

Risk Rating 2.0: Equity in Action

This document is intended to answer some commonly asked questions. For more information, see the [Flood Insurance Manual](#).

Case for Change

1. Why was there a need to update to the Risk Rating 2.0: Equity in Action rating methodology?

While the old rating methodology was developed using actuarially sound principles, it had not changed since the 1970s. When FEMA established its initial rating plan, it was based on the amount of insurance someone can purchase without taking into consideration individual flood risk and underlying home values. Over time, this inadvertently caused a disparity – policyholders with lower-valued homes were paying more for their insurance coverage than they should, while policyholders with higher-valued homes were paying less.

Under Risk Rating 2.0: Equity in Action, risk is now identified more robustly by leveraging FEMA mapping data and FEMA-produced models and tools in combination with industry standard commercial catastrophe models to develop rating variables. These rating variables provide the data necessary to accurately assess the risk at a structure level and accurately price insurance. These variables include flood types, distance from a flooding source, frequency of flood, elevation, and the cost to rebuild a property.

In addition, Risk Rating 2.0: Equity in Action reduces the complexity of rating policies and aligns more with how other insurance products are sold and administered.

2. What is happening to the NFIP's Preferred Risk Policy?

Under Risk Rating 2.0: Equity in Action, FEMA is able to differentiate property-specific flood risk in the Non-Special Flood Hazard Areas and will no longer offer the Preferred Risk Policy (PRP) insurance product. FEMA recognizes that each policyholder will be affected differently based on their property's unique flood risk. Some premiums will go up, some will go down, and some will stay about the same when compared to their prior premiums.

Many policyholders with PRPs pay premiums lower than what their flood risk requires. Properties with low risk will continue to pay lower premiums and policyholders may pay a lower premium compared to their current PRP premium. Properties with more risk resulting in a higher premium and existing policyholders' premiums will increase gradually and within the annual 18% cap imposed by Congress.

3. What can property owners do to reduce their flood risk and premium?

Knowing the true flood risk of one's property helps inform appropriate mitigation measures that property owners can take to ultimately reduce their risk.



FEMA

Mitigation efforts, such as elevating a building, installing proper flood openings in a crawlspace or enclosure, and elevating certain machinery & equipment, will help reduce flood damage and potentially the cost of flood insurance. FEMA will extend available policy discounts regardless of flood zone when policyholders have taken steps to mitigate against potential flood damage to their property. See [Flood Insurance Manual Section 3. II. C. 5.](#)

Implementation Timeline

4. What is the timeline for Risk Rating 2.0: Equity in Action implementation?

With the impact of COVID-19 since early 2020, FEMA is conscious of the far-reaching economic impacts that COVID-19 has had on the nation and existing policyholders. We are taking a phased approach to rolling out the new rates.

- In **Phase I:** New policies effective on or after Oct. 1, 2021, are priced under Risk Rating 2.0: Equity in Action. From Oct. 1, 2021 through March 31, 2022, existing policies may be able to renew under the Risk Rating 2.0: Equity in Action methodology.

The goal for existing policyholders in Phase I is a customer-centric process that supports the policyholder's ability to renew into the more favorable option of either the old pricing methodology or the new pricing methodology.

- In **Phase II:** Policies effective on or after April 1, 2022, will be renewed into Risk Rating 2.0: Equity in Action.

Beginning April 1, 2022, existing policyholders will transition to the new rating plan at the first renewal under the new rating methodology. NFIP flood insurers will be required to provide the information needed for the new rating plan upon renewal.

Communications

5. What guidance is available to communicate Risk Rating 2.0: Equity in Action program changes?

FEMA provided industry partners with guidance documents detailing Risk Rating 2.0: Equity in Action program changes.

- [2021 NFIP Risk Rating 2.0: Equity in Action Flood Insurance Manual:](#) This manual outlines the NFIP's underwriting policies and processes to enable effective and consistent program implementation within the Risk Rating 2.0: Equity in Action framework. FEMA formally released the final version of the Risk Rating 2.0: Equity in Action Flood Insurance Manual in October 2021. Policies rated under the old methodology will continue to reference the NFIP Flood Insurance Manual effective April 1, 2021.
- [Risk Rating 2.0: Equity in Action Industry Transition Memo:](#) This document explains how the transition from the old rating methodology to Risk Rating 2.0: Equity in Action will occur.
- [Risk Rating 2.0: Equity in Action Rating Methodology and Data Resources:](#) This document contains a technical overview of the Risk Rating 2.0: Equity in Action rating plan. This was published on [FEMA's website](#) on April 1, 2021 and updated Feb. 18, 2022.

Mandatory Purchase

6. Will Risk Rating 2.0: Equity in Action change the mandatory requirement for owners with property in the Special Flood Hazard Areas to purchase flood insurance?

No. Lenders will continue to use the current NFIP flood map to determine if a property is subject to the flood insurance mandatory purchase requirement. However, it should be noted that lenders retain the right to require the purchase of flood insurance beyond what is required under federal law. The mandatory purchase of flood insurance will still be required upon receipt of federal financial assistance in the form of a loan or disaster assistance for a property located within a high-risk flood area also referred to as the Special Flood Hazard Area. See [Flood Insurance Manual Section 1. II. C. Table 1](#).

