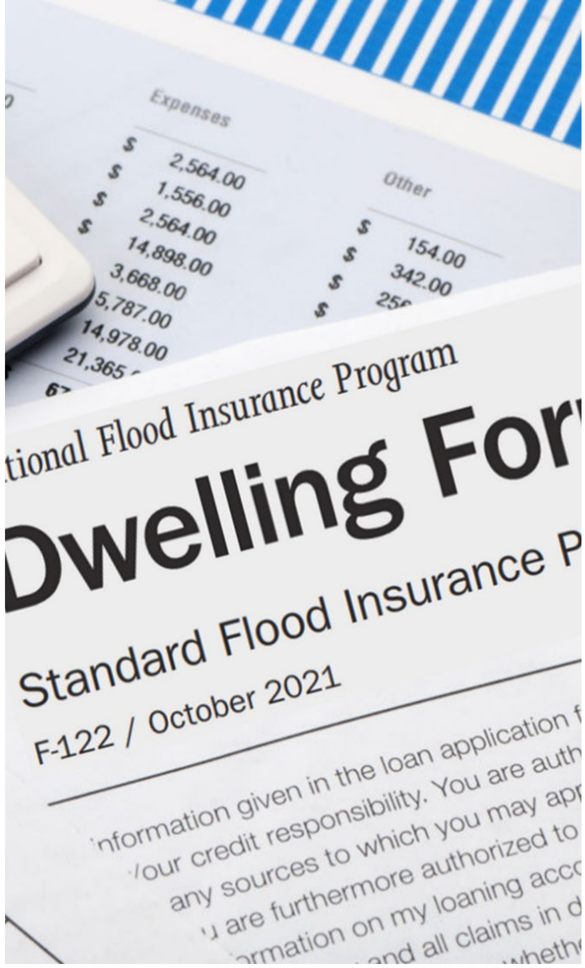

OFIA Fiscal Year 2022 Report: Insights and Recommendations

FEMA

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Message From the Advocate

Fiscal Year (FY) 2022 was a significant year for the National Flood Insurance Program (NFIP). The year started off with recovery efforts for Hurricane Ida, which made landfall on Aug. 26, 2021. The NFIP also implemented the first major transformation of its rating approach in over fifty years when on Oct. 1, 2021, new NFIP policies were subject to the new rating approach. Hurricane Ian, the third-costliest weather disaster on record, then made landfall in Southwest Florida on Sept. 28, 2022.

Risk Rating 2.0 modernized the NFIP rate structure by simplifying the quoting and application process, eliminating unintentional inequities in the old premium rates, and providing more accurate price signals of the risk of flood damage to property owners. By more accurately pricing flood insurance, Risk Rating 2.0 placed the NFIP on more sound financial footing, while also reducing premiums for roughly twenty-three percent of existing NFIP customers that would have otherwise seen premium rate increases for the foreseeable future. This rate relief is an important step towards addressing affordability challenges faced by some customers. Risk Rating 2.0 was a much-needed change and feedback from policyholders is that they need more communications to better understand this change.

The Office of the Flood Insurance Advocate (OFIA) prioritizes the fair treatment of NFIP policyholders and property owners and recognizes reducing the risk of flood damage is the ultimate outcome for NFIP customers. To do this, we need to accurately understand, communicate, and mitigate the risk of flooding. The flood insurance price does more than enable the sale of a flood insurance policy—it also communicates risk. Flood insurance is an important part of a recovery toolkit. We know that insured survivors tend to recover faster and more fully than uninsured survivors. We all must do our part to emphasize the importance of not letting a policy lapse. For many customers, policy lapses can turn into an affordability issue. Last year's Annual Report highlighted affordability as a barrier to closing the insurance gap. We must identify ways to reduce the risk of flood damage, and we must identify ways to reduce the price of flood insurance. OFIA supports legislative reforms to the National Flood Insurance Act that would authorize the development and implementation of a means-tested assistance program based on accurate risk assessment.

