

This webinar was presented on January 11, 2022. Slide content is current as of that date. Please visit <https://www.fema.gov/flood-insurance/risk-rating> for the most current information on Risk Rating 2.0 Equity in Action. Questions about the new RR 2.0 rating methodology should be emailed to [fema-nfip-insurance-transformation@fema.dhs.gov](mailto:fema-nfip-insurance-transformation@fema.dhs.gov) To watch the webinar: Risk Rating 2.0 Fundamentals Agent Training, go to <http://h2o.adobeconnect.com/pjnmngx8gxgm/> Password: RREIA2



# RISK RATING 2.0: Equity in Action

## For Insurance Professionals






1

# AGENDA

- What is Risk Rating 2.0: Equity in Action?
- What Led to this Transformation of the NFIP?
- The NFIP Today
- What has Changed
- What has Not Changed
- Transition of Current Policies

*\*\*This information is subject to change. The information presented here is correct as of the date of this presentation.*



2

## WHAT IS RISK RATING 2.0: EQUITY IN ACTION?

FEMA has updated the NFIP risk rating methodology through the implementation of a new pricing methodology called Risk Rating 2.0. The new methodology brings several benefits to individual property owners and their communities



3

## RISK RATING 2.0 WILL:



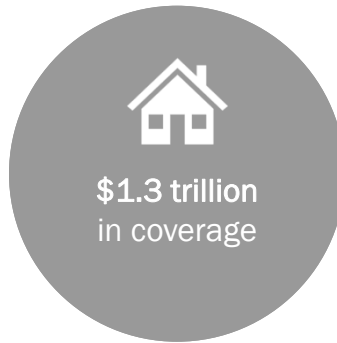
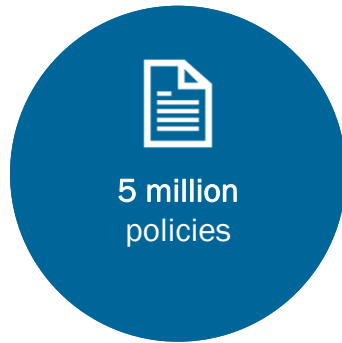
- **Reflect more types of flood risks** in the rates.
- **Provide logical rates** that use easier-to-understand rating characteristics for agents and policyholders.
- **Simplify and standardize** the quoting process for properties across the country.



4

## NFIP BY THE NUMBERS

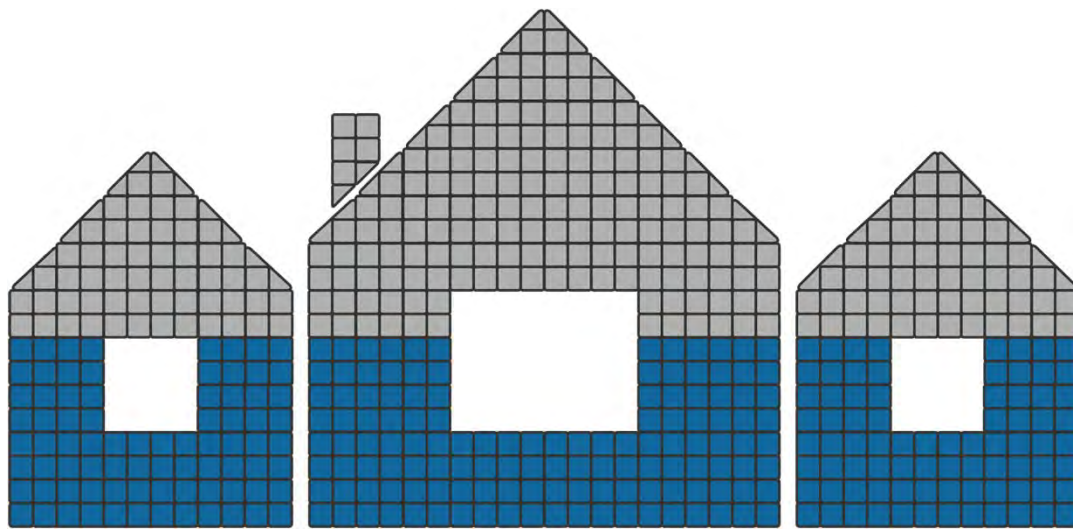
Currently, the NFIP has:



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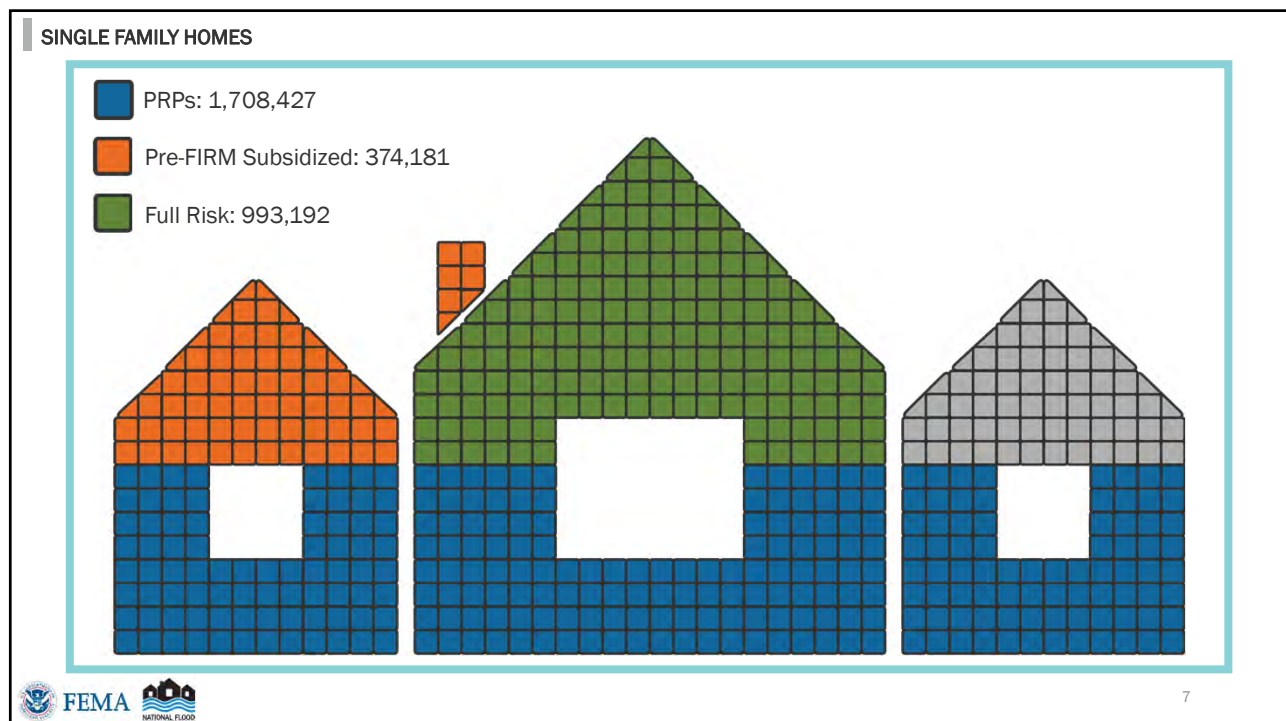
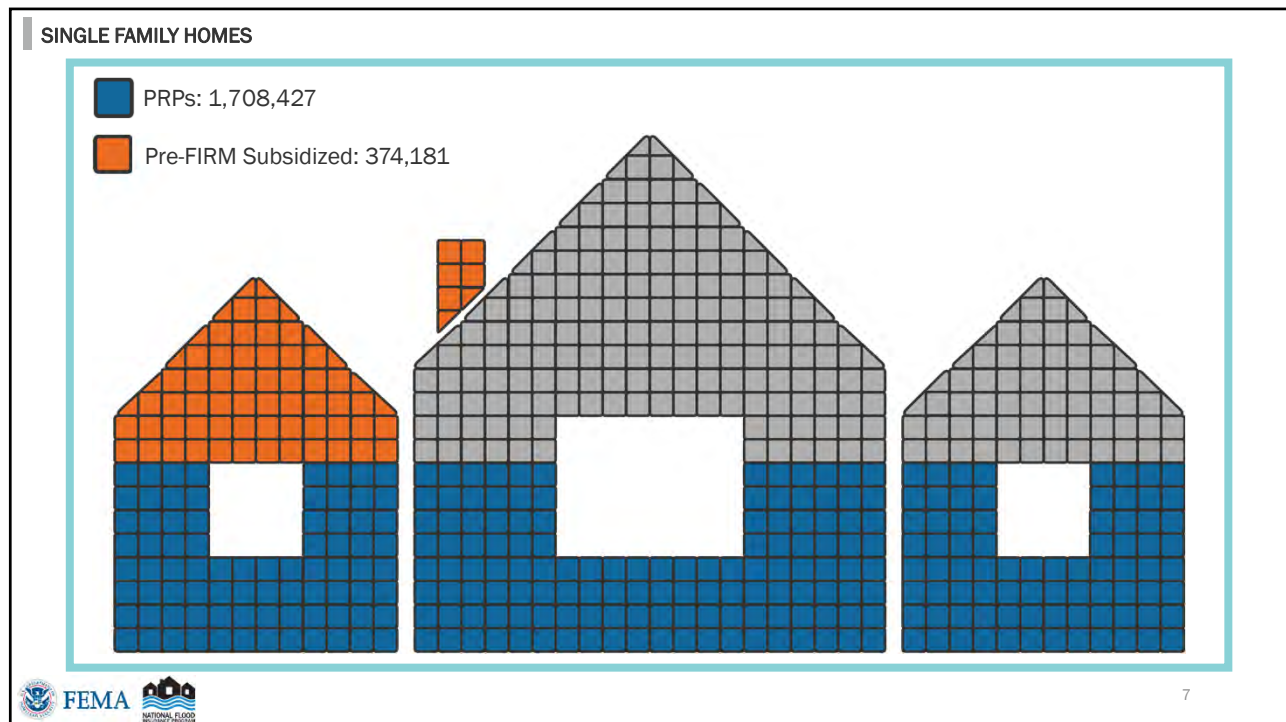
### SINGLE FAMILY HOMES

