

Flood insurance rates rising 'across the board' on the Coast.

Here's what to expect

Sun Herald, August 10, 2021 Anita Lee

<https://www.sunherald.com/news/state/mississippi/article252451648.html>

Beginning Oct. 1, flood insurance rates will increase for most Mississippians, including Coast residents.

The National Flood Insurance Program is moving to a new rating system called [Risk Rating 2.0](#) that will change the way rates are determined, the first major change in rate structure in 50 years, according to the Federal Emergency Management Agency.

While NFIP policyholders saw increases that [averaged more than 11.3% after April 2020](#), according to ValuePenguin.com, Risk Rating 2.0 will bring more targeted increases designed to charge premiums that reflect actual flood risk.

The NFIP is updating its program as climate change places more properties at risk of flooding, and stronger and more frequent hurricanes swamp the agency in debt.

The NFIP's debt currently stands at \$20.5 billion. [The NFIP has lost](#) an estimated total of \$36 billion since its inception in 1968, the Insurance Journal reports. Congress wrote off \$16 billion of that debt. Hurricane Katrina caused the most significant losses in 2005.

The new risk rating system will take into account more of the information private insurers use to set rates for homeowner policies, said Dewana Davis, flood insurance liaison for the FEMA region that includes Mississippi. Rates are expected to increase the most on houses that face a substantial risk of flooding, whether in or out of flood zones.

Based on what he's seen, Joel Verdon, personal lines sales manager for Lemon-Mohler Insurance Agency on the Coast, expects some policyholders will see hefty increases over time.

He expects policyholders with structures on slabs in flood zones to see the highest increases, while those with elevated homes could fare better.

"If FEMA 2.0 does mimic what the private insurance companies are doing now," Verdon said. "I do see higher rates across the board for the Coast."

In addition to elevation in areas at high risk of flooding, new rates will use satellite imagery to determine ground elevations and how close a structure is to a flooding source. Rates also will take into account the actual replacement cost of the structure, including age, materials, labor, number of floors and other factors that would affect those costs.

Under the current system, NFIP uses flood maps that set base flood elevations for special flood hazard areas, or those prone to flooding. Rates are currently based on the elevation of structures within those special flood hazard areas. Outside flood-prone areas, rates are lower.

"We're now considering it as a new 'equity in action' program," Davis said. "The reason we say that is because, basically, we're trying to leverage the industry's best practices to set rates that are sound, equitable and easier to understand."

WILL YOUR FLOOD INSURANCE RATE CHANGE?

While most policyholders will see rates increases under the new system, a small percentage on the Mississippi Coast will see lower rates.

Increases are capped each year, many at 18%, so that a policyholder could see increases for multiple years until the amount they pay equals the risk of flooding for their insured structures.

Statewide, more than 61,000 NFIP policies are in force. Increases of up to \$120 a year are slated for 44,643 policies, or 74%. FEMA says rates will decrease on 10,047 policies, or 16%. Increases of more than \$120 a year will apply to 6,628 policies, or 10%.

A spreadsheet the Sun Herald received from the Mississippi Insurance Department shows NFIP policies in force, and how many policies increase or decrease in cost. The figures below apply for Coast counties:

- Hancock County: Increases for almost 94% of policies
- Harrison County: Increases for almost 89% of policies.
- Jackson County: Increases for 94% of policies.

Increases of \$1,200 or more a year are limited to a small number of policies, the data shows: 3 policies in Hancock County, 14 in Harrison County and 8 in Jackson County.

Verdon foresees a potential “mortgage crisis” for policyholders whose rates are artificially low because they were “grandfathered,” meaning their premiums were based on older flood maps that indicated a lower risk of flooding. Risk Rating 2.0 does away with grandfathered rates.

In flood zones, property owners are required to carry flood insurance, a cost that is included in their mortgages. Monthly mortgage payments could rise to unaffordable levels for previously grandfathered or subsidized structures near the water, he said.

Insurance agents are still waiting on Risk Rating 2.0 pricing to quote individual rates to policyholders, Verdon said.

“Truthfully,” he said, “they will probably wait until the 11th hour to tell us just because of the way the government operates.”

SECURING A FAIR FLOOD INSURANCE RATE

The new rating system goes into effect Oct. 1 for new NFIP policyholders, who will pay the full new rate. Existing policyholders, whose rate increases are capped annually, will be under the new rating system April 1, 2022, FEMA’s Davis said.

Policyholders whose rates will be lowered can opt into the new risk rating system before their policies expire to receive the lower rate earlier.

Under the new rating system, FEMA will for the first time use technology to determine a property’s elevation so that no elevation certificate is needed to secure a policy, speeding up and streamlining the process. But an [elevation certificate](#) could help keep down a policyholder’s flood rate if their property is higher than the area water source, Davis said. A policyholder can submit an elevation certificate to their agent to see if it qualifies them for a lower rate.