Accurate pricing is the best way to convey true flood risk. For too long, complex underwriting rules and hidden cross-subsidies masked the true risk of flood damage. Risk Rating 2.0 delivers a far more accurate price signal using a simpler mechanism than the old rating approach. Correlating flood insurance price to risk is the right thing to do. Any increase in premiums should be the beginning of a larger conversation about the risk of flood damage to lives and property and how we reduce that risk. While it is difficult to explain high premiums to a policyholder, it is even more difficult to explain to an uninsured survivor with no idea how to begin recovery that the risk was greater than they believed.

With kindest regards, Rhonda

Executive Summary

The OFIA Fiscal Year 2022 Report focuses on improving customer experience by advancing communications, recommending programmatic process changes to address lapses in flood insurance coverage, and advocating for more mitigation information to reduce flood risk.

Risk Rating 2.0

Risk Rating 2.0 modernized the NFIP rate structure by simplifying the quoting and application process, eliminating unintentional inequities in the old premium rates, and providing more accurate price signals of the risk of flood damage to property owners. With a modernized approach to flood insurance rating, there are also opportunities for improvements to advance the NFIP customer experience. OFIA receives feedback from policyholders that they need clear information to better understand their flood risk and the changes introduced by the modernized approach.

Advancing and Enhancing Communication

Transparent flood insurance premium rates are vital for stakeholders to understand a property's flood risk and make informed decisions to prepare for potential flood hazards. OFIA has identified the following areas to advance and enhance communications with the goal of improving flood risk awareness:

1. **Communicating Premium Pricing:** Agents and policyholders are sometimes confused by the changes in premium rates under Risk Rating 2.0. They seek more tools and information to help them understand risk and premium rating.

2. **Flood Insurance Communication Mailings:** The information on policy declarations pages, quotes, and renewal notices should be improved. Although these mailings meet industry standards, they do not provide enough information to help policyholders understand their flood risk, how the full price of flood insurance was developed, and how discounts were applied to their rate.

Programmatic and Process Discussion

The new premium rates are actuarially sound, but issues with lapses and finding ways to reduce flood insurance premiums persist. OFIA has identified areas to improve programmatic processes with the goal of addressing affordability and improving the customer experience:

1. **Consequences of a Lapse at the Time of Renewal:** Some policyholders have expressed confusion and frustration when a lapse in coverage results in the need for a new application, resulting in a new effective date, a loss of discounts, and sometimes a substantially higher premium. This is particularly frustrating when the lapse occurs for reasons beyond the policyholder's control.

2. **Frustration with Understanding How to Reduce Flood Insurance Premiums:** Some policyholders, property owners, and floodplain administrators need more clarity on taking mitigation actions to reduce flood risk and flood insurance premiums.

This Report will provide examples and deeper context for the above issues. This Report also makes specific recommendations to address the issues identified above and includes the program office response to these recommendations.

Final Thoughts

Risk Rating 2.0 was a transformative leap forward to more accurately pricing flood risk, and there is a need for continuous improvements to build an enduring NFIP and reduce disaster suffering. Risk Rating 2.0 was a vital change and an important step in improving flood risk awareness. This report provides recommendations to improve the NFIP by enhancing communications and programmatic processes.

Risk Rating 2.0

Under the National Flood Insurance Program, flood insurance premiums are determined based on risk and are calculated using a variety of rating factors. Where authorized or required by statute, discounts are applied to the full-risk premium. Risk Rating 2.0 aimed to generate premiums that more accurately reflect a property's flood risk, fix the unintentional inequities the original rating approach created, and simplify the rating process. Accurate, reliable, and transparent flood insurance premium rates are important for policyholders and property owners to be able to understand their property's flood risk and prepare for potential flood hazards.

To generate full-risk premiums that more accurately reflect a property's risk, FEMA leveraged industry best practices and utilized advances in the technology of catastrophic modeling that were not available when the NFIP was created. FEMA also accounted for replacement cost values of property in a consistent and uniform way for the first time in the program's history. This ensured that owners of lower valued property were not paying more than they should to suppress the price of flood insurance paid by property owners of high value structures.

One key change for the insurance agent and potential applicant for flood insurance is the automation of data collection that allows a flood insurance policy to be priced without the need to purchase an Elevation Certificate, Special Flood Hazard Determination form, and/or other underwriting documents. Another key change Risk Rating 2.0 delivered is it streamlined and simplified the application process by creating a single rating engine and reducing the number of questions agents have to answer in order to write a policy.

