings from mitigation measures, to determine the offset of increased cost of construction imposed by implementing such measures.

Builders can take the following actions: 1) They can review the Risk Rating 2.0 - Equity in Action methodology and data source documents, specifically Appendix D Rating Factors, which are published

online and available for public review. This will help them understand how mitigation activities may affect insurance rates.
2) Builders can work with individual insurance agents to quote various scenarios so they can better understand the rating impacts. FEMA is exploring the development of additional tools for floodplain managers and other individuals that may assist builders and homeowners to further explain some of these measures and their impact on rates.

As floodplain managers commonly serve as advocates and educators to help policyholders understand flood insurance, will property-level data used in the Risk Rating 2.0 risk factors be provided to these community officials?
Individual property-level data may not be provided to communities due to privacy laws. However, floodplain managers have access to information on the rating plan and the rating factors through the online documentation. Please see Risk Rating 2.0 Methodology and Data Report and Appendix D Rating Factors. Currently, floodplain managers can work with property owners to obtain property-level premium information from a NFIP insurance carrier (or agent) that participates in the NFIP. FEMA is working on developing outreach materials and tools that various stakeholders can use to explain the premium risk factors and to provide more specific discount information about how mitigation may impact premiums. FEMA is also working with floodplain management stakeholders to understand their role in providing insurance information and how FEMA can provide support.

What can a policyholder do if data involved in a risk factor is wrong? Is there a dispute process for rates?
Just like the old methodology, FEMA does not have a premium dispute process for policyholders per se. However, policyholders should be encouraged to contact their NFIP insurance agent/carrier if they have questions about their insurance rate and insurance options. It is important that policyholders work to ensure their NFIP carrier has the correct and complete information needed to ensure an accurate premium. FEMA works closely with NFIP carriers and provides them with assistance and guidance on questions about rates.

Can FEMA release year 1 rate changes by FEMA Community ID Number, for consistency with other flood insurance information?
Currently, there are no plans to release rate changes by Community ID Number. The data is available by zip code, which is even more granular and can be aggregated to show the impact by Community.

Can FEMA release additional year data on RR2.0 rate changes (years 2, 5, and 10, beyond year 1)?
As with most insurance operations, FEMA will review and update rates on an annual basis to account for changes in risk, along with updates to the models and data used. Many things will change between year 1 and year 10 (e.g., climate change, inflation, understanding of risk, changes to expenses/fees, policyholder population etc.), which will impact near/long term projections and estimations of rate changes in future years.

How can floodplain managers know how many properties within their communities are receiving CRS discounts, since CRS discounts now only apply to properties that have reached their full risk rate?
Community floodplain managers can coordinate with FEMA Regional staff in determining the number of participants in the CRS Program. All policies in a CRS community are eligible the CRS discount. For existing policies on the glidepath to their full risk rate, the CRS discount is applied to the initial starting premium (the base premium), then they are on a premium increase glidepath to the full risk premium which also includes a CRS discount. There are certain properties in a CRS community that will not

receive a CRS discount, due to being built out of compliance. Those properties can be mitigated and become eligible for a CRS discount. The community would work with the FEMA Region in those cases.

How is FEMA establishing the cost to rebuild, and how is it relevant when the max coverage (thus the max payout) remains $250,000?
The cost to rebuild is determined using an industry standard replacement cost tool. This is the same tool commonly used in homeowners' insurance. The elements used to determine the cost to rebuild are the zip code, number of floors, square footage, number of units, and year built. The cost to rebuild is still relevant when the max payout remains $250,000 because buildings with higher costs to rebuild will get to the $250,000 payout more quickly than buildings with lower costs to rebuild. A different insurance analogy would be an auto insurance carrier only covering $10,000 in vehicle damage but that auto carrier not knowing if it's a luxury car model or a basic car model. If the luxury car gets a ding on the door, then it would have losses over the $10,000 but the same loss on the basic model would result in a loss well below the $10,000 limit.

How can local officials encourage development and develop building codes without access to information on how risk factors affect rates?
While FEMA understands the desire for local officials to have risk factors that drive flood insurance premiums and the understand of flood risk, community development and developing building codes at the local level does not change from the current processes that local officials take today. They need to explore a variety of data sources, understand community ordinances, state and Federal requirements, and any additional guidelines as they build out and enhance their community. For flood risk information, FEMA provides flood hazard data and mapping which reflects National Flood Insurance Program minimum requirements, and rating factors for flood insurance premiums can be found in the publicly available methodology and data sources. FEMA is also exploring the development of additional tools to further explain how mitigation may affect flood insurance rates.

How can property owners of "healthy properties" without mandatory purchase requirements be encouraged to stay in the program, now faced with higher rates?
If 'healthy property' is referring to properties with lower expected loss costs staying in the Program, overall, Risk Rating 2.0 does a much better job of identifying a 'healthy property'. That's why some are seeing decreases in Risk Rating 2.0 compared to none seeing decreases in the old rating methodology. A perfect example of this is the former Preferred Risk Policies (PRPs) which were universally receiving a 13% increase (or a 15% increase including surcharges and fees) in the old methodology, because we couldn't distinguish 'healthy' and 'unhealthy' PRPs. Now the 'healthy' PRPs get a decrease and the 'unhealthy' PRPs get an increase commiserate with their 'health' levels.

How are previous flood events incorporated as a risk factor, and how do they affect rates?
FEMA will incorporate prior claims as an additional premium load. However, FEMA will not include prior claims history in the initial Risk Rating 2.0 rate calculation. Once Risk Rating 2.0 goes into effect for a property, if a policyholder with no prior losses has a claim, FEMA will not increase their premium due to the first loss. For policyholders with two or more prior losses, after their first claim following implementation of Risk Rating 2.0, the rate will increase and reflect prior paid claims in the previous 20 years (number of paid claims minus 1). These rate increases will be gradual and within the statutory limits required by Congress.