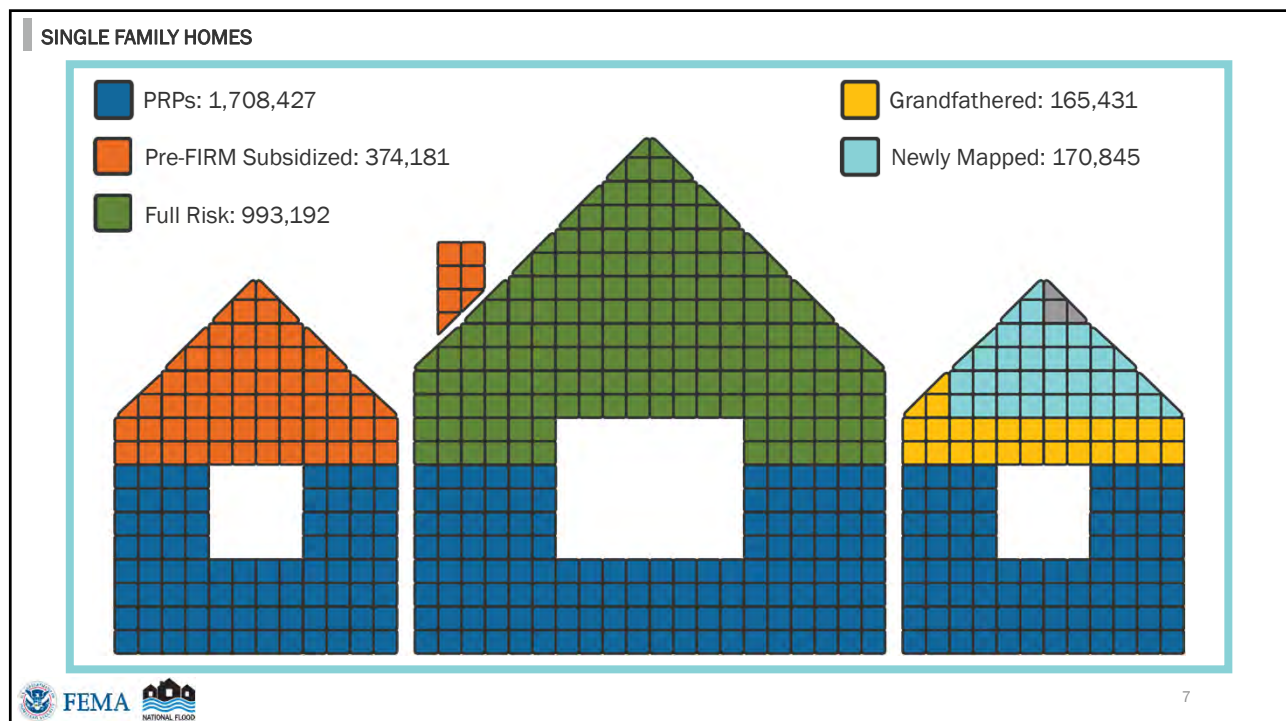
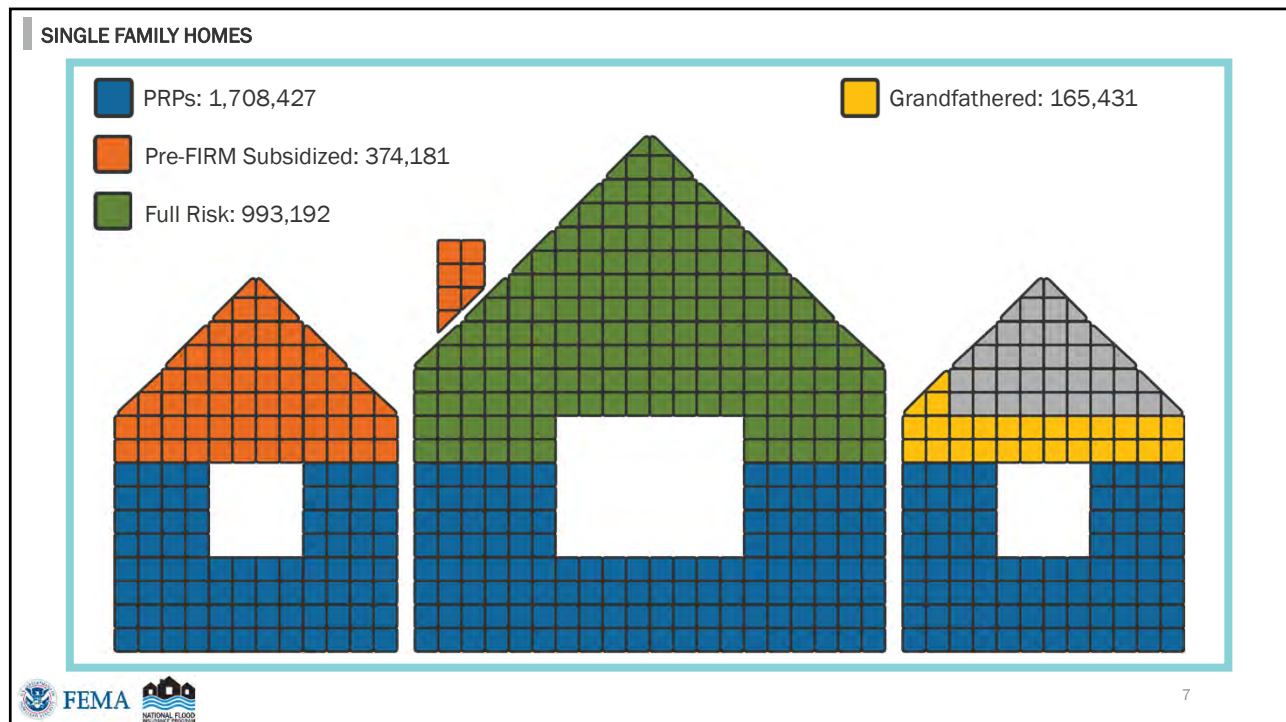
PRPs: 1,708,427

