

# Risk Rating 2.0 Overview

March 2019



FEMA



## Why Risk Rating 2.0?

FEMA is focused on building a culture of preparedness by closing the insurance gap. Recognizing that purchasing flood insurance can be confusing and time-consuming, the National Flood Insurance Program (NFIP) is redesigning its risk rating system to improve the policyholder experience.

Risk Rating 2.0 aims to accomplish this by leveraging industry best practices and current technology to deliver rates that are **transparent, easy to understand, and better reflect a property's unique flood risk**. Through these efforts, FEMA goal is to make flood insurance significantly easier for agents to price and sell policies, and in turn, help customers better understand their flood risk and the importance of flood insurance.

Demand for change has been building for a long time, and Risk Rating 2.0 will be the culmination of a multi-year effort.

## What is Changing?

Risk Rating 2.0 will fundamentally change the way FEMA rates a property's flood risk and prices insurance. The current rating methodology has not changed since it was first developed in the 1970s. But since then, technology has evolved and so has FEMA's understanding of flood risk. Currently, FEMA develops rates based predominately on Flood Insurance Rate Map zone and Base Flood Elevation. With Risk Rating 2.0, FEMA is pairing state-of-the-art industry technology with the NFIP's mapping data to establish a new risk informed rating plan. The catastrophe models, in combination with the ability to leverage the NFIP's mapping data, provides a better and more comprehensive understanding of risk at both the national and local level.

FEMA is building a new rating engine to help agents easily price and sell policies. It will also allow policyholders to better understand their property's flood risk and how it is reflected in their cost of insurance.

New rates for all single-family homes will go into effect nationwide on October 1, 2020.

## What are the benefits of Risk Rating 2.0?

The NFIP is developing Risk Rating 2.0 to deliver the following key benefits to policyholders, communities, and the flood insurance industry:



Provides rates that are easier to understand for agents and policyholders



Reduces complexity for agents to generate a quote



Creates an individualized picture of a property's risk



Reflects more types of flood risk in rates



Ensures that rates remain risk-based and use the latest actuarial practices

### Rating Characteristics

The new risk rating plan will use logical rating characteristics for each property, such as:

- distance to the coast or another water source
- different types of flood risk
- the cost to rebuild a home

By reflecting the cost to rebuild, the new rating plan will also aim to deliver more equitable rates for owners of lower-value homes.

## Learn More

To learn more about Risk Rating 2.0 and to get the most up-to-date information, please visit [www.fema.gov/nfiptransformation](http://www.fema.gov/nfiptransformation).