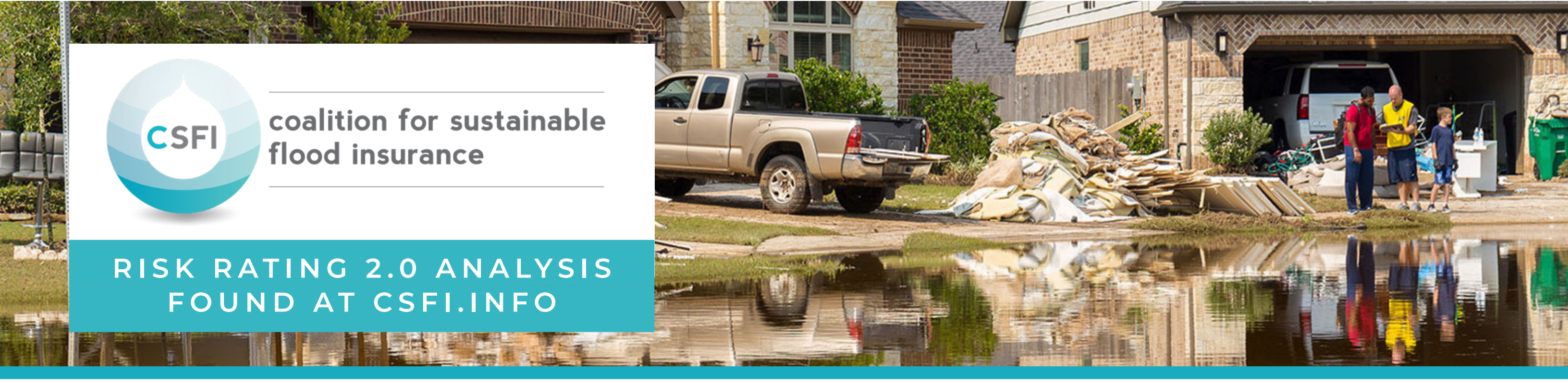

CSFI coalition for sustainable flood insurance

RISK RATING 2.0 ANALYSIS FOUND AT CSFI.INFO

GNO, Inc.'s Coalition for Sustainable Flood Insurance has prepared *An Evaluation of Risk Rating 2.0 on NFIP Affordability*, an analysis intended to capture and communicate the impacts of rising flood insurance premiums. This research is intended to provide Members of Congress and FEMA with an initial overview of Risk Rating 2.0, in the context of consumer behavior and NFIP's history, and makes both short- and long-term policy and administrative recommendations, in consideration of affordability proposals made to date. This work includes a literature review of government reports and academic research; applications of publicly available price, participation, and flood risk data; and evaluations of Risk Rating 2.0's potential impact on housing affordability in certain markets - Texas, Florida, Ohio, South Carolina - and the country.

KEY FINDINGS (CSFI)

- Increased NFIP premiums and fees lead to fewer policies in force and less coverage in force, creating greater risk exposure.
- Risk Rating 2.0, and valuation of flood risk at the individual structure level, will significantly increase premium costs.
- A price increase of 1% causes a decreased demand of 0.11% to 0.87% for flood insurance policies, while causing a larger decrease in demand for coverage in force.
- Recent flood damage, distance to coast, and higher incomes - affecting ability to afford insurance - increases demand. Higher income households are more likely to have flood insurance than lower income households, yet household incomes are lower within Special Flood Hazard Areas
- NFIP's participation has fallen in the past year, with AP reporting a possible 20% reduction in participation due to Risk Rating 2.0's implementation. Implementing a rate hike cap of 9%, vs. 18% may cut expected long-term participation decreases in half.
- Communicating flood risk through price, rather than geographic, actual loss, and anticipated loss assessments, widens the insurance gap, as price is a key variable identified as depressing flood insurance purchases.
- There is consensus shared by the administration and Congress that a means-tested affordability program should be implemented to lessen flood insurance's burden; however, design of an affordability program varies across previous and pending proposals.
- Housing burden is high in many markets with high NFIP participation; a means-tested affordability program, involving housing burden as a factor, can offset and more equitably address rising costs of flood insurance relative to a program based on Area Median Income alone.
- Policy makers are restricted, and research and recommendations are limited, by FEMA's lack of transparency in releasing premium deficiency and rate increase velocities by ZIP code, county, states, and the country.

RECOMMENDED ADMINISTRATIVE ACTIONS (FEMA)

- Disclose the average delta (premium deficiency) between legacy rating system premiums and Risk Rating 2.0 ratings at ZIP, county, and state levels and disclose estimated Risk Rating 2.0 actuarial premium in updated redacted policies data set.
- Disclose Risk Rating 2.0 rate increase velocities to allow households and communities to prepare for higher NFIP costs.
- Release a public-facing premium rate calculator so that policyholders better understand their flood risk, Risk Rating 2.0 risk factors, and property-level inputs being applied in the Risk Rating 2.0 methodology.
- Consider alternatives to current practices of communicating risk through NFIP policy price and flood zone.
- To empower public policy development, respond to outstanding congressional letters, requests, and pleas to increase transparency.

RECOMMENDED LEGISLATIVE PROPOSALS (CONGRESS)

- To slow the growing flood insurance gap, FEMA should administratively adopt, or Congress should statutorily mandate, a lower annual premium increase rate until an affordability program is enacted, tested, and implemented.
- Affordability program proposals should be revised to incorporate housing burden as a variable in calculating an insured's discount benefit; a program should be statutorily authorized and implemented urgently.
- Legislators and stakeholders should clearly more define expected outcomes of an affordability program and provide more thorough statutory stipulations and guidance on program design to assist FEMA in achieving the intended effect.
- To remove existing restrictions in determining Risk Rating 2.0's ensuing impact, NFIP's affordability burden, and optimal affordability program design, legislators should statutorily mandate that FEMA publicly release additional data and tools.

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