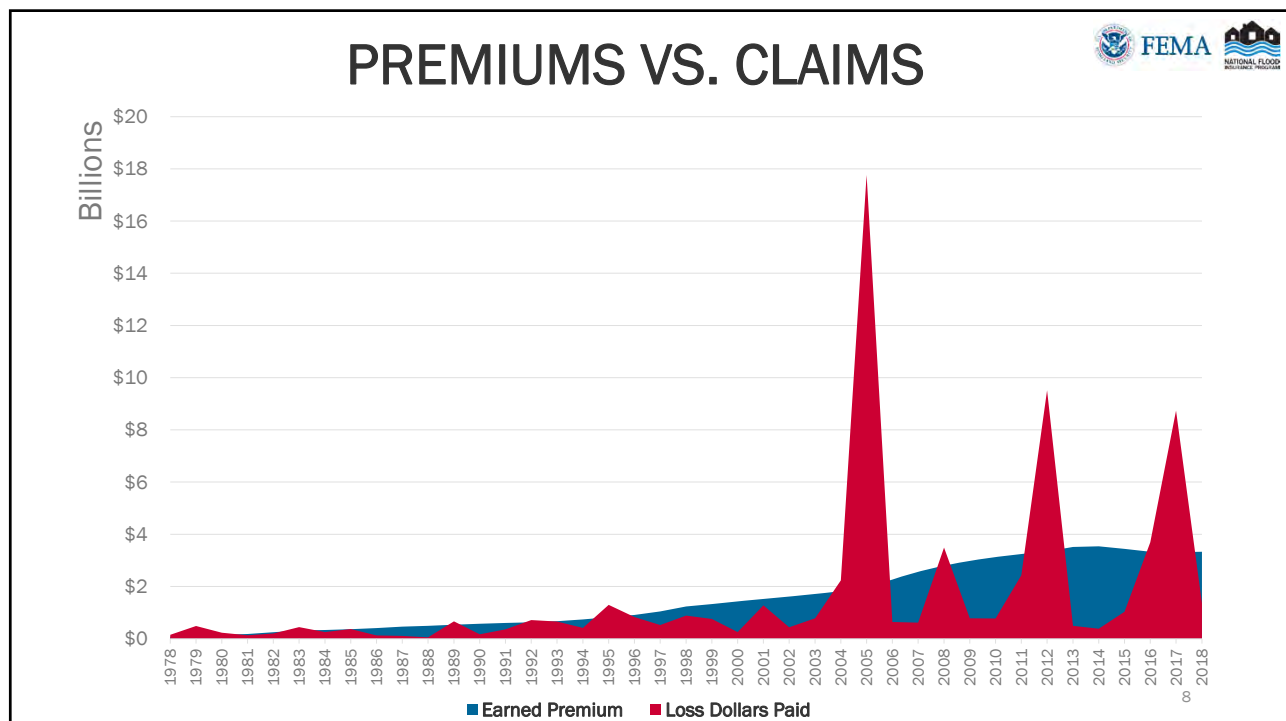
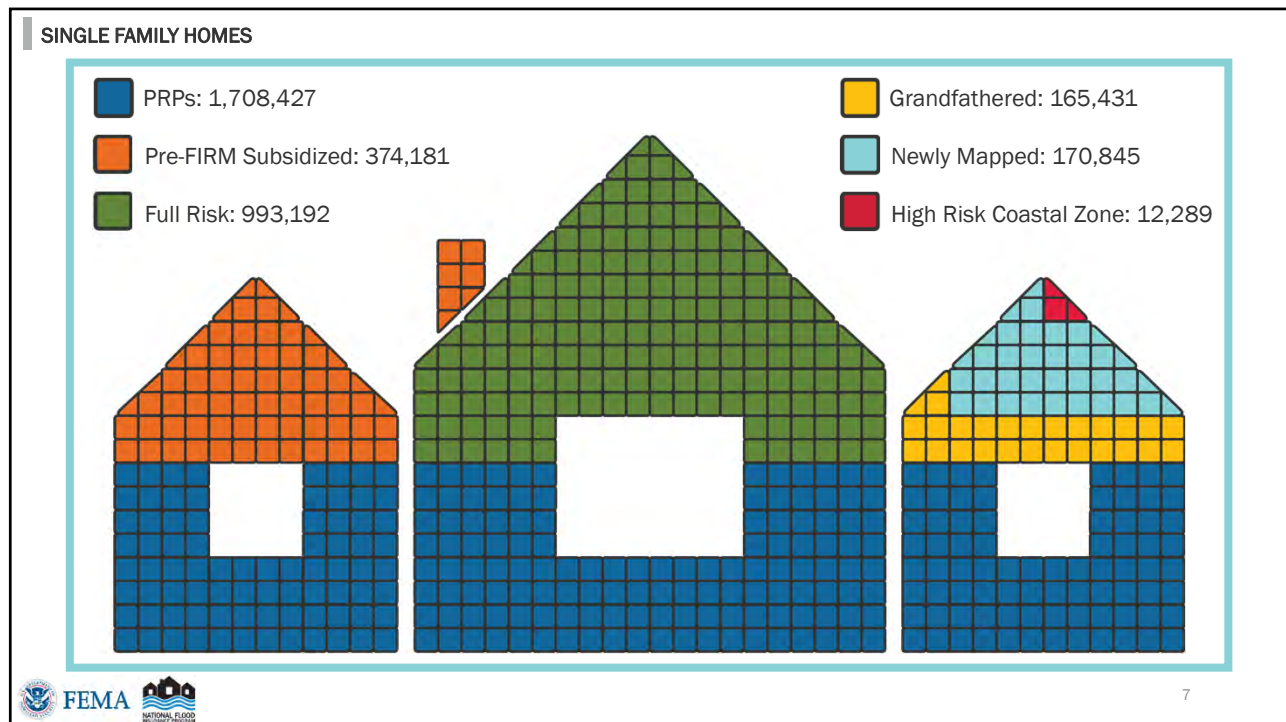


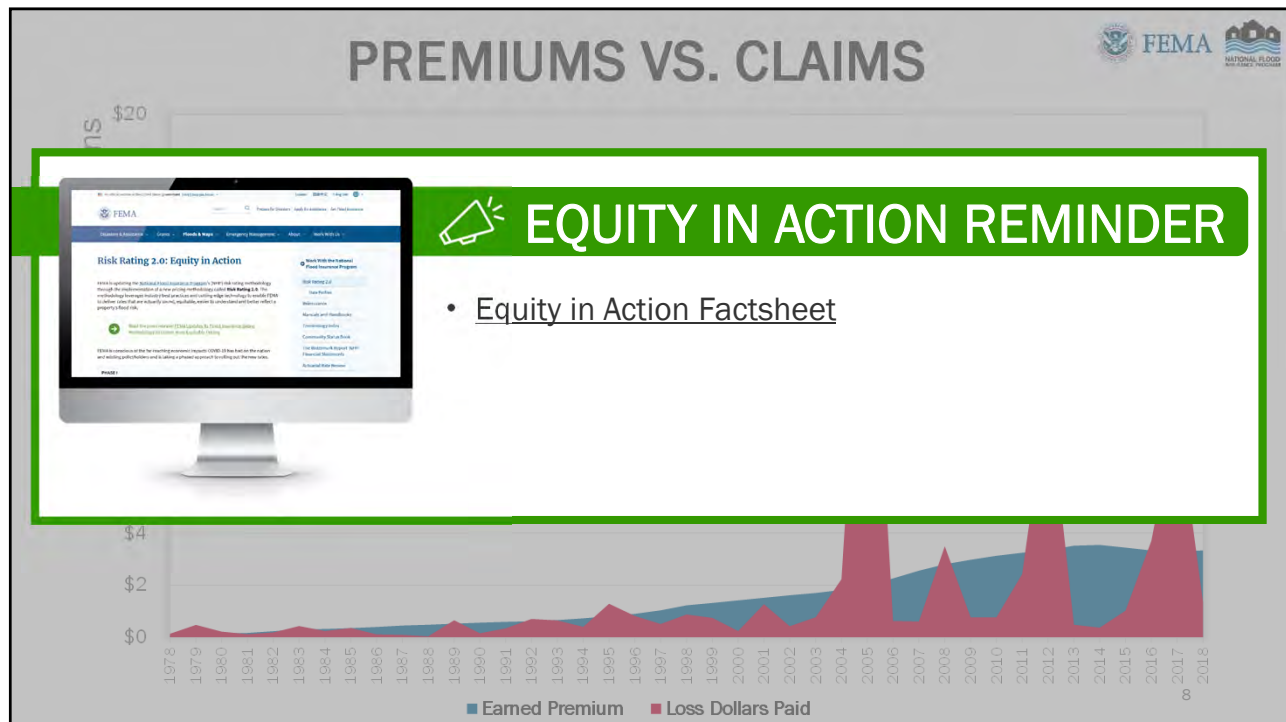
7











## Equity In Action

PHASE 1

➔


- New Business Only
- NFIP Flood Manual
- System Access

OCTOBER

1

2021

Now in effect for New Business policies!


9




## Equity In Action


### PHASE 1

- New Business Only
- NFIP Flood Manual
- System Access

- October 1, 2021 – March 31, 2022
- Existing policyholders will be able to renew under the new pricing methodology if beneficial



Goes into effect for New Business policies!





9

## NEW PRICING METHODOLOGY

### Transition timeline

SEPTEMBER 1, 2021  
FEMA released final guidance documents.





