U.S. Department of Homeland Security
Washington, D.C. 20472

FEMA

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September 1, 2021

MEMORANDUM FOR: Write Your Own (WYO) Principal Coordinators and the National Flood Insurance Program (NFIP) Direct Servicing Agent

FROM: Jeffrey Jackson
Acting Assistant Administrator for Federal Insurance
Federal Insurance and Mitigation Administration

SUBJECT: NFIP Risk Rating 2.0: Equity in Action – Industry Transition Memorandum (ITM)

This memorandum provides notification of the ITM specific to the NFIP's new pricing methodology called Risk Rating 2.0: Equity in Action, effective on October 1, 2021. The ITM explains how the transition from the legacy rating plan to Risk Rating 2.0 will occur for policies effective from October 1, 2021, through March 31, 2022, and provides business, data, and information technology guidance for NFIP insurers and vendors on how to accomplish that transition.

Please see Attachment A for the Risk Rating 2.0: Equity in Action Industry Transition Memorandum, effective October 1, 2021.

Please direct any questions regarding this bulletin to FEMA-RR2.0-Support@fema.dhs.gov.

Attachment

cc: Vendors, IBHS, FIPNC, Government Technical Representative

Required Routing: Claims, Underwriting

ATTACHMENT A

NFIP RISK RATING 2.0: EQUITY IN ACTION – INDUSTRY TRANSITION MEMORANDUM

Risk Rating 2.0: Equity in Action – Industry Transition Memorandum

This memorandum, intended for Write Your Own (WYO) companies, National Flood Insurance Program Direct Servicing Agent (NFIP Direct), and flood insurance vendors, provides information on how to transition existing policyholders from the legacy pricing methodology to the new pricing methodology for policies with effective dates between October 1, 2021 and March 31, 2022.

Why FEMA is Introducing the New NFIP Pricing Methodology

FEMA is introducing the new pricing methodology for the National Flood Insurance Program (NFIP) through an initiative referred to as "Risk Rating 2.0: Equity in Action." By leveraging industry best practices and current technology, FEMA can deliver rates that are equitable, easier to understand, and better reflect a property's unique flood risk. Knowing the true risk of one's property is critical to ensure adequate insurance coverage.

While the NFIP's legacy pricing methodology was developed in accordance with accepted actuarially sound principles, it has not changed since the 1970s. When FEMA established its initial rating plan, it was based on the general characteristics of the structure and the amount of insurance someone could purchase. It did not take into consideration the individual flood risk and the cost to rebuild. Over time, this has inadvertently caused a disparity where policyholders owning lower-valued homes are paying more than they should be paying given their risk, while policyholders with higher-valued homes are paying less. Under the legacy pricing methodology, flood insurance rates reflect a property's location by a flood zone shown on a flood map. This creates another disparity at the edge of flood zones, where neighboring property owners with similar building attributes and flood risk often have vastly different flood insurance costs.

The new pricing methodology enables FEMA to continue improving the financial strength of the NFIP, making the program more sustainable and more accountable to both policyholders and taxpayers. Through more accurate flood insurance premiums, FEMA better communicates flood risk to individuals and communities while promoting action to mitigate against flooding.

Partnership Model to Implement the New Pricing Methodology

FEMA's successful implementation and rollout of the new pricing methodology depends on close partnership with the insurance industry, particularly the WYO companies, the NFIP Direct, flood insurance vendors, and insurance agents. Our insurance industry partners are integral to achieving success because of their role in selling and servicing NFIP policies. The new pricing methodology significantly changes how WYO companies, the NFIP Direct, vendors, and agents conduct NFIP business. Moreover, FEMA recognizes that our industry partners significantly influence the public and both existing and prospective policyholders' understanding of the need for and value of flood insurance.

To facilitate effective partnership in the transition to the new pricing methodology, FEMA is committed to continuously inform, consult, involve, and collaborate with industry partners through multiple channels. In addition, FEMA is committed to assisting industry partners with the guidance (e.g. this transition memorandum, the October 1, 2021 Risk Rating 2.0 *NFIP Flood Insurance Manual*, etc.) they need to implement this transformation.