Grandfathering

7. How does Risk Rating 2.0: Equity in Action affect the grandfathered rating discount?

Under Risk Rating 2.0: Equity in Action, all existing policies will move toward their full-risk rates based on statutory glidepaths. The increase and target premiums for grandfathered policies are similar to those for non-grandfathered policies – some will see decreases, some will see smaller increases, and some will see larger increases in similar proportion to non-grandfathered policyholders. Statutory glidepaths transfer with the sale of a property to the new owner.

Existing policies formerly eligible for grandfathering will transition to their new full-risk premium under Risk Rating 2.0: Equity in Action. Premium increases for existing policies will be gradual and within the annual cap imposed by Congress, which for most policyholders will be 18%.

New Methodology

8. What data is FEMA using to calculate flood risk?

FEMA leverages a combination of models to support the development of rates. We use state-of-the-art industry technology to include catastrophe (CAT) models paired with the NFIP's mapping data to establish the new risk-informed rating methodology. This provides a better and more comprehensive understanding of flood risk at both the national and local levels. Data sources include:

- **FEMA sourced:** Existing mapping data, NFIP policy and claims data.
- **Other Federal Government sourced:** Publicly available U.S. Geological Survey 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 sourced:** Commercially available structural and replacement cost data and catastrophe flood models.

9. Will FEMA continue to produce and use NFIP Flood Insurance Rate Maps?

Yes, FEMA flood mapping data will remain critical to inform local floodplain management building requirements and mandatory purchase requirements. FEMA's flood map data informs the catastrophe models used to develop rates under Risk Rating 2.0: Equity in Action. See [Flood Insurance Manual Section 3. II. B. 2](#).

10. How will Elevation Certificates factor into Risk Rating 2.0: Equity in Action? Will they still be required?

An [Elevation Certificate \(EC\)](#) will no longer be required to purchase coverage under Risk Rating 2.0: Equity in Action. Instead, FEMA will use its tools and resources to determine FEMA-sourced elevation data of a building. However, a property owner may choose to provide an EC and submit it to their NFIP insurer to determine if it will affect their rate.

ECs help inform mitigation actions that will lower flood risk. They will also continue to be used for floodplain management building requirements, which can affect eligibility for Community Rating System (CRS) discounts. See [Flood Insurance Manual Section 3. II. C. 4.](#)

11. How will Risk Rating 2.0: Equity in Action affect new policyholders with older single-family homes (also known as Pre-Flood Insurance Rate Map buildings)?

Policyholders receiving the Pre-Flood Insurance Rate Map (FIRM) discount under the old rating methodology have been paying some of the highest premiums in the NFIP. The average annual premium for these Pre-FIRM discounted policies is \$2,400.

Under Risk Rating 2.0: Equity in Action, FEMA can now determine the full-risk premium for Pre-FIRM buildings. Some premiums will go up, some will go down, and some will stay about the same when compared to their prior premiums. Under the Risk Rating 2.0: Equity in Action methodology, new customers with Pre-FIRM buildings that are primary residence may be eligible for a Pre-FIRM discount. Existing policies on Pre-FIRM buildings with more risk resulting in a higher premium will see a gradual increase within the annual cap imposed by Congress. See [Flood Insurance Manual Section 3. II. E. 1.](#)

Rate Impacts

12. How does Risk Rating 2.0: Equity in Action affect the Newly Mapped rating discount?

Under Risk Rating 2.0: Equity in Action, Newly Mapped discounts continue with subsequent rate increases. The Newly Mapped discount phases out annually until reaching the policy's full-risk premium.

Most properties eligible to receive the Newly Mapped discount in their first year will see a discount amount applied in the premium. Existing Newly Mapped policies whose premiums are higher at their renewal entering Risk Rating 2.0: Equity in Action will see a gradual increase annually. See [Flood Insurance Manual Section 3. II. E. 2.](#)

13. What can policyholders do to ensure they are receiving the lowest premium?

Policyholders may acquire an [Elevation Certificate \(EC\)](#), which provides more specific elevation information about their building and submit it to their NFIP insurer to determine if it will lower their premium.

Policyholders can also speak with local officials about completing mitigation activities in their communities and can take steps to mitigate flood risk in their home, such as elevating the structure or installing proper flood openings.

All policyholders are encouraged to confirm their application data or prior policy information with their agent. Policyholders can update their coverage amount and adjust deductibles, if suitable within NFIP guidelines.

14. How will Risk Rating 2.0: Equity in Action affect the ability for a policyholder to transfer their discount if their home changes ownership?

Under Risk Rating 2.0: Equity in Action, policyholders will still be able to transfer their discount to a new owner by assigning their flood insurance policy when their property changes ownership. See [Flood Insurance Manual Section 3. II. E. 4.](#)

15. How will prior claims affect insurance rates under Risk Rating 2.0: Equity in Action?

Claims history is considered in the premium if the property has two or more flood losses, with one loss under the new pricing methodology.