10





# WHAT HAS CHANGED

NEW PRICING METHODOLOGY



## LEGACY METHODOLOGY

**LEGACY METHODOLOGY**

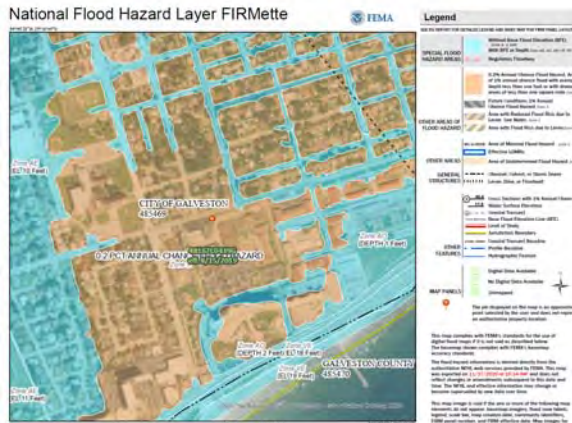
FEMA-SOURCED DATA

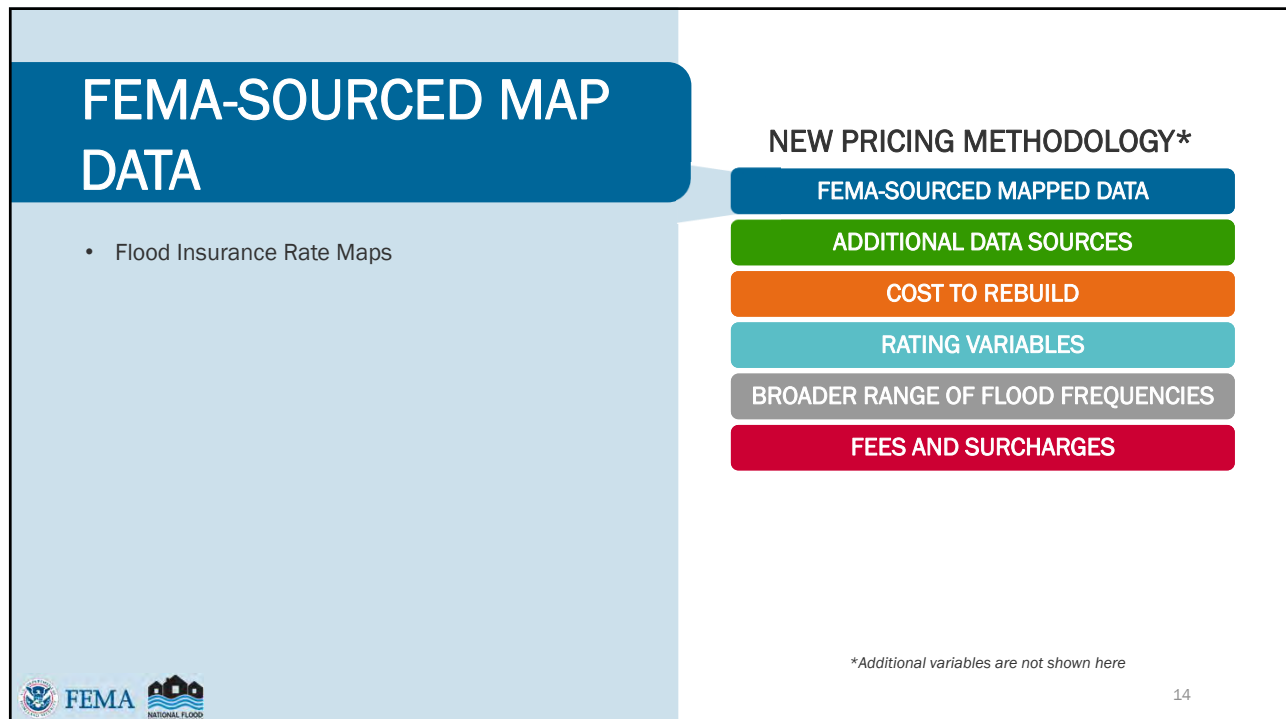
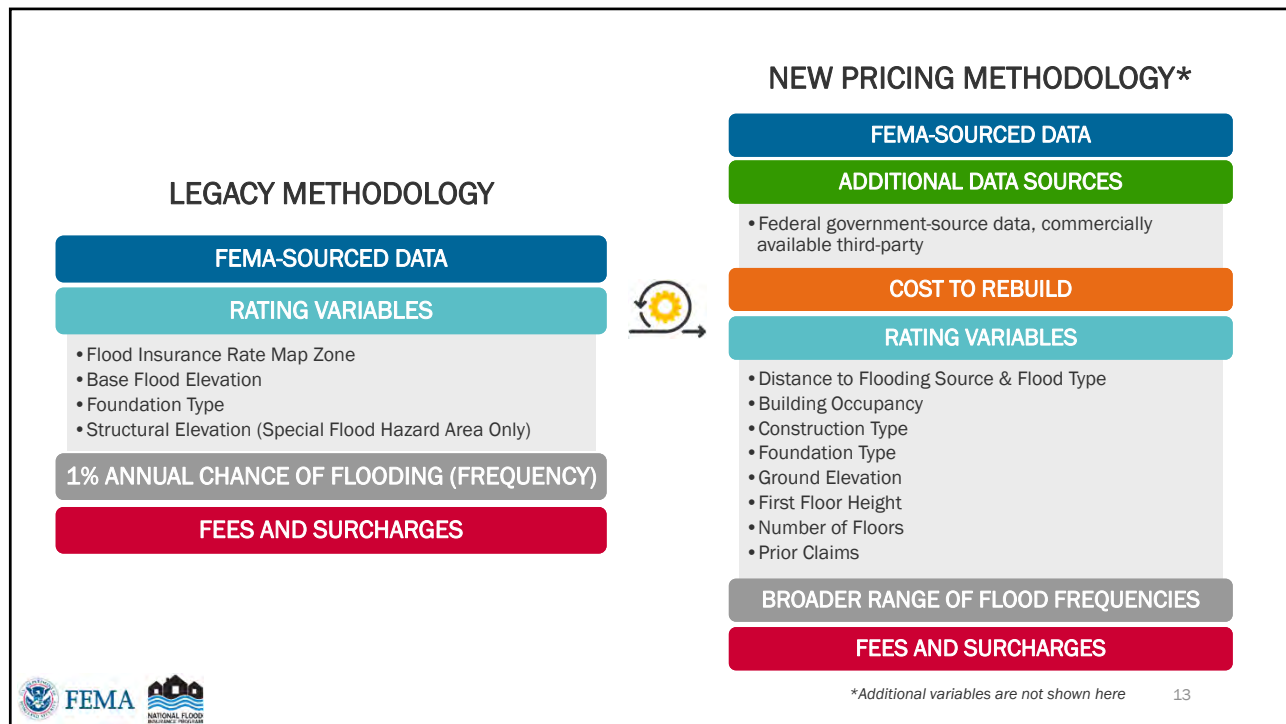
RATING VARIABLES

- 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





## ADDITIONAL DATA SOURCES

- Uses new risk considerations to better quantify the real risk to a structure.
- To do this, FEMA has integrated additional datasets into the rating structure. This will be included in the new rating and will be automated.

### NEW PRICING METHODOLOGY\*

- FEMA-SOURCED MAPPED DATA
- ADDITIONAL DATA SOURCES
  - Federal government-source data, commercially available third-party
- COST TO REBUILD
- RATING VARIABLES
- BROADER RANGE OF FLOOD FREQUENCIES
- FEES AND SURCHARGES

\*Additional variables are not shown here

15

## COST TO REBUILD

- The building replacement cost will be a **new** rating element for **all properties**.
- The replacement cost tool **will** be used for single-family homes, residential manufactured/mobile homes, residential units, and 2-4 family buildings.
- The replacement cost tool **will not** be used for Other Residential Buildings, Residential Condo Buildings (RCBAP), Non-residential Buildings, and other Non-Residential types.

### NEW PRICING METHODOLOGY\*

- FEMA-SOURCED MAPPED DATA
- ADDITIONAL DATA SOURCES
- COST TO REBUILD
- RATING VARIABLES
- BROADER RANGE OF FLOOD FREQUENCIES
- FEES AND SURCHARGES

\*Additional variables are not shown here

16

## RATING VARIABLES

- Rate tables will no longer be used, rates will be calculated using an algorithm.
- The flood zone and Base Flood Elevation (BFE) will no longer be used as a rating variable.
- Elevations will be considered for all properties.

### NEW PRICING METHODOLOGY\*

FEMA-SOURCED MAPPED DATA

ADDITIONAL DATA SOURCES

COST TO REBUILD

RATING VARIABLES


- Distance to Flooding Source & Flood Type
- Building Occupancy
- Construction Type
- Foundation Type
- Ground Elevation
- First Floor Height
- Number of Floors
- Prior Claims

BROADER RANGE OF FLOOD FREQUENCIES

FEES AND SURCHARGES

\*Additional variables are not shown here

17



## RATING VARIABLES

### DISTANCE TO FLOODING SOURCE & TYPE OF FLOODING

- Legacy methodology versus the new pricing methodology.
- Include Inland, Storm Surge, Tsunami, Coastal Erosion, and Great Lakes – that are likely to impact the structure.
- Both are determined automatically using geospatial information (GIS) data
- Based on the property location entered by the agent.

