

National Flood Insurance Program - FEMA Risk Rating 2.0

FEMA changed their flood rating system as of October 1, 2021 for new policyholders and as of April 1, 2022 for the renewal of existing policies. FEMA's goal was to have flood rates be more equitable. These new rates more accurately reflect the likelihood and impact of a flood. Risk Rating 2.0 is designed to provide each individual building with a unique premium based on the specific characteristics of the building. Many variables will be used to determine rates, such as distance to water, occupancy type, replacement cost and building square footage.

Here are the new rating variables that are needed for a proposal:

- building occupancy
- construction type
- foundation type
- first floor height
- replacement cost value
- square footage
- floor that machinery and equipment is housed
- number of detached structures
- number of stories in the building (note that the basement is no longer counted in the number of stories and if there is a finished attic that should be counted as a floor)

Flood zones are still captured but not used as a rating variable. The zone is just used to determine a mandatory purchase. Flood zones will also be used when determining coverage at time of loss for a post farm elevated buildings and in other limited circumstances.

Elevation certificates are no longer required. However, they can be beneficial in determining the first floor height, a new rating variable. If you have an elevation certificate, the noted fields in the system application. FEMA will compare the information from the elevation certificate to their first floor flood height tool and use the method that provides the best rate for the insured on the back end. **Note that elevation certificates can now be completed by an insured.** An elevation certificate does not need to be completed and certified by an engineer which makes the cost of an elevation certificate drop to \$0.00. If an insured is going to complete the elevation certificate, they will need to complete section C and/or E.

FEMA is now responsible for providing the premiums for all policies. Any carriers that write on behalf of FEMA no longer have access to how the rates are calculated. Based upon information provided by FEMA and only four percent of policyholders nationwide will see substantive increases and this will vary state by state. What we expect is that properties that are close to water or a source of potential flooding may see an increase but the amount of the increase will depend on all of the new rating variables. Important note for those properties that may see an increase, the increase may be capped at 18% per year until they reach their new premium. Per FEMA, 23% of policies will see immediate premium decreases.

In risk rating 2.0 there are a few discounts that can be applied:

1. Flood vents - Risk Rating 2.0 will apply discount to the policy for buildings in **any** floods zone with proper openings in the enclosure. The flood insurance application will need to reflect the proper information for receipt of the discount
2. Machinery and equipment above the first floor - machinery and equipment must be elevated above the first floor. The agent will self-certify the Machinery and Equipment position by answering yes or no on the application.
3. Flood proofing – the same information that was required in Risk Rating 1.0 is required in Risk Rating 2.0. FEMA form 206-FY-21-122 (formerly 086-0-24) needs to be completed by a registered professional engineer or architect.

Should you have any questions, feel free to contact me, Kim Tahey, via phone at 757-903-2081 or via email at ктаhey@towneinsurance.com.