

Flood Insurance Committee Corner

Risk Rating 2.0 – Three Things Floodplain Managers Need to Know Right Now

With Steve Samuelson transitioning to his new role as vice chair of the ASFPM Board of Directors, we are pleased to welcome Ceil Strauss, CFM, as the new co-chair of the Flood Insurance Committee. Ceil is the Minnesota State Floodplain Manager and past chair of ASFPM. Welcome aboard, Ceil!!

Through a phased approach starting October 1, 2021, FEMA will begin transforming the way flood risk is rated and communicated with the introduction of Risk Rating 2.0 (RR 2.0). This new methodology uses the latest technology and data available, replacing a rating system that is over 40 years old and will now more accurately reflect a property's individual flood risk. It is designed to help communities and their citizens make better informed decisions when it comes to evaluating flood risk and purchasing flood insurance...and make it easier for insurance professionals to write and sell flood insurance.

When RR 2.0 rolls out, about 90% of existing policyholders nationwide will experience an initial decrease in their premium or an increase ranging from minimal to about what the annual average increase currently has been. State-level fact sheets with more details, as well as spreadsheets down to the county and zip code levels can be found on the [Risk Rating 2.0 State Profile webpage](#).

To help inform ASFPM members about RR 2.0, we decided to group our discussion around three broad questions we keep hearing: **What's changing? What's not changing? Where can I learn more?**

First, What's Changing?

RR 2.0 is a totally new way to rate flood insurance (no rate tables!) and as a result there are many changes. Here are some highlights of those changes:

- **Simpler quoting process** – all companies will use FEMA's rating engine and there are way fewer questions
- **Elevation Certificates (ECs) not required for rating** – an EC *can be used* for rating if it provides a lower rate; still required for floodplain management and CRS
- **Base Flood Elevations (BFEs) and flood zones eliminated from rating** – using distance to flooding source, elevation of first floor height relative to flooding source (all determined by RR 2.0). Also integrates data from three different catastrophe models, plus USGS, NOAA (surge) and USACE (levee) and other third-party sources
- **Based on first floor height** – the First Floor Height of a structure compared to grade/ground is a rating component *regardless of flood zone*. So mitigation activity such as elevating or adopting freeboard can reduce an individual structure's risk and premium.
- **Based on Building's Replacement Cost Value (RCV)** – determined by RR 2.0 for single-family homes; limits of coverage don't change

NEW PRICING METHODOLOGY*

FEMA-SOURCED DATA

ADDITIONAL DATA SOURCES

- Federal government-source data, commercially available third-party

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*

By bringing additional data sources into its pricing methodology, Risk Rating 2.0 will provide a more accurate picture of risk assessment.

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RISK RATING 2.0 ROLL OUT



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- **Incorporates prior claims** – triggered by first post-RR 2.0-rated claim; based on building’s loss history over a rolling 20-year window (one claim is forgiven)
- **Three construction types** – frame, masonry, and other
- **Reduced number of foundation types** – only six
- **Mitigation discounts available** – machinery and equipment on floor above first floor, flood vents and floodproofing, *regardless of flood zone*
- **Two new building occupancies** – single family home and residential unit
- **No more grandfathering and preferred risk policy** – existing policies will renew on a glide path of no more than 18% annual increase until they reach their RR 2.0 full-risk rate
- **Uniform Community Rating System discounts** – same percentage discount per class, no matter the flood zone (See page 12 for more details on how CRS discounts will be applied.)

Whew! Then What is *NOT* Changing?

Here are some highlights of what is not changing:

- **Mandatory Purchase Requirement (MPR)** – while the NFIP’s Mortgage Portfolio Protection Program (MPPP) is ending (very few policies), this requirement remains. You’ll want to remind folks that this is NOT a FEMA requirement; it’s a lending requirement enforced by the lending regulators)
- **Elevation Certificates** – still used by floodplain managers, for CRS and Letters of Map Changes²
- **Flood insurance rate maps** – still used by floodplain managers and by lenders (for MPR)
- **Building and contents limits** – limits stay the same, including the \$30,000 for Increased Cost of Compliance (which still counts toward the building claim limit)
- **Policy assignment** – this continues to allow a glide path to transfer to a new building owner
- **Newly mapped procedure** – new RR 2.0 policies written on properties newly identified at high-risk will continue to start at a discounted rate and then be on a glide path to full-risk rate
- **Pre-FIRM subsidies** – new RR2.0 policies on pre-FIRM building will receive a discounted premium and then be on a glide path to full-risk rate (e.g., primary residences up to 15% annually; non-primary residences 25% annually)
- **Fees and surcharges** – yep; still have those same ones!!

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Okay. So, Where Can I Go to Learn More?

There is no way this article could cover all that you need to know about Risk Rating 2.0. So, here are links to some of the key resources, including a very informative recording of the training presented to insurance agents in early June. Note that FEMA is updating their webpages regularly, so make sure to bookmark them and check back often.

- [Risk Rating 2.0 Home Page](#) – Resources include an overview, fact sheet, video, infographic, RR2.0 methodology and data source, sample premium calculations, and rating factors
- [Risk Rating 2.0 State Profiles](#) – Resources include a policy breakdown by state and by county and zip code for each state
- [Risk Rating 2.0 Guidance Documents](#) – Resources include a draft Flood Insurance Manual and Appendices and the Industry Transition Memorandum
- [Risk Rating 2.0 Fact Sheet](#)
- [Risk Rating 2.0 Two-hour Agent Webinar](#)

Questions about RR 2.0 can be sent to FEMA-NFIP-Insurance-Transformation@FEMA.DHS.gov

So, from what you have heard, read, and know so far, what concerns you the most about RR 2.0 and what in particular about RR2.0 would you like to hear more about? Send your thoughts to insurancecorner@floods.org. Please include your role or title (e.g., FPA, mapping contractor, planner).

Humbly yours,

Bruce Bender, CFM and Ceil Strauss, CFM
Your Flood Insurance Committee Co-Chairs

¹ Note that elevating now matters in Zone X (through First Floor Height) as does foundation type (e.g., elevated on piers/posts/piles provides a better premium than elevated on solid foundation walls) in any zone.

² Letters of Map Amendment and Letters of Map Revision-Fill can be used to remove a person from a Special Flood Hazard Zone; however, it will not affect the rate since flood zones are not used for rating.