FEMA incorporates prior NFIP claims as a rating factor based on the number of loss dates that fall within a rolling 20-year window before the current policy effective date. The rating factor begins to apply at the renewal date following the first flood claim processed after the policy is rated under the NFIP's Risk Rating 2.0: Equity in Action methodology. See [Flood Insurance Manual Section 3. II. C. 8.](#)

16. How will Risk Rating 2.0: Equity in Action affect the Community Rating System?

The Community Rating System (CRS) program will continue to exist and provide insurance discounts under Risk Rating 2.0: Equity in Action. Under the new methodology, the same CRS discounts will apply to all eligible properties in the community, regardless of flood zone.

Buildings not in compliance with community floodplain management regulations or that have known floodplain management violations are ineligible for the CRS premium discount. A policyholder can request a change to their CRS discount eligibility status by contacting their community Floodplain Administrator (FPA) to determine the appropriate documentation required to show compliance. See [Flood Insurance Manual Section 3. II. B. 3.](#)

17. When Risk Rating 2.0: Equity in Action is implemented, will repetitive loss properties continue to be covered with an NFIP policy?

Under Risk Rating 2.0: Equity in Action, Repetitive Loss and Severe Repetitive Loss properties will continue to be eligible for coverage provided by the National Flood Insurance Program. See [Flood Insurance Manual Section 3. II. C. 8. b.](#)

18. When Risk Rating 2.0: Equity in Action is implemented, will the HFIAA surcharge be different for primary and non-primary residences?

The congressionally mandated [Homeowner Flood Insurance Affordability Act of 2014 \(HFIAA\)](#) surcharge will continue to apply to primary residences and non-primary residences as it did under the old rating methodology. See [Flood Insurance Manual Section 3. II. F. 2.](#)

Levees

19. Will the NFIP levee certification/accreditation requirements change as part of Risk Rating 2.0: Equity in Action?

As part of Risk Rating 2.0: Equity in Action, FEMA has not proposed any changes to levee accreditation criteria set forth in Code of Federal Regulations [Title 44 Section 65.10](#) Mapping of Areas Protected by Levee Systems, nor to the levee analysis and mapping procedures for non-accredited levees, which are documented in FEMA's

guidelines and standards for the analysis and identification of the 1%-annual-chance flood hazard on a Flood Insurance Rate Map (FIRM).

20. What information did FEMA use to identify the level of risk reduction (“protection benefit”) provided by a levee and the remaining flood risk behind a levee?

In developing Risk Rating 2.0: Equity in Action, FEMA partnered with the U.S. Army Corps of Engineers (USACE) to identify and use credible and consistently available information and methods to account for the level of risk reduction provided by both accredited and non-accredited levees. The rates for Risk Rating 2.0: Equity in Action were developed using an unprecedented level of available data and information.

FEMA used readily available data from the USACE-maintained [National Levee Database \(NLD\)](#) and the [Levee Screening Tool \(LST\)](#). All levees identified in the NLD (Spring 2020) were considered for Risk Rating 2.0: Equity in Action. The NLD is a dynamic database that is continually updated.

Five key data points are used to assess the risk reduction provided by a levee, including: levee centerline, levee crest profile, leveed area, overtopping frequency, and levee performance.

The quantity and quality of levee information in the NLD and LST varies, and FEMA used the most detailed and highest quality data available from these sources. Levees that USACE routinely inspects generally have more high quality and detailed information available, and that data was used for Risk Rating 2.0: Equity in Action. If detailed information was not readily available, data from the NLD was used and enhanced, using consistent methods.

FEMA will continue working with USACE to improve levee data and to refine risk assessment methodologies to support annual rate updates and a risk-informed NFIP.

For more information, refer to FEMA’s resource, [Levees in Risk Rating 2.0](#), which is available online.

21. How did FEMA use this information to establish insurance rates behind levees?

For each levee, the overtopping frequency and levee performance were directly incorporated into the catastrophe models to determine average annualized losses. Leveed areas have a separate rating algorithm from non-leveed areas.

USACE and FEMA jointly developed an approach that increased the ability to evaluate risk behind approximately 40% of levees in the country, which account for 90% of buildings behind levees.

22. What information is required to determine the “quality” of a levee?

Overtopping frequency and fragility curves are required to determine levee quality. For Risk Rating 2.0: Equity in Action, FEMA partnered with USACE to use credible and consistently available data and methods to consider the level of risk reduction for levees. The rates for Risk Rating 2.0: Equity in Action were set using this information.

23. What if a community or levee owner disagrees with FEMA’s assessment of a levee’s “quality”?

For future rate releases, it may be possible to use additional data sources. FEMA will continue working with USACE to improve levee data and to refine risk assessment methodologies in support of annual rate updates and a risk-informed NFIP.

24. Where are levees located in the United States?

The location of levees in the United States can be viewed in the National Levee Database (NLD), a congressionally authorized database that documents levees in the nation.

The NLD is maintained and published by USACE. The information in the NLD is dynamic and subject to change based on new or improved information. FEMA works collaboratively with USACE to update levee information in the NLD as it becomes available through the implementation of both agencies’ authorities, including the NFIP and the National Levee Safety Program (NLSP).