09.30.2021

FEDERAL INSURANCE AND MITIGATION TALKING POINTS

Risk Rating 2.0 Equity in Action

Outreach Data Points: As of Sept. 30, 2021:

- Trained 20,793 agents
- Generated over 3.49 million rating engine interactions
- Conducted over 1,000 congressional, stakeholder, WYO, insurance industry and other organization touchpoints and outreach engagements

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Historic Transformation

- For the first time in the history of the program - we are preparing to deliver premium rate DECREASES at the time a policy renews. This will occur for about a quarter of the NFIP book of business, just over 1 million policyholders. Under the legacy rating system, no policyholders receive premium decreases. This is a monumental step in communicating flood risk that is commensurate with a property's unique flood risk. Risk is exactly what flood insurance pricing should be based on.

- The NFIP's new rating methodology hasn't been updated in more than 40 years. With the intensity and frequency of flood events growing due to climate change, Risk Rating 2.0 will fundamentally improve the flood insurance landscape with its modern risk-based, property specific and actuarily sound rating system. We're still seeing too much disaster suffering due to flooding. The time for change is now.

Equity & Climate Change

- Using increased technological and mapping capabilities, the new methodology considers the cost to rebuild along with several other flood variables to determine a property's true flood risk.
- Under the legacy pricing system, every policyholder would have seen rate increases now and into the future.
- These policyholders with older pre-Flood Insurance Rate Map homes have some of the highest rates in the nation under the current rating methodology.
- The new rating methodology has exposed these inequities in the legacy system, and we cannot turn a blind eye to our policyholders who have been unjustly subsidizing other policyholders.
- Policyholders with lower-value homes are paying more than they should and policyholders with higher-value homes are paying less than they should.
- Equity in Action eliminates this injustice. Beginning Oct. 1, about 23%—or more than 1 million—policyholders will see a decrease in their premium at the time of their policy's renewal.

- Because our rating methodology hasn't been updated in more than 50 years, it is not fiscally sustainable in its present form to withstand the frequency and intensity of recent events and the storms we know will strike in the months and years ahead due to climate change.
- Risk Rating 2.0 is designed to adapt to climate change by using the full range of flood risk across a suite of catastrophe models.

- Because rates are based on the expected claims during the one-year policy period, they should reflect today's risk. Future rates will be updated to reflect any changes in that risk. Actuarial rates do not pre-fund for changes in risk beyond the policy period.
- Thus, Risk Rating 2.0 already considers the possibility of events like Ida. Its occurrence does not surprise us, and it doesn't cause a shock to the rates.
- FEMA's multi-model approach is like the way NOAA uses several models to determine potential hurricane tracks and magnitudes.
- The NFIP licensed three sets of commercial catastrophe models: AIR Worldwide, KatRisk and, CoreLogic.
- In addition to the commercial flood models, FEMA developed two additional models based on government data and models. This includes using existing FEMA mapping data and NFIP policy and claims data along with other Federal government data from U.S.G.S, NOAA, and U.S. Army Corps of Engineers.

Incremental Increases

- For existing NFIP policyholders who will see rate increases, FEMA will transition their policy premium gradually and within the 18% annual cap imposed by Congress. For the example you provided, the existing premium with the existing rating methodology is $572. When that policy renews in June 2022, the renewal premium will increase in an amount consistent with the 18% annual cap. These increases will continue until the full risk premium is reached. Each year upon renewal, the policyholder will be shown their full risk rate and the rate they will pay that year consistent with the 18% annual cap.
- We are upholding statutory requirements that **Limit Annual Premium Increases** so that rates do not climb by more than 18 percent per year.

Increased participation

- We expect participation in the NFIP to increase as a result of Risk Rating 2.0. We are committed to closing the insurance gap and reducing disaster suffering by increasing the number of disaster survivors that are insured. Insured survivors are more resilient and recover much Insured survivors are more resilient and recover more quickly and more fully after a flooding event.
- Before Risk Rating 2.0, a typical month saw about 5,000 new policies. For the first month of RR2.0 we've seen over 10,000 new policies sold, leading us to believe that the value of RR2.0 will bring numerous new policyholders. Additionally, we anticipate participation in the NFIP to increase as a result of Risk Rating 2.0 because it will reduce the complexity of the National Flood Insurance Program, provide an easier point of purchase, and better align with other lines of insurance. Many prospective policyholders will see more affordable premiums under Risk Rating 2.0 than they could under the legacy rating system.

Reason Not to Delay

- If FEMA delays the implementation of Risk Rating 2.0 for **6 months**, from October 2021 to April 2022, approximately 300,000 single-family homeowners will not receive premium decreases and will continue to overpay their flood insurance premiums by $237 million, collectively.
- In today's economic climate and with the far-reaching impacts of the COVID-19 pandemic, homeowners can put the money they are overpaying in flood insurance premiums to better use for themselves and their families.

- For those who are calling for FEMA to delay Risk Rating 2.0 **indefinitely,** you should understand that if we leave the NFIP rating system as is, approximately 600,000 single-family homeowners will not receive premium decreases and will continue to unjustly overpay their flood insurance premiums by $500 million, collectively, each and every year it is delayed.

- Roughly, 90% of policyholders in the NFIP will either see a decrease (23%), or an increase (66%) on par with the increase in premiums experienced today under the legacy methodology.
- The other 11% of increases represent high risk homes in high risk areas.
- Under the legacy rating system, <u>all</u> policy holders would continue to pay premium rate increases without a change to the methodology.

Pushback

- We believe that some pushback is to be expected when introducing a new pricing methodology after many decades. We appreciate these concerns and continue to reiterate the need for a more equitable NFIP that more clearly communicates risk, especially considering the more intense and frequent flooding that's occurring. This makes the case for action sooner rather than later.