18







## RATING VARIABLES

### BUILDING OCCUPANCY



- **Single Family Home**
- Residential Mobile Home/Manufactured Home
- **Residential Unit**
- 2-4 Family Building
- Other Residential
- Residential Condo Building
- Non-Residential

19

## Key Takeaways



- Equity in Action
- Legacy vs New Pricing Methodology
- Rating Variables: Flood Source, Flood Type, Building Occupancy



21

## RATING VARIABLES



### CONSTRUCTION TYPE

#### FRAME:

- The first floor above ground level is constructed with wood or metal frame walls.

#### MASONRY:

- The first floor above ground level is constructed with masonry including brick, or concrete walls for the full story.

#### OTHER:

- The first floor above ground level is constructed with materials other than wood or metal frame or masonry walls for the full story.

22

## RATING VARIABLES

### FOUNDATION TYPES

There are now 6 simple foundation types.



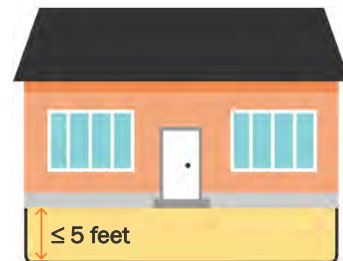
**Slab on Grade**  
(Non-Elevated)

Includes EC Diagram numbers  
1A, 1B, and 3



**Basement**  
(Non-Elevated)

Includes EC Diagram numbers  
2A, 2B, and 4



**Crawlspace**  
(Elevated, including non-elevated  
sub-grade crawlspace)

Includes EC Diagram number 8  
and 9

23

## RATING VARIABLES

### FOUNDATION TYPES

There are now 6 simple foundation types.



Elevated without Enclosure on  
Post, Pile, or Pier

Includes EC Diagram number 5



Elevated with Enclosure on  
Post, Pile, or Pier

Includes EC Diagram number 6



Elevated with Enclosure  
Not Post, Pile, or Pier

Includes EC Diagram number 7

24

## RATING VARIABLES

### FIRST FLOOR HEIGHT

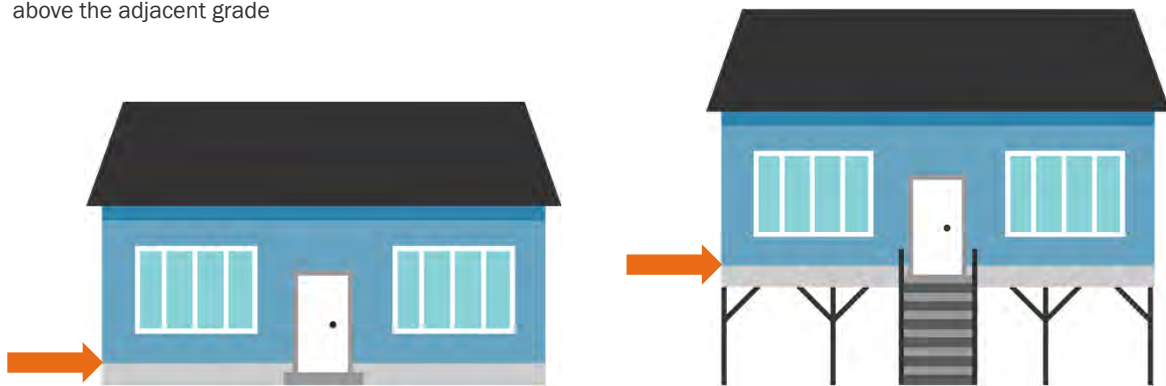


- Elevations are used in determining rates for **all** policies.
- The elevation of the first floor of the structure replaces the elevation difference in the legacy methodology.
- There are 2 ways to determine first floor height for a property.

25

## FIRST FLOOR HEIGHT EXAMPLES

Definition: height of the building's first lowest floor above the adjacent grade



26

## RATING VARIABLES



DETERMINING ELEVATIONS:

**Method 1:  
System  
Generated**

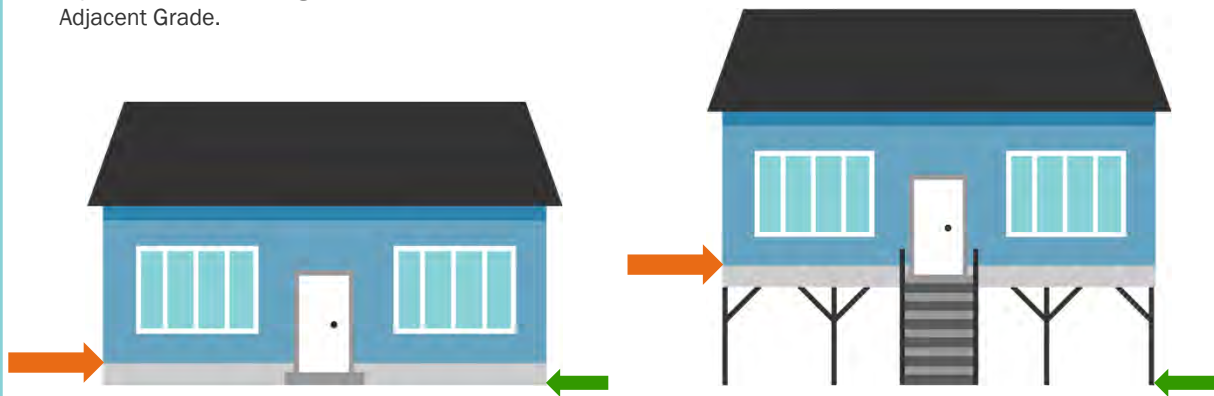
- This is part of the new pricing methodology rating engine.
- FEMA will determine a First Floor Height value using application information, and various datasets.

27



## FIRST FLOOR HEIGHT EXAMPLES

Method 2: Difference between the reported First Flood Height and the Adjacent Grade.



28

## RATING VARIABLES



DETERMINING ELEVATIONS:

**Method 2:  
Elevation  
Certificate (EC)**  
*(Optional)*

- Under the new pricing methodology, an EC will **no longer be required** for rating (optional).
- ECs can be used to determine the structure's elevations, including the first-floor elevation above ground level.
- ECs may still be required to comply with local floodplain management regulations.

29

**SECTION E – BUILDING ELEVATION INFORMATION (SURVEY NOT REQUIRED)  
FOR ZONE AO AND ZONE A (WITHOUT BFE)**

For Zones AO and A (without BFE), complete Items E1–E5. If the Certificate is intended to support a LOMA or LOMR-F request, complete Sections A, B, and C. For Items E1–E4, use natural grade, if available. Check the measurement used. In Puerto Rico only, enter meters.

E1. Provide elevation information for the following and check the appropriate boxes to show whether the elevation is above or below the highest adjacent grade (HAG) and the lowest adjacent grade (LAG).

a) Top of bottom floor (including basement, crawlspace, or enclosure) is \_\_\_\_\_ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

b) Top of bottom floor (including basement, crawlspace, or enclosure) is \_\_\_\_\_ ☐ feet ☐ meters ☐ above or ☐ below the LAG.

E2. For Building Diagrams 6–9 with permanent flood openings provided in Section A Items 8 and/or 9 (see pages 1–2 of Instructions), the next higher floor (elevation C2.b in the diagrams) of the building is \_\_\_\_\_ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E3. Attached garage (top of slab) is \_\_\_\_\_ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E4. Top of platform of machinery and/or equipment servicing the building is \_\_\_\_\_ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E5. Zone AO only: If no flood depth number is available, is the top of the bottom floor elevated in accordance with the community's floodplain management ordinance? ☐ Yes ☐ No ☐ Unknown. The local official must certify this information in Section G.

**SECTION F – PROPERTY OWNER (OR OWNER'S REPRESENTATIVE) CERTIFICATION**

The property owner or owner's authorized representative who completes Sections A, B, and E for Zone A (without a FEMA-issued or community-issued BFE) or Zone AO must sign here. The statements in Sections A, B, and E are correct to the best of my knowledge.

Property Owner or Owner's Authorized Representative's Name \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ ZIP Code \_\_\_\_\_

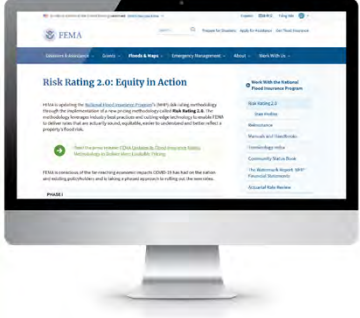
Signature \_\_\_\_\_ Date \_\_\_\_\_ Telephone \_\_\_\_\_

## RATING VARIABLES

Note: If Section E is completed for zones other than unnumbered A and AO, the information should be used for underwriting purposes only

30

## EQUITY IN ACTION REMINDER



- Elevation Certificates
- Optional for rating purposes*
- Used for Floodplain Management compliance

(Optional)

30



## RATING VARIABLES

### NUMBER OF FLOORS

Will no longer include:

- Basements
- Enclosures
- Crawlspace
- Attics (if used for storage)

31



6<sup>TH</sup> FLOOR

5<sup>TH</sup> FLOOR

4<sup>TH</sup> FLOOR

3<sup>RD</sup> FLOOR

2<sup>ND</sup> FLOOR

1<sup>ST</sup> FLOOR

## RATING VARIABLES

### NUMBER OF FLOORS

A unit's floor will now be determined by the actual floor on which it is located.