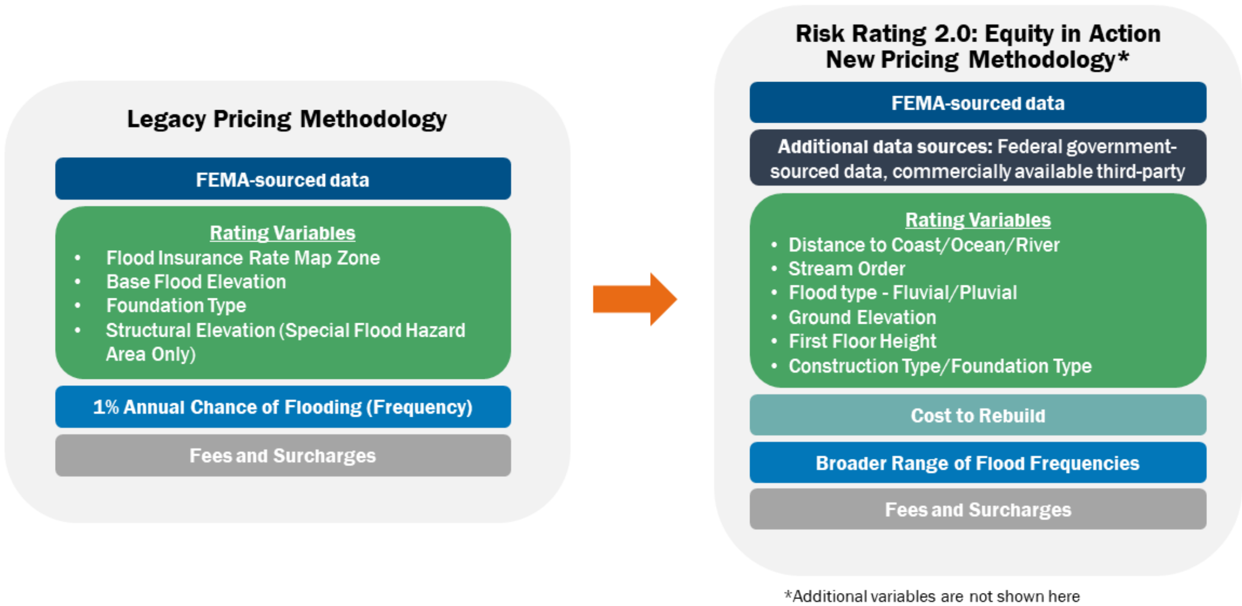
Differences Between the Legacy and New Pricing Methodology

The new pricing methodology more accurately reflects flood risk by considering a broader range of variables than the NFIP's legacy pricing methodology. Since the 1970s, NFIP rates have been predominantly based on a property's elevation and flood zone on a Flood Insurance Rate Map (FIRM). The legacy pricing methodology relied on a relatively static view of flood hazards without taking into consideration other flooding sources or structural characteristics and it has resulted in properties with misidentified risks and an inequitable flood insurance program.

With the new pricing methodology, FEMA leverages innovative technology and industry best practices to incorporate more flood risk variables such as flood frequency, multiple flood types (including river overflow, storm surge, coastal erosion, heavy rainfall, etc.), distance to a water source, elevation, and the cost to rebuild.

FEMA is building on years of investment in flood hazard information by incorporating federal government sourced data and models, in combination with industry standard commercial catastrophe models to develop rating variables. The new pricing methodology uses data from various sources, including FEMA (existing NFIP mapping data and insurance policy and claims data), other federal government data sources (U.S. Geological Survey, National Oceanic and Atmospheric Administration, and the U.S. Army Corps of Engineers), and third-party, commercially-available data (namely replacement cost data and catastrophe models). **Figure 1** outlines some of the ways Risk Rating 2.0: Equity in Action's new pricing methodology modernizes the NFIP.