Advancing and Enhancing Communication

Risk Rating 2.0 provided a long overdue update to an approach to premium rating that was developed in the 1970s. Risk Rating 2.0 is now the current approach for all customers. Accurate, reliable, and transparent flood insurance rating is important for policyholders and property owners to better understand their property's flood risk and prepare for potential flood hazards.

OFIA supports the overarching goals of the Risk Rating 2.0 initiative. OFIA also serves as a voice for customers who feel frustrated, confused, or treated unfairly. OFIA acknowledges that the issues identified in this Report are those of the customers who seek assistance from our office, and do not necessarily reflect the majority of NFIP customers. During FY2022, 962 customers contacted the OFIA out of the 4.7 million NFIP policyholders. OFIA recognizes that not all customers who are affected by the frustrations highlighted in the Report have contacted the OFIA. OFIA also acknowledges that FEMA should perform additional data analytics to quantify how many customers of the 4.7 million policyholders are impacted by the topics highlighted in this Report. Through its continued actions, such as releasing Cost of Flood Insurance for Single-Family Homes under Risk Rating 2.0 data, FEMA's program areas are continually responding to customer feedback and the delivery of the NFIP.

Communicating Premium Pricing

Some agents and policyholders are surprised at the difference in premium prices for policies under Risk Rating 2.0. Policyholders and property owners, as well as insurance agents, come to OFIA frustrated by the inability of their flood insurance carrier to explain the difference in prices under Risk Rating 2.0. Some policyholders have expressed their belief that current premiums do not accurately reflect their risk. In the old rating approach, FEMA considered either the 1% annual chance of coastal flooding or the 1% annual chance of riverine flooding. This rating structure gave a very limited view of flood risks. The reality is that the premiums under Risk Rating 2.0 more accurately reflect flood risks by accounting for other sources of flooding and flood frequencies beyond the 1% riverine and coastal flooding events. However, some policyholders struggle to understand this more complete picture of their flood risk.

WHAT NFIP CUSTOMERS WHO CONTACT OFIA ARE SAYING

"I really need professional help from FEMA. If you can help answer my questions or forward me to the correct person that would be great. …We tried to get explanations of technical assumptions as well as the rating, cost, and statutory caps if any…I have tried patiently to understand what has occurred in my unique flood insurance ratings for my property for two months."

CONTEXT

NFIP flood insurance is unique because although it is serviced by private companies, it is part of a federal government program. The NFIP provides more transparency than would be expected by private industry. Policyholders can face difficulties understanding the complexity and risk of flooding and the level of risk signaled by an insurance price.

Prior to the implementation of Risk Rating 2.0, FEMA released information at NFIP's Pricing Approach | FEMA.gov regarding anticipated premium changes. This information communicated an estimate that approximately twenty-three percent of policyholders would see a premium decrease, sixty-six percent would see increases of $10 or less per month, and only eleven percent of policyholders would see increases higher than $10 per month. This information was insightful for existing customers seeking an understanding of what to expect at their next renewal. This information reflected the statutory cap on rate increases at renewal, assuring existing policyholders that even with eighteen percent increases, most policyholders would see premium increases comparable to previous years. As FEMA received questions about the full-risk premium without this cap, FEMA released additional data on national full-risk rates published at Cost of Flood Insurance for Single-Family Homes under Risk Rating 2.0 | FEMA.gov. This additional data helps a policyholder plan for future rate increases.

Policyholders and insurance agents have sought clarification from the Risk Rating 2.0 Methodology documentation to understand their unique risk and how to calculate their premium. The program clarified language describing Risk Rating 2.0 on NFIP's Pricing Approach | FEMA.gov. To provide transparency, FEMA published a large volume of technical information, including The Risk Rating 2.0 Methodology. This information, however, is highly technical and is not intended to help a homeowner calculate their premium. Policyholders continue to request additional information to help them understand their premium and their property specific risk.