***This is an important change for condominiums and apartment renters.***

32



## RATING VARIABLES

### PRIOR CLAIMS

- FEMA will **not** include prior claims history in the **initial** rate calculation
- The prior claims variable will be applied at renewal of the policy, after first loss under the new pricing methodology
- A rolling 20-year period
- Severe Repetitive Loss (SRL) surcharge included in their premium until they have their first loss under the new pricing methodology

34



DEFINITION:

“Excluded Losses”

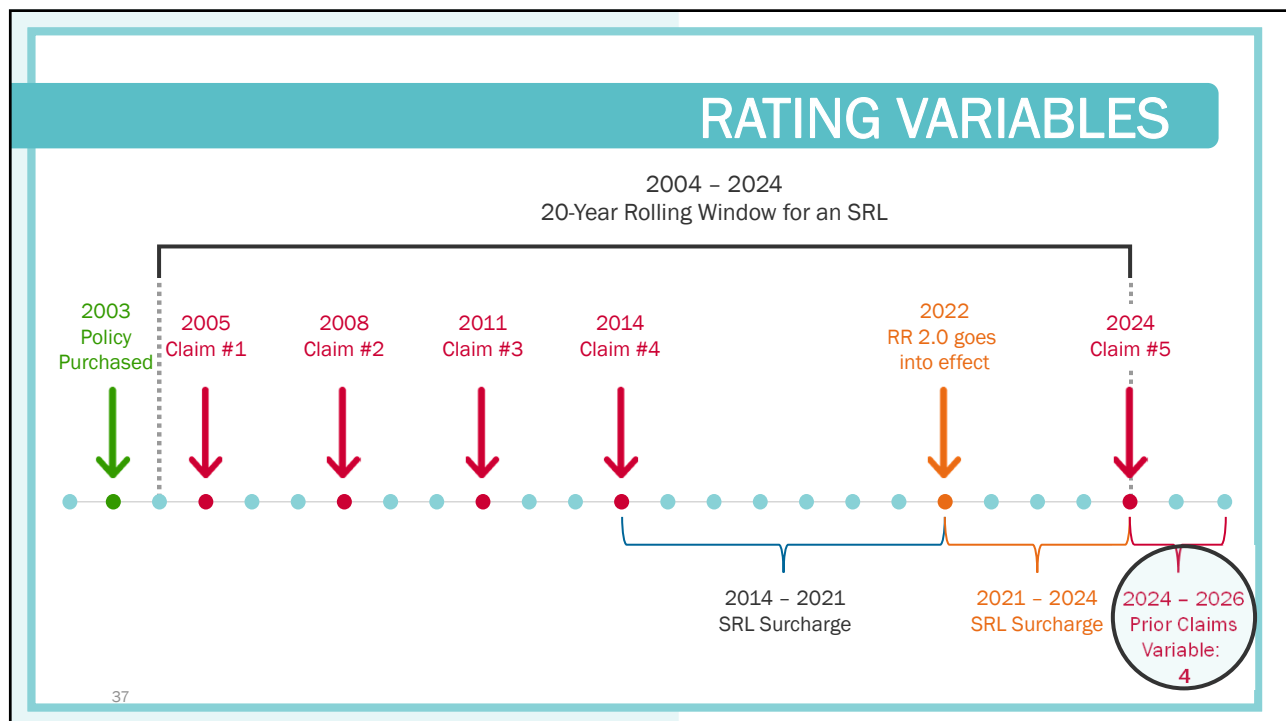
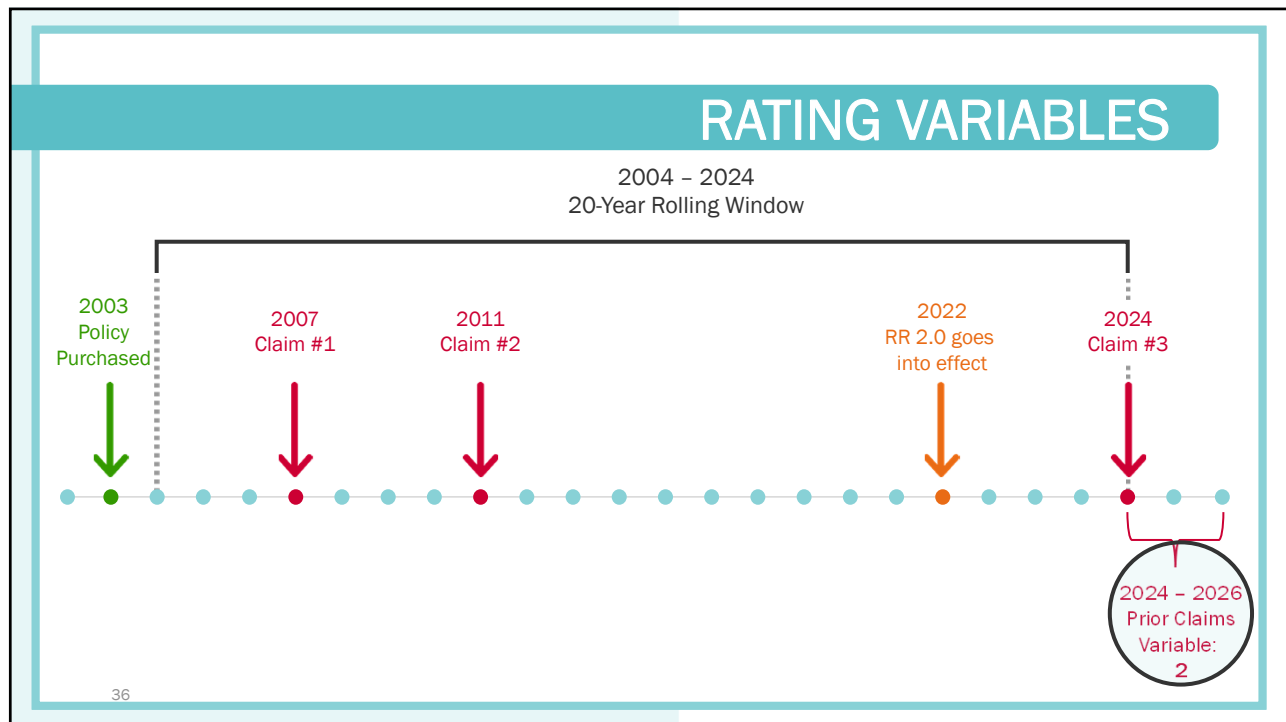
## RATING VARIABLES

### WHAT IS AN EXCLUDED LOSS?

- Increased Cost of Compliance claim payments; or
- Claims closed without payment.

35





## BROADER RANGE OF FLOOD FREQUENCIES

Flooding sources other than what is listed on the FIRM.



Examples:

- Catastrophe modeling
- Urban Flooding

### NEW PRICING METHODOLOGY\*

- FEMA-SOURCED MAPPED DATA
- ADDITIONAL DATA SOURCES
- COST TO REBUILD
- RATING VARIABLES
- BROADER RANGE OF FLOOD FREQUENCIES
- FEES AND SURCHARGES

\*Additional variables are not shown here

 **FEMA** 

39

## FEES AND SURCHARGES



The following fees and surcharges will apply to all policies:

- Reserve Fund Assessment
- HFIAA Surcharge
- Federal Policy Fee
- Probation Surcharge (if applicable)

### NEW PRICING METHODOLOGY\*

- FEMA-SOURCED MAPPED DATA
- ADDITIONAL DATA SOURCES
- COST TO REBUILD
- RATING VARIABLES
- BROADER RANGE OF FLOOD FREQUENCIES
- FEES AND SURCHARGES

\*Additional variables are not shown here

 **FEMA** 

40

## Key Takeaways

- Construction and Foundation type
- First floor height: System vs EC
- Claims Rating Variable