Figure 1: Legacy & Risk Rating 2.0: Equity in Action New Pricing Methodology



How to Transition: Existing Policyholders During Phase I

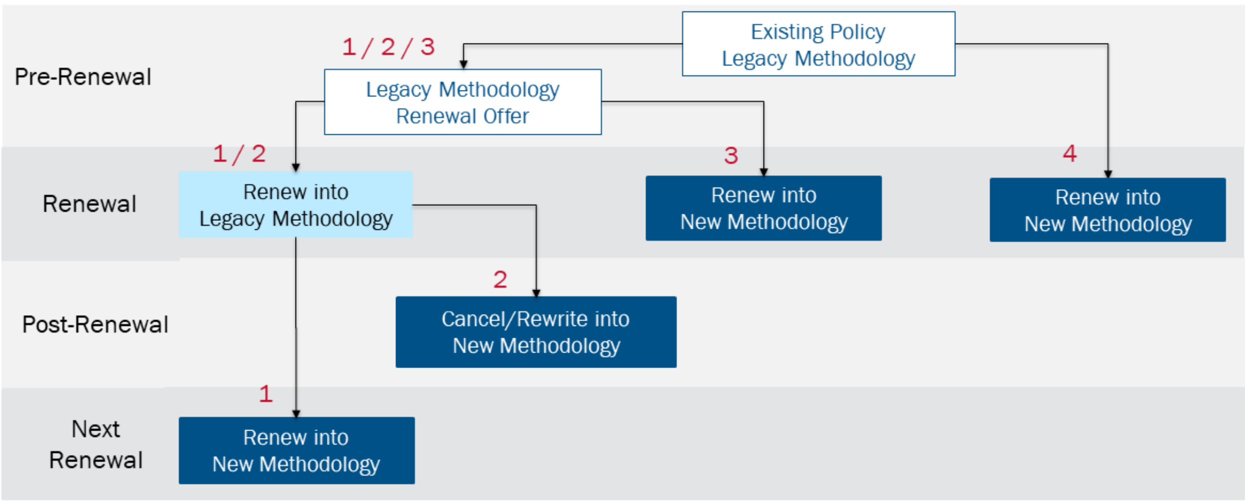
FEMA is taking a phased approach to rolling out the new pricing methodology.

- **Phase I:** New policyholders with policies effective on or after October 1, 2021 will be subject to the new pricing methodology. Existing policyholders with policy effective dates between October 1, 2021 and March 31, 2022 will be able to renew into the new pricing methodology.
- **Phase II:** All remaining policyholders renewing on or after April 1, 2022 will be subject to the new pricing 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 legacy pricing methodology or the new pricing methodology. Policies issued with the new pricing methodology will refer to the October 1, 2021 Risk Rating 2.0 *NFIP Flood Insurance Manual* for guidance. Policies issued with the legacy pricing methodology will refer to the October 1, 2021 Legacy Rating Plan *NFIP Flood Insurance Manual* for guidance.

Throughout Phase I, insurers should engage policyholders in an effort to renew them into the more favorable option. FEMA has identified four pathways to ensure a smooth process that is favorable for policyholders. **Figure 2** provides an overview of these four pathways.

Figure 2: Four Pathways Overview



For Pathways 1, 2, and 3, if the policyholder has not expressed an interest in the new pricing methodology, then the insurer must initiate the renewal process using the legacy pricing methodology.

For Pathway 4, if the policyholder has been offered a new pricing methodology renewal quote and prefers the new pricing methodology, then the insurer must initiate the renewal process using the new pricing methodology.

Pathway 1: Renewal policy is processed under the legacy pricing methodology. At the next renewal (on and after October 1, 2022), the policy renews under the new pricing methodology.

- Policyholder receives a legacy renewal notice, pays the premium and renews the policy.
- At the next renewal, insurer collects and submits the appropriate new pricing methodology data fields to FEMA and obtains the new pricing methodology renewal quote.
- Insurer generates a new pricing methodology renewal notice.
- **Please note:** For policies renewed into the legacy pricing methodology with effective dates between October 1, 2021 and March 31, 2022, if determined that the new pricing methodology premium during that time period was lower than the legacy pricing methodology, the insurer will reform that policy term and refund the difference.

Pathway 2: Renewal policy is processed under the legacy pricing methodology. Prior to the next renewal, the policy rating changes to the new pricing methodology.