Flood insurance, floodplain management, and flood risk mapping have always been interconnected. Historically, lower premiums were obtained by either building or mitigating structures according to the flood hazard information shown on a community's Flood Insurance Rate Map (FIRM). Local communities were able to advise their residents about mitigation actions, invest in local mitigation projects that changed the characteristics of flooding (and the FIRM), and ultimately reduced flood insurance premiums for their residents. Risk Rating 2.0 uses more modeled flood events than depicted on the FIRM, resulting in a more refined, accurate portrayal of risk reflected in the premium, yet different outcomes than the old approach.

This more comprehensive modeling is appropriate, but it also introduces more factors into mitigation advice provided at the local government level. This makes it harder for homeowners to understand what action to take to reduce their flood risk, thereby reducing their flood insurance premiums. It is also more difficult for local officials to determine the cost-benefit of mitigation funding opportunities. Floodplain administrators need resources that help them understand what risks the premium is conveying and where mitigation actions will have the highest impact on reducing that risk, as well as reducing flood insurance premiums.

RECOMMENDATIONS:

1. FEMA's Federal Insurance Directorate (FID) should make information about premium rates more accessible to the public and should update language on NFIP's Pricing Approach | FEMA.gov to describe in further detail how risks are aggregated and tailor new materials to wider audiences.
2. FID should make information available about who policyholders, agents, insurers, and other stakeholders can go to within FEMA when questions arise about premium rates that are not addressed in the public material.
3. The Floodplain Management Division and FID should work together to provide floodplain administrators with a resource allowing the estimation of cost savings associated with mitigation projects for the purposes of planning new development.

PROGRAM RESPONSES:

1. FEMA has provided extensive information about the detailed, technical process undertaken to develop premium rates under Risk Rating 2.0. This has been done in a variety of formats, including videos, short-format informational guides, and website updates. FEMA continues to engage stakeholders about the development of future communication that can be provided for various audiences in order to, among other things, provide additional detail on how risks are aggregated.
2. FEMA has various communication products for NFIP rating (guides, videos, websites, guidance) that are available to all NFIP stakeholders. FEMA encourages NFIP policyholders to reach out to their insurance agent or NFIP insurer for any rating questions. FEMA engages regularly with NFIP insurers and looks for opportunities to provide additional support, training, or communications to assist them in responding to NFIP stakeholders. FEMA is currently updating the insurance agent training to provide them with more information on selling and writing NFIP insurance in light of the changes made pursuant to Risk Rating 2.0.
3. FEMA continues to work with the floodplain management stakeholders on providing NFIP premium information that may be useful for community planning. Property owners are able to determine property specific NFIP flood insurance premiums through NFIP insurers. FEMA will continue to update our websites and guidance to provide clarity and tools to help address these concerns. For example, FEMA anticipates releasing a mitigation discount tool in FY24 that will provide information about the impact that mitigation activity has on NFIP insurance premiums.

Flood Insurance Communication Mailings

OFIA finds that NFIP customers are confused when policy declarations, quotes, and renewal notices lack adequate information to help them understand how the price of their flood insurance policy is calculated and how discounts are applied.

WHAT NFIP CUSTOMERS WHO CONTACT OFIA ARE SAYING

“Dear Flood Advocate, [my community] qualifies for CRS class five 25% discount on flood insurance…. [The total undiscounted premium is] $3,716….,. My question is…$507 is 25% of what? The rate of discount was always stated on prior policies but is not stated on my 2022 dec renewal….”

CONTEXT

FEMA provides requirements for communications, including policyholder declarations page and renewal notice, consistent with industry standards for Write Your Own (WYO) companies and NFIP Direct to follow. Risk Rating 2.0 provided the first ever full-risk rate to policyholders, and because Annual Increase Cap discount (“glide path”) does not exist with private sector insurance products, the transition to Risk Rating 2.0 uncovered a need to provide more detail than what is standard in the insurance industry. OFIA’s customers are confused about information (and/or lack of information) shown on the policyholder quotes, declarations pages, and renewal notices. Examples of printed communications a policyholder receives with information about premiums include:

Glide Path Explained:
Congress legislated an annual increase cap, also known as a glide path, that refers to the statutory provisions whereby a premium may not increase year over year by more than 18-25% of what a policyholder is paying. This discount applies only to policies that were in effect prior to the implementation of Risk Rating 2.0: Equity in Action.

