Risk Rating 2.0 FAQs

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Risk Rating 2.0

The National Flood Insurance Program (NFIP) is redesigning its risk rating system by leveraging industry best practices and current technology to deliver rates that are **fair, easy to understand, and better reflect a property's unique flood risk**. FEMA calls this effort Risk Rating 2.0. Below are some Frequently Asked Questions about Risk Rating 2.0.

Frequently Asked Questions

How will this initiative impact federal subsidies intended to encourage homeowners to buy insurance? Will these subsidies continue?

After establishing non-discounted rates, federal law allows FEMA to offer lower, discounted rates for certain properties. The biggest of these discounted rates, known as pre-Flood Insurance Rate Map (pre-FIRM) rates, are designed to encourage individuals to purchase flood insurance. The Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowner Flood Insurance Affordability Act of 2014 set certain minimum and maximum rate increases for properties with pre-FIRM rates.

Another discount that FEMA must provide is for properties newly mapped into the Special Flood Hazard Area. This discount is designed to discourage people from dropping their insurance coverage. FEMA will continue to implement these two statutory requirements as part of Risk Rating 2.0.

What data sources is FEMA using for this initiative? Where are the data coming from?

FEMA is using a combination of models to support the development of rates. We are pairing state-of-the-art industry technology (e.g. catastrophe [CAT] models) with the NFIP's mapping data to establish a new risk-informed rating plan. Combined data from CAT models and NFIP mapping data will provide a better and more comprehensive understanding of risk at both the national and local level.

FEMA is using data from multiple sources, such as:

- FEMA: Existing mapping data, NFIP policy and claims data;
- Other Federal Government Agencies: U.S. Geological Survey (USGS) publicly-available data; National Oceanic and Atmospheric Administration (NOAA) Sea, Lake, and Overhead Surges from Hurricanes (SLOSH) data; and, U.S. Army Corps of Engineers (USACE) data sets;
- Third-party sources: Commercially-available structural and replacement cost data and catastrophe flood models.

This is not a complete list of all data sets and FEMA may add additional data sets in the future.

How does FEMA plan to encourage homeowners to maintain their flood insurance coverage?

We believe that Risk Rating 2.0 will help close the insurance gap across the country. We believe that fairer, more intuitive rates will help future and current policyholders understand their risk, their premium, and their coverage options. FEMA plans to offer mitigation credits to help incentivize risk reduction efforts and reduce the cost of future flood events.

Risk Rating 2.0 will initially provide credits for three mitigation actions:

- Installing flood openings per the 44 CFR 60.3 criteria;
- Elevating onto posts, piles, and piers;
- Elevating machinery and equipment above the lowest floor.

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.

What percentage of policyholders would expect to see increases in premiums? What percentage would see premiums go down?

FEMA is completing an actuarial analysis and does not have this information at this time. FEMA is committed to implementing Risk Rating 2.0 in a transparent way and will continue to communicate information as it becomes available.