Risk Rating 2.0: Equity in Action

<https://www.fema.gov/flood-insurance/risk-rating#>

FEMA is updating the [National Flood Insurance Program's](#) (NFIP) risk rating methodology through the implementation of a new pricing methodology called **Risk Rating 2.0**. The methodology leverages industry best practices and cutting-edge technology to enable FEMA to deliver rates that are actuarially sound, equitable, easier to understand and better reflect a property's flood risk.

FEMA is conscious of the far-reaching economic impacts COVID-19 has had on the nation and existing policyholders and is taking a phased approach to rolling out the new rates.

Beginning Aug. 1, current National Flood Insurance Program policyholders can contact their insurance company or insurance agent to learn more about what Risk Rating 2.0-Equity in Action means to them.

PHASE I

New **policies beginning Oct. 1, 2021**, will be subject to the new rating methodology. Also beginning Oct. 1, existing policyholders eligible for renewal will be able to take advantage of immediate decreases in their premiums.

PHASE II

All remaining policies **renewing on or after April 1, 2022**, will be subject to the new rating methodology.

FEMA continues to engage with Congress, its industry partners and state, local, tribal and territorial agencies to ensure clear understanding of these changes.

Why FEMA is Undertaking Risk Rating 2.0

FEMA is committed to building a [culture of preparedness](#) across the nation. Purchasing flood insurance is the first line of defense against flood damage and a step toward a quicker recovery following a flood.

Since the 1970s, rates have been predominantly based on relatively static measurements, emphasizing a property's elevation within a zone on a [Flood Insurance Rate Map](#) (FIRM).

This approach does not incorporate as many flooding variables as Risk Rating 2.0. Risk Rating 2.0 is not just a minor improvement, but a transformational leap forward. Risk Rating 2.0 enables FEMA to set rates that are fairer and ensures rate increases and decreases are both equitable.

FEMA is building on years of investment in flood hazard information by incorporating private sector data sets, catastrophe models and evolving actuarial science.

With Risk Rating 2.0, FEMA now has the capability and tools to address rating disparities by incorporating more flood risk variables. These include flood frequency, multiple flood types—river overflow, storm surge, coastal erosion and heavy rainfall—and distance to a water source along with property characteristics such as elevation and the cost to rebuild.

Currently, policyholders with lower-valued homes are paying more than their share of the risk while policyholders with higher-valued homes are paying less than their share of the risk. Because Risk Rating 2.0 considers rebuilding costs, FEMA can equitably distribute premiums across all policyholders based on home value and a property's unique flood risk.

What's Not Changing Under Risk Rating 2.0

We are upholding statutory requirements by:

Limiting Annual Premium Increases

Existing statutory limits on rate increases require that most rates not increase more than 18% per year.

Using Flood Insurance Rate Maps (FIRMs) for Mandatory Purchase and Floodplain Management

FEMA's flood map data informs the catastrophe models used in the development of rates under Risk Rating 2.0. That is why critical flood mapping data is necessary and essential for communities. It informs floodplain management building requirements and the mandatory purchase requirement.

Maintaining Features

We are maintaining features to simplify the transition to Risk Rating 2.0 by offering premium discounts to eligible policyholders. This means:

- FEMA will continue to offer premium discounts for pre-FIRM subsidized and newly mapped properties.
- Policyholders will still be able to transfer their discount to a new owner by assigning their flood insurance policy when their property changes ownership.
- And, discounts to policyholders in communities who participate in the [Community Rating System](#) will continue. Communities will continue to earn National Flood Insurance Program rate discounts of 5% - 45% based on the Community Rating System classification. However, since Risk Rating 2.0 does not use flood zones to determine flood risk, the discount will be uniformly applied to all policies throughout the participating community, regardless of whether the structure is inside or outside of the Special Flood Hazard Area.

FEMA Infographic

https://www.fema.gov/sites/default/files/documents/fema_risk-rating-2.0-national-rate-analysis.pdf

Risk Rating 2.0 – National Rate Analysis

Under the current rating methodology, every year at renewal, policyholders on average see premium increases of \$8 per month.

- 23% of current policyholders will see immediate premium decreases
- An additional 66% of current policyholders will see, on average, \$0-\$10 per month increases
- 7% of current policyholders under Risk Rating 2.0 will see, on average, \$10-\$20 per month increases
- And 4% of current policyholders under Risk Rating 2.0 will see, on average a \$20 or more per month increase

To download the Risk Rating 2.0 Fact Sheet

https://www.fema.gov/sites/default/files/documents/fema_rr-2.0-equity-action_0.pdf

Mississippi state profile... breakdown by County, breakdown by Zip Code & Data spreadsheet

https://www.fema.gov/sites/default/files/documents/fema_mississippi-state-profile_03-2021.pdf