42



## WHAT HAS CHANGED

STATUTORY & MITIGATION  
DISCOUNTS

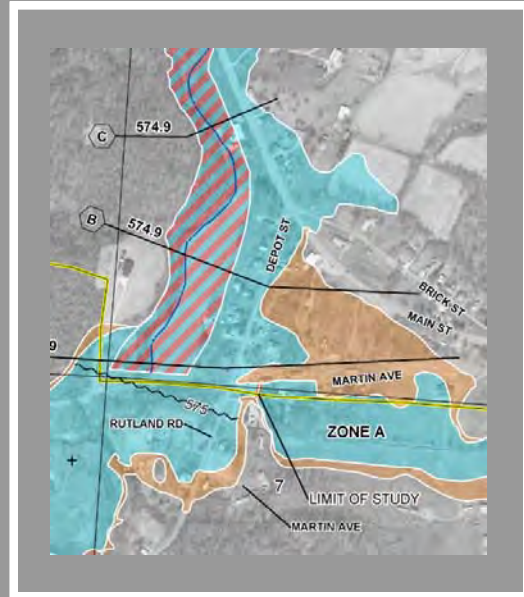


## STATUTORY DISCOUNTS

- Pre-FIRM
- Newly Mapped
- Other (Emergency Program)
- The discount will *gradually* phase out
- A policyholder may lose their discount if they allow the policy to lapse



45



## COMMUNITY RATING SYSTEM DISCOUNTS




- The new pricing methodology applies the CRS discount **uniformly** in qualifying communities - regardless of whether the structure is inside or outside the Special Flood Hazard Area (SFHA).
- The discount is a flat percentage based on the CRS class, **with no difference for flood zone.**





46








Diagram Showing Location	Guidance on Location
	<b>Slab on Grade (Non-Elevated)</b> <ul style="list-style-type: none"> <li>One floor: Elevated at least to the height of the attic</li> <li>More than one floor: Elevated to the height of the second floor or higher</li> </ul>
	<b>Basement (Non-Elevated)</b> <ul style="list-style-type: none"> <li>Elevated to the height of the floor above the basement or higher</li> </ul>
	<b>Elevated Without Enclosure on Posts, Piles or Piers</b> <ul style="list-style-type: none"> <li>Elevated to the height of the lowest elevated floor or higher</li> </ul>






## MACHINERY & EQUIPMENT (M&E)

- The rating engine will apply a discount for policyholders with M&E Elevated to at least the elevation of the floor above the building's first floor.
- Agents will self-certify the position of the M&E by answering a "Yes/No" question on the application.
- The list of eligible M&E will be listed in the Flood Insurance Manual.

47

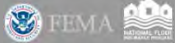
Diagram Showing Location	Guidance on Location
	<b>Elevated With Enclosure on Posts, Piles or Piers</b> <ul style="list-style-type: none"> <li>Elevated to the height of the lowest elevated floor or higher</li> </ul>
	<b>Elevated With Enclosure Not Posts, Piles or Piers</b> <ul style="list-style-type: none"> <li>Elevated to the height of the lowest elevated floor or higher</li> </ul>
	<b>Crawlspace (Elevated or Non-Elevated Subgrade Crawlspace)</b> <ul style="list-style-type: none"> <li>Elevated to the height of the floor above the crawlspace or higher</li> </ul>

## MACHINERY & EQUIPMENT (M&E)

- The rating engine will apply a discount for policyholders with M&E Elevated to at least the elevation of the floor above the building's first floor.
- Agents will self-certify the position of the M&E by answering a "Yes/No" question on the application.
- The list of eligible M&E will be listed in the Flood Insurance Manual.

47



## FLOOD VENTS

- The rating engine will apply a discount to the policy for buildings in any flood zone with proper openings in the enclosure.
- The flood insurance application will need to reflect the proper information in order to receive the discount.



48

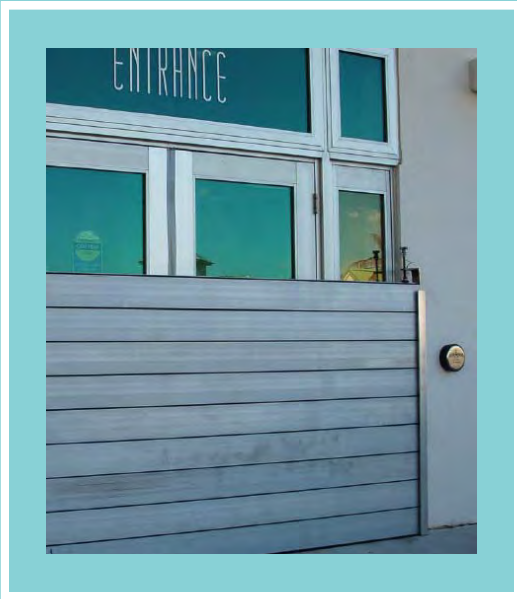


## FLOOD VENTS

- A minimum of 2 openings on at least 2 exterior walls
- Total net area of not less than 1 square inch for every square foot of enclosure
- Bottoms of openings no higher than 1 foot above the higher of the exterior or interior grade



49



## FLOODPROOFING

- An alternative to elevating a building at or above the Base Flood Elevation
- The insurer must submit proper documentation
- Meet eligibility requirements



50



## WHAT HAS CHANGED

WHAT'S GOING AWAY



52



## GRANDFATHERING

- BFEs and Flood Zones will no longer be used for rating
- Transition to true risk premium
- Subject to statutory caps (if applicable)



53



54



## RETIRED POLICY TYPES/RATING METHODS

U.S. DEPARTMENT OF HOMELAND SECURITY  
FEDERAL EMERGENCY MANAGEMENT AGENCY  
National Flood Insurance Program  
**PREFERRED RISK POLICY**  
IMPORTANT—PLEASE PRINT OR TYPE; ENTER DATES AS MM/DD/YYYY

FOR RENEWAL, BILL:

☐ INSURED ☐ LOSS PAYEE  
☐ FIRST MORTGAGEE ☐ OTHER (AS SPECIFIED IN MORTGAGE/OTHER "IN")  
☐ SECOND MORTGAGEE

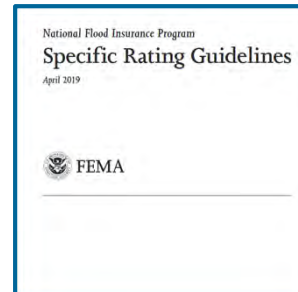
NAME AND MAILING ADDRESS OF AGENT/PRODUCER:

AGENCY NO.: \_\_\_\_\_ AGENT'S NO.: \_\_\_\_\_  
PHONE NO.: \_\_\_\_\_ TAX NO.: \_\_\_\_\_

Preferred Risk Policies  
(PRPs)



Mortgage Portfolio  
Protection Program  
(MPPP)



Submit-for-Rates (SFRs)



55

## Key Takeaways

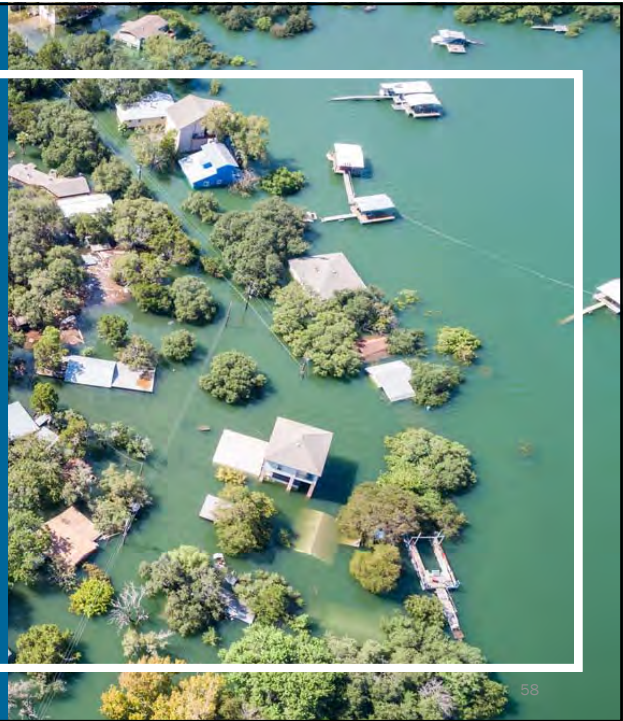


- Statutory and mitigation discounts
- Legacy Rating and New Pricing Paths
- Retired Policies and Rating Methods



57

## WHAT HAS NOT CHANGED



58

## WHAT HAS NOT CHANGED

- The Mandatory Purchase requirement
- Floodplain Management
- Statutory caps on annual individual rate increases
- Building/Contents Eligibility and Increased Cost of Compliance (ICC)
- Underwriting Forms
- Assignment of a policy to a new building owner



59

## WHAT HAS NOT CHANGED



### The Mandatory Purchase requirement

- Still be required for properties in Special Flood Hazard Areas (SFHAs).
  - Flood Insurance Rate Maps
  - 30-day waiting period waived (loan exception)

60

## WHAT HAS NOT CHANGED



### Floodplain Management

- Community compliance
- LOMAs and LOMRs will still exist.
  - Flood Insurance Rate Maps

61

## WHAT HAS NOT CHANGED

### Statutory caps on annual individual rate increases

- Most premium rates may not increase by more than 18% per year.