Legacy vs Risk Rating 2.0

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- Under the legacy rating system, <u>all</u> policy holders would continue to pay premium rate increases without a change to the methodology.

By using a broader range of variables and replacement cost value of each property in the new methodology Risk Rating 2.0 levels the playing field for all policy holders. **For example :**

- Under the legacy rating system, 45,035 single-family policyholders have seen premium increases of more than $100 per month.
    - The single-family homeowners in this group have an average replacement cost value (RCV) of **$399,643.**
- Under Risk Rating 2.0, only 3,246…over 40,000 fewer, single-family policyholders will see premium increases of more than $100 per month.
    - However, the single-family homeowners in this group have an average RCV of **$1,064,537**.

  The numbers speak for themselves….

Reaching Full Risk Rate

- Currently, all NFIP policyholders have been **subject to premium increases every year.**
- In fact, from October of 2018 through January 2021, premium increases have been in the range of 10 percent annually.
- These yearly increases are in line with the statutory limits required and **would continue to occur year after year <u>indefinitely</u> for <u>*all policies*</u> if no changes were made**.
- In contrast, under the new methodology, once a policy reaches its full-risk rate, the increases stop.
- In fact, we project that approximately 25% of policies will reach their full risk rate within the first year.
- After 5 years, approximately 50% of all policies will be at their full risk-rate.

- And, approximately 90% of all policies are at their full risk-rate at 10 years.

New Policies

- The price of protecting a property against climate change isn't free it comes at a cost.
- Under Risk Rating 2.0, premiums for new policies for structures located in high flood risk areas will pay the full risk rate and will no longer be subsidized under the NFIP.

Addressing Concerns & Complaints

- We will continue to evaluate the program and adjust where it's warranted. This is a brand-new program built from the ground up and there may be a need for minor tweaks here and there.
  We encourage people to bring their concerns forward so that together we can build upon the strong platform created by Risk Rating 2.0.

Support

- It is important to note that FEMA has seen support for this initiative from stakeholders and the NFIP has worked closely with partners across sectors to see this change through.
- The National Association of Realtors - representing 1.4 million agents – has backed the new pricing methodology and acknowledged that Risk Rating 2.0 will help ensure that NFIP policyholders pay a rate proportionate to their property risk.
- Most recently, sixteen organizations who actively monitor and advise from across a broad spectrum of interested parties sent a joint letter to Congress strongly endorsing Risk Rating 2.0 and opposing any efforts to delay the modernized rate-setting system

Phased Approach

- Conscious of the far-reaching economic impacts COVID-19, the agency decided to take a phased approach to rolling out the new rates:
- **Beginning October 1, 2021**
  - Existing National Flood Insurance Program policyholders will be able to take advantage of decreases at the time of the policy's renewal.
  - New policies will be subject to the new pricing methodology, which reflects a property's full risk rate.
- **Beginning, April 1, 2022**
  - All remaining policies will be delayed an additional six months before being written under the new pricing plan at the time of renewal, allowing these policyholders extra time understand the change and to prepare.

Affordability

- **Affordability** which is an issue currently and will continue to be a concern with the implementation of new pricing. In other words, RR2.0 doesn't create an **Affordability** challenge. It's existed for years.
- In fact, it was an issue when the program began back in 1968 when flood insurance wasn't readily available and when it was very costly.
- So, the original act directed that rates be reasonable.
- The FY22 President's Budget includes a legislative proposal that would establish a targeted **means-tested assistance program** for 1-4 family primary residences which the NFIP has included in our multi-year reauthorization outline.

- If passed by Congress this targeted assistance program would serve to offer low- and moderate-income current and prospective NFIP policyholders a graduated risk premium discount benefit.
- However, and this is important to note, FEMA would implement the program such that eligible policyholders see both the full-risk price and the means-tested assistance they receive so they understand their full flood risk, which is imperative to building a resilient nation against the perils of flooding.
- I look forward to collaborating with the Administration's team and with Congress on ways to **reduce barriers to purchasing flood insurance** and **pursuing mitigation options** to achieve resiliency.

If Asked:

Congressional Letter to FEMA Administrator (*FEMA estimates roughly 900,000 policyholders, or nearly 20% of all policyholders, will drop out of the program over the next 10 years in large part due to unaffordable premiums under Risk Rating 2.0*.)

- The figures in the Senate letter are misleading and are taken out of context. Risk Rating 2.0 will result in a net increase in the number of people who purchase flood insurance in the next 10 years. The internal analysis cited was based on narrow assumptions.

Rule Making

- **Short answer:** FEMA is not required to use notice and comment rulemaking to develop premium rates or a premium rate methodology.
- **Discussion Points:** FEMA is required to promulgate through notice and comment rulemaking general terms and conditions of insurability (this is the SFIP). 42 USC § 4013(a). Terms and conditions of insurability do not include premium rates.

- Specifically, the statutory basis for FEMA to set rates is found at 42 USC §§ 4014 and 4015, which require FEMA to estimate rates using actuarial principles and, based on those estimates, to prescribe rates "after providing notice," but not through notice and comment rulemaking. Biggert-Waters removed the requirement for rulemaking about chargeable premium rates under 4015(a).
- **Summary:**
    - Generally, the Administrative Procedures Act requires rulemaking when substantive rules are required by statute.
    - The National Flood Insurance Act does not require rulemaking for premium rate setting.
    - Rates are not substantive rules.
    - The National Flood Insurance Act expressly requires only notice and dictates that rates are to be set using actuarial principles.

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