- *Premium quote:* Premium quotes are not official policyholder communications documents but are provided to inform potential and existing policyholders of the cost of a policy.
- *Policyholder declarations page:* The Declarations Page is an official document that summarizes the insurance coverage provided by the policy and is distributed when the policy is issued, and the premium is paid in full.
- *Renewal Notice:* Renewal notices inform existing policyholders of the amount due and the due date to renew coverage for the upcoming year. The first renewal notice is transmitted 45 days before the policy expiration date. The final renewal notice is transmitted within 5 days of the policy expiration date.

Now that Risk Rating 2.0 has automated the quoting process, FEMA has more latitude to standardize how quotes are communicated. FEMA provides WYO companies with flexibility in the development of content and format and delivery of premium quotes. FEMA’s Flood Insurance Manual publishes guidance for policyholder declarations, and renewal notices, however, the guidance does allow for customization. The OFIA notes customers receive varying degrees of information based on the WYO insurer servicing the NFIP policy.

There is an opportunity to improve risk communication with premium quotes which currently have no standardization, and historically FEMA has not standardized quote production. Thus, risk information, such as the types of flood risk in the area, the frequency of flooding, historic claims in the area, or other information that would better explain the premium quote, is not currently included with a premium quote. Customers have asked OFIA about these factors and about their property's specific loss history, the relationship between maps and flood insurance rates, types, frequency, and severity of expected floods, and other key rating factors. This information provides a customer with a better understanding of the risk and the full-risk flood insurance premium they are quoted.

Historically, FEMA has developed minimum standards for declarations pages that evolved over time. FEMA also overhauled the declarations page for Risk Rating 2.0; however, customers continue to seek clarity on their flood risk and flood insurance premium. Customers contacting OFIA indicated they want their declarations page to clarify the flood risk factors most impacting their individual rate. It is also confusing for these policyholders to understand first floor height on their declarations page when they have an elevation certificate demonstrating a higher first floor than the declarations page indicates was used for rating.

Customers attempting to validate their premium based on information displayed on the declarations page become frustrated when they cannot calculate and verify expected discounts. Declarations pages do not always communicate the full amount of discounts expected by policyholders, such as Community Rating System (CRS) discount, mitigation credits, and deductible. Other discounts such as the Annual Increase Cap discount ("glide path") and other statutory discounts are not explained. Figure 1 on the next page is an example of a declarations page that customers struggle to follow and understand.

Because the declarations page is issued after the premium is paid, customers express frustration in understanding exactly how their renewal premium is calculated. OFIA receives inquiries from policyholders who express that their renewal notices do not include enough information to understand their premium. Furthermore, the lack of information on renewal notices makes it so some policyholders do not know their premium increase is capped, that they are receiving statutory discounts, or that they have a full-risk rate that is higher than the price on their renewal notice. When policyholders are not informed of their full-risk premium or that they are receiving statutory discounts, they may not be truly aware of the implications of letting their policy lapse.

The consequences of losing premium discounts because of a lapse in coverage are not uniformly or adequately communicated on renewal notices. OFIA hears from customers whose policies have lapsed and are frustrated that they did not know the magnitude of the consequences or how to avoid those consequences until it was too late. Lapses will be discussed in the next section.

FEMA

NFIP Policy Number:
Company Policy Number:
Agent:

Payor:	INSURED
Policy Term:	MM/DD/YYY 12:01 AM - MM/DD/YYY 12:01 AM
Policy Form:	Dwelling Policy
To report a claim visit or call us at:	https://my.nfipdirect.fema.gov (800) 767-4341

REVISED FLOOD INSURANCE POLICY DECLARATIONS

NATIONAL FLOOD INSURANCE PROGRAM

DELIVERY ADDRESS

INSURED NAME(S) AND MAILING ADDRESS

COMPANY MAILING ADDRESS

INSURED PROPERTY LOCATION

BUILDING DESCRIPTION: Main Dwelling
BUILDING DESCRIPTION DETAIL: N/A

The flood zone is not relevant under the new methodology. It would be more useful to include information about type of flooding or distance to flood source.