62

## WHAT HAS NOT CHANGED

### Building/Contents Limits and Increased Cost of Compliance (ICC)

- Coverage limits.
- ICC coverage/%



63



## WHAT HAS NOT CHANGED



### Underwriting Forms

- The application, general change endorsement, and cancellation forms will still be used the same way as current.
- The forms will be updated under Risk Rating 2.0.
- Policy forms: Dwelling, General Property, RCBAP are not changing.

64

## WHAT HAS NOT CHANGED



### Assignment of a policy to a new building owner

- Policies can still be assigned to a new building owner.
- This is important under Risk Rating 2.0 specifically, because it allows the glidepath to transfer to the new building owner.

65

# TRANSITION OF CURRENT POLICIES



FEMA NATIONAL FLOOD INSURANCE PROGRAM

## Equity in Action for Renewals

PHASE 2



Existing policies will be subject to the new pricing methodology.

FEMA NATIONAL FLOOD INSURANCE PROGRAM



## TRANSITION OF CURRENT POLICIES

### Reminder: Phase 1

- October 1, 2021 – March 31, 2022
- Existing policyholders will be able to renew under the new pricing methodology if beneficial
- Policies renewed under the legacy methodology will convert to Risk Rating 2.0 on their next renewal



69



## TRANSITION OF CURRENT POLICIES

### Reminder: Phase 2

- Policy renewals effective April 1, 2022, or later, must be rated under the new pricing methodology, subject to the annual premium cap increase of 18% for most policies
- At renewal, PRP and Newly Mapped policyholders will be able to:
  - Change their coverage amounts
  - Increase their deductible



70



## TRANSITION OF CURRENT POLICIES

- Utilize industry practices to obtain information to use for renewals:
  - Publicly available data
  - Current policy information
- Provisional Rates
  - Update policy within 60 days
  - Not eligible to be renewed
- Lapse in Coverage



71

## Summary



- The NFIP Today
- Risk Rating 2.0: Equity in Action
- What has Changed and Not Changed
- Transition of Policies

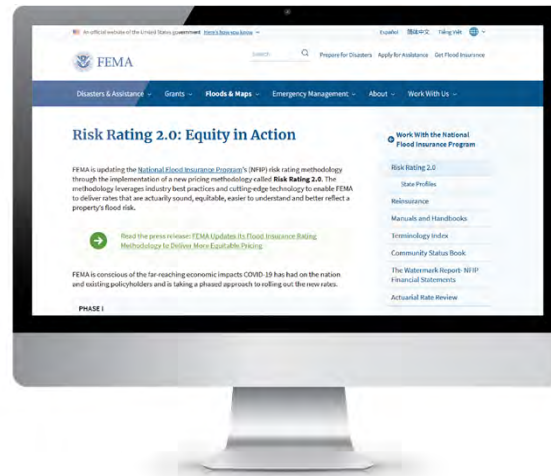


73



## RESOURCES

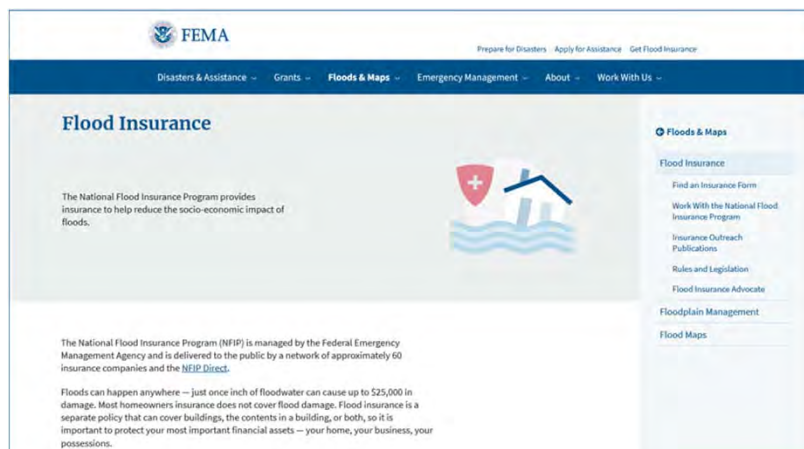
- Risk Rating 2.0: Equity in Action Website
  - [Risk Rating 2.0](#)
- WYO Bulletin
  - [W-21003 - New Pricing Methodology](#)
  - [W-21007 - New Pricing Methodology Update](#)
- Equity in Action Fact Sheet
  - [Equity In Action](#)



74

## National Flood Insurance Program Home Page

<http://www.fema.gov/national-flood-insurance-program>



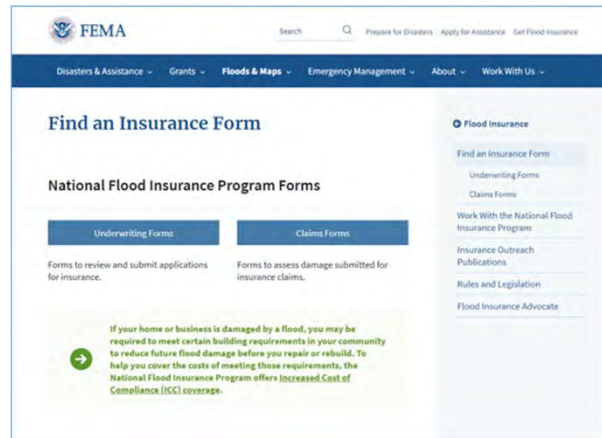
75

## Find an Insurance Form

<https://www.fema.gov/flood-insurance/find-form>

Standard flood Insurance Policy Forms

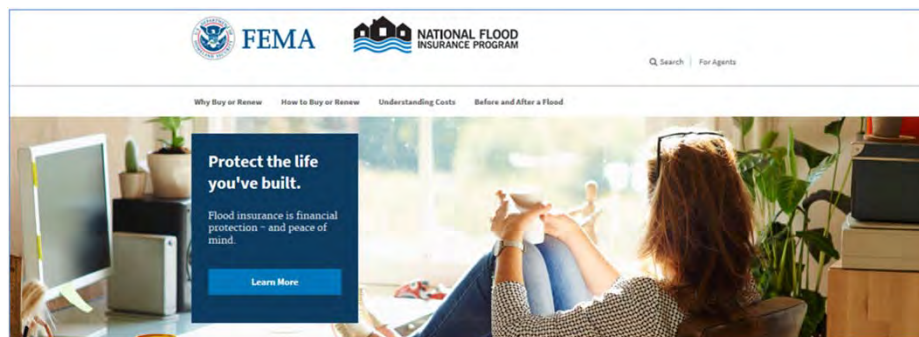
- Dwelling Policy Form
- General Property Policy Form
- Residential Condominium Building Association Policy (RCBAP) Form



76

## FloodSmart.gov

<https://www.floodsmart.gov>



77

## Agents.FloodSmart.gov

<https://www.agents.floodsmart.gov>



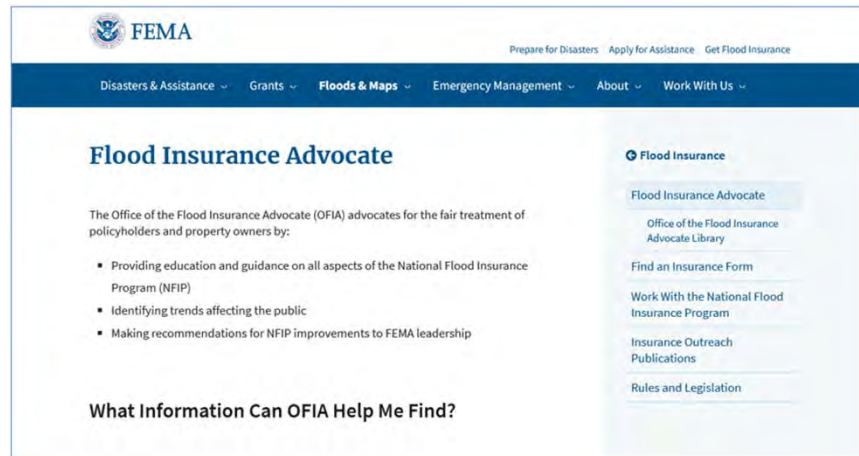
## Follow NFIP on LinkedIn

[linkedin.com/showcase/national-flood-insurance-program-fema](https://www.linkedin.com/showcase/national-flood-insurance-program-fema)



## Office of the Flood Insurance Advocate

<https://www.fema.gov/flood-insurance/advocate>



80

## Evaluations

- All attendees will be receiving an email link to a survey and feedback form.
- Please take time to complete and help us improve our training effort!



81



To stay up to date with Risk Rating 2.0: Equity in Action, and for the latest details, please visit:

[Risk Rating 2.0: Equity in Action](https://www.fema.gov/flood-insurance/risk-rating)

**THANK YOU!**

