

RISK RATING 2.0

What Changed



NEW PRICING METHODOLOGY

Automated additional data sets integrated into rating structure to better qualify the real risk to the structure.

- Federal Government Source Data
- Additional Data Sources
- Commercial Third Party Data
- Rating Variables



COST TO REBUILD

Replacement Cost Determination

For Single Family Risks, replacement cost will be determined using a tool that is part of the rating engine.

Replacement cost will be determined based on the information provided on the application.

RCBAP

Replacement cost tool will not be used for RCBAP. For RCBAP, the agent will enter a figure using the appropriate documentation.



RATING VARIABLES

No longer used for rating:

Standardized rate tables, flood zones and base flood elevation

Under Risk Rating 2.0

Algorithm to determine rate, elevation will be considered for all properties



BUILDING OCCUPANCY

1. Single Family Home
2. Residential Mobile Home/ Manufactured Home
3. Residential Unit
4. 2-4 Family Building
5. Other Residential
6. Residential Condo Building
7. Non-Residential

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What Changed (continued)



RATING VARIABLES



CONSTRUCTION TYPE

1. Frame

Structural parts dependent of a wood or metal frame for support

2. Masonry

Building structure consists of brick, concrete, block & stone

3. Other

Material other than wood frame walls or masonry walls for full first story.



FOUNDATION TYPE

There will now be 6 simple foundation types:

1. Slab on Grade

Previously EC diagram number(s) 1A, 1B & 3

2. Basement (non-elevated)

Previously EC diagram number(s) 2A, 2B & 4

3. Crawlspace (Elevated, including non-elevated sub-grade crawlspace)

Previously EC diagram number(s) 8 & 9

4. Elevated without Enclosure on Post, Pile or Pier

Previously EC diagram number(s) 5

5. Elevated with Enclosure on Post, Pile or Pier

Previously EC diagram number(s) 6

6. Elevated with Enclosure Not Post, Pile or Pier

Previously EC diagram number(s) 7



FIRST FLOOR HEIGHT

Elevation will be used in determining rates for all policies. There will be two ways to determine first floor height for a property. The most beneficial elevation will be used.

Method 1: FEMA will determine a first floor height using informed assumptions, application information & various data sets.

Method 2: Elevation Certificates no longer required for rating. EC's can be used to determine the structure's elevation. Method 2 uses the difference between the reported Lowest Floor Elevation and the Lowest Adjacent Grade.

2.



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What Changed (continued)



RATING VARIABLES



NUMBER OF FLOORS

Will no longer include: basements, crawlspaces & enclosures.

A unit's floor will now be determined based on the actual floor it is located.



CLAIMS HISTORY

FEMA will not include prior claims history in the initial rate calculation.

The prior claims variable will be applied at renewal of the policy, after first loss under the new pricing methodology. Claims losses apply on a rolling 20-year period.

Severe Repetitive Loss (SRL) surcharge included in their premium until they have their first loss under the new pricing methodology

Two types of excluded losses:

Increased Cost of Compliance Claims
Claims Closed Without Payment (CWOP)



DISCOUNTS

Statutory discounts include pre-FIRM, newly mapped & other rated policies.

FEMA expects high-value homes in high-risk areas to see the largest increases, taking effect over a 10-15 year “glide path” as they continue to be protected by an 18 % annual cap on premium increases. Any lapse in coverage would cause the policy to lose its glidepath discount.



COMMUNITY RATING SYSTEM DISCOUNT

CRS Discount will apply uniformly regardless of whether a structure is inside or outside the SFHA

It is applied as a flat percentage based on the CRS class, with no difference for flood zone. Buildings not built to floodplain management requirements/standards will be reported to FEMA and will NOT receive the CRS discount.

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DISCOUNTS (CONTINUED)

MACHINERY & EQUIPMENT DISCOUNT

Machinery & Equipment Discount will apply for policyholders with Machinery & Equipment elevated above their first floor.

Agents will self-certify the position of the M&E by answering a “Yes/No” question on the application. Eligible M&E will be listed in the Flood Manual.

FLOOD VENTS

Flood Vent discount will apply to buildings in any flood zone with proper openings in the enclosure

The flood insurance application will need to reflect the proper information in order to receive the discount. Current rules for proper venting will apply.

FLOODPROOFING

Floodproofing is an alternative to elevating a building at or above the Base Flood Elevation.

The insurer must submit proper documentation & meet eligibility requirements.

RETIRED POLICIES

1. Preferred Risk Policy (PRP)

A former PRP policy can lose its glidepath if the policy lapses. At renewal of a current PRP policy to RR 2.0 if the properties full risk premium is lower that premium will be billed at renewal. From then forward the policy will be under the glidepath for full risk rate. If full risk rate is higher for any policy (including PRP), they will be on glidepath. If full risk rate is lower, there premium will go down at next renewal.

2. Mortgage Portfolio Protection Policy (MPPP)

This will only affect a small number of policies since many lenders stopped using the MPPP.

3. Submit for Rate (SFR)

Because the rating system is now algorithm, FEMA has yet to find a policy that can't be rated, negating the need for this special rating process.

4.