RATING INFORMATION

BUILDING OCCUPANCY:	Single-Family Home
NUMBER OF UNITS:	N/A
PRIMARY RESIDENCE:	Yes
PROPERTY DESCRIPTION:	Basement (Non-Elevated), 1 floor(s), Frame construction
PRIOR NFIP CLAIMS:	1 claim(s)

DATE OF CONSTRUCTION:	MM/DD/YYY
CURRENT FLOOD ZONE:	AE
FIRST FLOOR HEIGHT (FEET):	2.9
FIRST FLOOR HEIGHT METHOD:	FEMA Determined

MORTGAGEE / ADDITIONAL INTEREST INFORMATION

FIRST MORTGAGEE: LOAN NO: N/A
SECOND MORTGAGEE: LOAN NO:
ADDITIONAL INTEREST: LOAN NO:
DISASTER AGENCY: CASE NO: N/A
DISASTER AGENCY:

While the deductible amount is shown, the deductible discount factor and how it is applied is not shown.

This customer received a 25% CRS discount. 25% of their premium would be $929. There is no information about how a CRS discount of $507 was calculated.

RATE CATEGORY — Rating Engine

	COVERAGE	DEDUCTIBLE
BUILDING:	$88,000	$2,000
CONTENTS:	$16,000	$2,000

Coverage limitations may apply. See your policy form for details.
Please review this declaration page for accuracy. If any changes are needed, contact your agent.
Notes: The "FULL RISK PREMIUM" is for this policy term only. It is subject to change annually if there is any change in the rating elements. Your property's NFIP flood claims history can affect your premium, for questions please contact your agency. "MITIGATION DISCOUNTS" may apply if there are approved flood vents and/or the machinery & equipment is elevated appropriately. To learn more about your flood risk, please visit FloodSmart.gov/floodcosts.

ENDORSEMENT EFFECTIVE DATE: MM/DD/YYY 12:01 AM
ENDORSEMENT PREMIUM: $0.00
CHANGES APPLIED TO:
Insured / Mailing Address, Rating Elements

There is no information about what an annual increase cap discount is, or how this amount will decrease each year until the premium reaches full-risk rates.

COMPONENTS OF TOTAL AMOUNT DUE

BUILDING PREMIUM:	$2,853.00
CONTENTS PREMIUM:	$794.00
INCREASED COST OF COMPLIANCE (ICC) PREMIUM:	$69.00
MITIGATION DISCOUNT:	($0.00)
COMMUNITY RATING SYSTEM REDUCTION:	($507.00)
FULL RISK PREMIUM:	$3,209.00
ANNUAL INCREASE CAP DISCOUNT:	($0.00)
STATUTORY DISCOUNTS:	($0.00)
DISCOUNTED PREMIUM:	$3,209.00
RESERVE FUND ASSESSMENT:	$578.00
HFIAA SURCHARGE:	$25.00
FEDERAL POLICY FEE:	$47.00
PROBATION SURCHARGE:	$0.00
TOTAL ANNUAL PREMIUM:	$3,859.00
PRORATA PREMIUM ADJUSTMENT:	$0.00
ADJUSTED ANNUAL PREMIUM:	$3,859.00

This declarations page along with the Standard Flood Insurance Policy Form constitutes your flood insurance policy.

Zero Balance Due - This Is Not A Bill

Policy issued by: NFIP DIRECT

Insurer NAIC Number: 99999

File: Page 1 of 1 DocID:

Figure 1. Example declarations page. Customers are frustrated by the lack of information and confused by how discounts are displayed.

RECOMMENDATIONS:

1. FEMA's Federal Insurance Directorate (FID) should update required standardized information on quotes and declarations pages to include a breakdown of the total annual payment and a detailed explanation of how discounts, fees, and surcharges are applied so that customers can verify and validate their price.
2. FID should require standardized information on quotes and declarations pages to include a description of a property's flood risk including the types of flood risk and other specific rating factors that most influence the individual premium so that customers can understand their risk of flooding.
3. FID should ensure that deductible discounts are applied in a manner that meaningfully reflects the financial risk assumed by either the insurer or the insured.
4. FID should require declarations pages to more meaningfully display how ECs are considered in the rate, such as depicting the elevation of the structure in relation to the flood source.
5. FID should require NFIP insurers to include a warning on renewal notices and online payment systems to communicate the repercussions of letting a policy lapse, including the full-risk premium, the dollar amount of any discounts which will be lost as a result of a policy lapse, and the date and time that payment must be received by to maintain the renewal effective date and renewal premium.