- Policyholder receives a legacy renewal notice, pays the premium and renews the policy.
- An interaction then occurs between the insurer and policyholder and a request is made for a new pricing methodology renewal quote.
- Insurer collects and submits the appropriate new pricing methodology data fields to FEMA and obtains the new pricing methodology renewal quote.
- Insurer provides the new pricing methodology renewal quote to the policyholder.
- Policyholder indicates desire to switch to the new pricing methodology.
- Insurer cancels and rewrites the policy into new pricing methodology to the beginning of the term.
  - **Please note:** Insurers should use Reason Code 25 from the Legacy Rating Plan *NFIP Flood Insurance Manual* for the cancel and rewrite process.
  - Any difference in premium from legacy pricing to new pricing will be refunded.

Pathway 3: Renewal policy is offered under the legacy pricing methodology. Prior to the renewal processing under the legacy pricing methodology, the policy is renewed under the new pricing methodology.

- Policyholder receives a legacy renewal notice.
- An interaction then occurs between the insurer and policyholder and a request is made for a new pricing methodology renewal quote.
- Insurer collects and submits the appropriate new pricing methodology data fields to FEMA and obtains the new pricing methodology renewal quote.
- Insurer provides the new pricing methodology renewal quote to the policyholder.
- Policyholder pays the new pricing methodology renewal premium.

Pathway 4: Renewal policy is offered under the new pricing methodology.

- An interaction occurs between the insurer and policyholder and a request is made for a new pricing methodology renewal quote.
- Insurer collects and submits the appropriate new pricing methodology data fields to FEMA and obtains the new pricing methodology renewal quote.
- Insurer generates a new pricing methodology renewal notice.
- Policyholder pays the new pricing methodology renewal premium.

The following items are important considerations during the Phase I transition of existing policies into the new pricing methodology:

- New pricing methodology renewal quote will be available to begin processing in August 2021.
- New pricing methodology renewal quotes may be requested no earlier than 90 days prior to a policy's expiration date.
- New pricing methodology renewal quotes must be processed using the Rating Engine rates.
- New pricing methodology renewal premiums must be received within 30 days of the policy expiration date. See the below information on lapses for additional details.

- New pricing methodology renewals are processed as renewal transactions.
- If the insurer does not have the additional required information needed for a new pricing methodology quote, then a legacy pricing methodology quote should be offered.
- Under the new pricing methodology, coverages are based on 1,000s. Provide a coverage amount rounded to 1,000s.
- The deductibles on the expiring policy term may not be available under the new pricing methodology. If unavailable, round down to the next closest deductible option. Deductibles below the minimum deductible available should round up to the minimum.
- A policy term rated with the legacy pricing methodology and effective prior to October 1, 2021 cannot be canceled mid-term and written under a new policy to obtain the new pricing methodology rating (e.g., policy term effective March 1, 2021 cannot be cancelled on October 1, 2021 and rewritten into the new pricing methodology).

How to Transition: Lapses During Phase I

During Phase I, it is important to identify the pricing methodology under which the policy is renewing to ensure appropriate lapse rules are applied properly. Regardless of the rating methodology, renewal premium must be received within 30 days of expiration to avoid a lapse in coverage.

Lapses on Policies with Expiration Dates Prior to October 1, 2021

Policies with expiration dates prior to October 1, 2021 where the renewal payment is received between 30 – 89 days after expiration resulting in a new effective date on or after October 1, 2021 may renew with a lapse of coverage under the legacy pricing methodology. Policyholders whose renewals fall into this scenario and desire the new pricing methodology must be quoted under the new business application process. If payment is received 90 days or more after expiration, then a new business application must be written under the new pricing methodology. **Table 1** provides some examples.

Table 1: Lapse Effect: Policy Expirations Prior to October 1, 2021

Renewal Offer Pricing Methodology	Policy Expiration Date	Payment Receipt Date	New Policy Effective Date	Final Sale Pricing Methodology
Legacy Pricing Methodology	09/15/2021	10/20/2021	11/19/2021	Legacy Pricing Methodology
Legacy Pricing Methodology	08/01/2021	09/20/2021	10/20/2021	Legacy Pricing Methodology
Legacy Pricing Methodology	07/01/2021	10/01/2021	10/31/2021	New Pricing Methodology*

*Requires New Business Application

For policies that have renewed with a lapse under the legacy pricing methodology and the policyholder wishes to pursue the new pricing methodology prior to the next renewal, the insurer must collect all required data and submit a new business quote request. If the new pricing methodology is more favorable, then the insurer will cancel/rewrite the policy.