PROGRAM RESPONSES:

1. With the new rating approach, FEMA increased clarity on the policyholder communications by publishing examples and specific requirements for the Declarations Page, Renewal Notice, and Final Notice in one easily accessible location (the Flood Insurance Manual). By providing the requirements in this manner, FEMA can more easily update and clarify requirements going forward. Additionally, FEMA introduced several products, including a Rate Explanation Guide, a Discount Explanation Guide, and a series of videos available to NFIP insurers, agents, and policyholders to provide an explanation of the NFIP premium. All of these products are available to the public online and NFIP policyholder communications refer policyholders to a website (www.Floodsmart.gov) that provides information about the NFIP. For 2024, FEMA will adjust the Floodsmart website to align it with current website trends and enhance the navigation to enable stakeholders to access the information they want more easily. FEMA will reinforce the availability of the products available and will continue to monitor feedback from NFIP policyholders and stakeholders to improve NFIP premium communication. FEMA will further increase the standardization of information provided to policyholders.
2. See above response to recommendation 1.
3. The deductible selected by the policyholder is reflected in the premium charged. The discount provided adheres to Actuarial Standards of Practice and Principles, as required by statute. For a small number of policyholders, for whom premiums are bounded by the maximum premium chargeable (currently up to $12,125 for single family homes), some changes to policy coverage options may not result in the premium changes that policyholders expect. FEMA developed an informational video that explains this concept and will continue to explore ways to communicate

or incorporate into training. FEMA is also researching the effect that deductible changes may or may not have on a premium.

4. FEMA provides a quote based on the information provided by the NFIP insurer. Elevation Certificates (EC) are optional for rating, but if policyholders provide an EC, FEMA will compare the EC information with the data that FEMA has and return the lower premium. The current declarations page provides the First Floor Height information and indicates whether the FEMA determined First Floor Height was used, or whether the elevation information from an EC was used for rating. FEMA will analyze the elevation information that is provided to NFIP insurers and policyholders and determine if there are opportunities to enhance communication or training on how an EC may or may not impact premium.
5. FEMA has communicated with NFIP insurers to aggressively monitor their renewal activity. FEMA is in the process of updating the NFIP renewal notice to be more explicit about the premium implications when a policy lapses. FEMA will develop templated renewal inserts to provide to NFIP insurers through agents.floodsmart.gov.

Improving Program Processes

OFIA asserts that the changes to the premium rates were vital and accomplish the NFIP's goals through sound methodology and actuarial due diligence. OFIA will recommend process improvements to enhance and advance the customer experience by highlighting opportunities to address customer frustration around lapses. Finally, customers want to understand actions they can take to lower their flood insurance premium. The OFIA casework indicates there may be further opportunities to provide refined data and reflect mitigation activities in the flood insurance premium.

Consequences of a Lapse at the Time of Renewal

As previously discussed, policyholders contacting OFIA have expressed confusion and frustration when their policy lapses. Currently, a late renewal payment received by an insurer more than 30 days after expiration of a flood insurance policy results in the need for a new application at a potentially higher premium that is above the statutory annual premium increase cap and with a new effective date.

WHAT NFIP CUSTOMERS WHO CONTACT OFIA ARE SAYING

"I've got a real mess on my hands and desperately need your help. I received a FEMA grant to rebuild our house… We had a house with NFIP insurance on the property for 20 years prior to hurricane Harvey wiping it out….I waited until last Friday (3 days before my payment grace period would expire) to make the payment. The reason for the delay was that I was expecting to get a final EC [Elevation Certificate]…before the grace period would expire. The elevation change would affect the cost of the policy in my favor. FYI: I got the elevation certificate yesterday. On Friday…my wife attempted to make payment …multiple times, each time it would not accept the payment and said to 'Try Again'. First thing yesterday, I contacted [my insurer who] asked what browser I use and when I told her Chrome, she said that was the problem because their payment system is not compatible with Chrome….they said there was nothing they could do to get the original policy re-instated."