Lapses on Policies with Expiration Dates Between October 1, 2021 and March 31, 2022

Policies with expiration dates between October 1, 2021 and March 31, 2022 have the option of renewing under the legacy pricing methodology or the new pricing methodology. Below discusses the impact of a lapse for each pricing methodology.

A. Legacy Pricing Methodology

Policies renewing under the legacy pricing methodology are subject to the lapse rules outlined in the October 2021 Legacy Rating Plan *NFIP Flood Insurance Manual*. If premium payment for a policy is received 90 days or more after expiration, then the policy cannot be renewed under the legacy pricing methodology and must be written as a new business policy using the new pricing methodology. Additionally, if a lapse of less than 90 days occurs resulting in a new effective date of April 1, 2022 or later then the policy must be written as a new business policy using the new pricing methodology. **Table 2** provides some examples.

Table 2: Lapse Effect: Policy Expirations October 1, 2021 – March 31, 2022 Billed Under Legacy Pricing Methodology

Renewal Offer Pricing Methodology	Policy Expiration Date	Payment Receipt Date	New Policy Effective Date	Final Sale Pricing Methodology
Legacy Pricing Methodology	11/01/2021	11/29/2021	11/01/2021	Legacy Pricing Methodology
Legacy Pricing Methodology	12/01/2021	02/20/2022	03/22/2022	Legacy Pricing Methodology
Legacy Pricing Methodology	03/31/2022	04/15/2022	03/31/2022	Legacy Pricing Methodology
Legacy Pricing Methodology	03/31/2022	05/01/2022	05/31/2022	New Pricing Methodology*

*Requires New Business Application

For policies that have renewed with a lapse under the legacy pricing methodology and the policyholder wishes to pursue the new pricing methodology prior to the next renewal, the insurer must collect all required data and submit a new business quote request. If the new pricing methodology is more favorable, then the insurer will cancel/rewrite the policy.

B. New Pricing Methodology

Policies under the new pricing methodology are subject to the lapse rules outlined in Section 5: How to Renew of the October 2021 Risk Rating 2.0 *NFIP Flood Insurance Manual*. If premium payment for a policy is received after the grace period, then the policy cannot be renewed and must be written as new business to obtain the new pricing methodology. The policyholder can work with their agent/insurer to complete and submit a new application. The lapse in coverage may affect policy rating, in particular continued eligibility for statutory discounts. **Table 3** provides some examples.

Table 3: Lapse Effect: Policy Expirations October 1, 2021 – March 31, 2022

Renewal Offer Pricing Methodology	Policy Expiration Date	Payment Receipt Date	New Policy Effective Date	Final Sale Pricing Methodology
New Pricing Methodology	11/01/2021	11/29/2021	11/01/2021	New Pricing Methodology
New Pricing Methodology	11/01/2021	12/02/2021	01/01/2022	New Pricing Methodology*
New Pricing Methodology	03/31/2022	04/15/2022	03/31/2022	New Pricing Methodology
New Pricing Methodology	03/31/2022	05/01/2022	05/31/2022	New Pricing Methodology*

*Requires New Business Application

For policy renewals offered under the new pricing methodology where premium is received after the grace period, the insurer may either process a new business application under the new pricing methodology or may process a renewal with a lapse (as long as premium is received within 90 days of expiration and new effective date is prior to April 1, 2022) under the legacy rating methodology; whichever is more favorable to the policyholder.

How to Transition: Transfer of Business During Phase I

A transfer of business with an effective date between October 1, 2021 and March 31, 2022 may be quoted using the legacy pricing methodology or the new pricing methodology; whichever is more favorable to the policyholder. The appropriate lapse rules are based on the pricing methodology being applied.

For additional guidance on completing a transfer of business, please review Section 2: Before You Start, Transfer of Business in the Legacy Rating Plan *NFIP Flood Insurance Manual* or Section 2: Before You Start, Assignment and Transfer of Business in the October 2021 Risk Rating 2.0 *NFIP Flood Insurance Manual*.

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