CONTEXT

Many policyholders seeking relief from the OFIA have lost their statutory discounts because of a lapse in flood insurance coverage. According to FEMA data, FID estimates a third of single-family home policyholders are already paying a risk-based premium, while others are paying lower premiums that are discounted under the law.

One of the most common discounts is referred to as the Annual Increase Cap discount ("glide path"). For most policyholders, premiums may only increase up to eighteen percent per year. If a full--risk premium is more than eighteen percent higher than the previous year's paid premium, an annual premium cap discount is applied to keep the increase within the statutory limit. The premium will then increase eighteen percent per year until it reaches the full-risk premium. This allows consumers to have a transition period when map, rate, or other program changes that can impact their rates occur. Under the law, if a policy lapses, the policyholder will be required to pay the full-risk rate without discounts upon reinstatement. Policyholders need information on their full-risk rate and statutory discounts to truly understand the consequences of letting their policy lapse.

FID indicates that more than eighty-five percent of policies per year renewed with no lapse in coverage over the last four years. For the almost fifteen percent per year that did lapse, reinstatements of lapsed coverage have always occurred in the NFIP with three potential impacts to the policyholder independent of Risk Rating 2.0:

1. An uncovered loss might occur during a lapse in coverage.
2. A lender may “force place” private flood coverage at a higher cost than NFIP insurance during the period without NFIP coverage.
3. The reinstatement of coverage may result in the loss of eligibility for statutory discounts meaning the reinstatement is at a full-risk rate.

As existing customers transitioned to the new premium rates, the OFIA has received an increase in inquiries from policyholders who have lost statutory discounts following a lapse in coverage. FEMA’s data for single family homes compares the average risk-based cost of insurance to the average current cost of insurance. The data demonstrates the potential impact of a loss of discounts for a policyholder on average may double flood insurance premiums due to a lapse in coverage (an average cost of roughly $1,000 per year).

Independent of Risk Rating 2.0, policies lapse for a variety of reasons, including:

- **Affordability:** Even with legislative caps on annual premium rate increases, some policyholders are unable to pay a full annual premium at once. Lapses compound the impact on affordability because a full-risk premium is ultimately more unaffordable than a discounted premium that was already unaffordable.
- **Hardship**: Some policyholders have allowed lapses to occur inadvertently because of difficult life circumstances unrelated to affordability, such as illness or other hardships or events that distracted the policyholder from paying their flood insurance renewal premium on time.
- **Insurer error**: Renewal notices may not have been sent or may have been sent to the incorrect address. In some cases, insurers have created confusion by printing “This is Not a Bill” on copies of renewal notices to the policyholder when a lender was expected to pay the renewal.
- **Timing**: Some policyholders attempt to pay at the end of the renewal period, missing the final deadline by one or two days. In some cases, delays in the United States Postal Service contributed to the payment being received after the end of a 30-day grace period resulting in termination of coverage.
- **Payment processing**: Policies have terminated when an online payment system was too complicated or malfunctioned and the customer could not complete their electronic payment.
- **Agent error:** In some cases, agents admit to failing to update a billing address or to remit a payment made in the agent’s office in a timely manner. In many cases, an agent failed to

update the flood insurance with new lender information while updating homeowners' insurance. FEMA is prohibited by law from holding agents harmless or indemnifying agents for their own errors or omissions.

- Lender error: Though a small percentage by banking industry standards, lenders (or their servicer) may fail to remit payment or remit payment to an incorrect address. In these situations, the impact to customers is often substantial. A loss of premium discounts in this scenario feels particularly unfair because the law requires many lenders to escrow flood insurance premiums in many of the highest risk areas, leaving the policyholder feeling powerless when a lapse occurs for this reason.

The law prohibits coverage for a loss during a lapse and requires that the reinstatement of coverage at full-risk rates after a lapse in coverage. "Lapse" is not a defined term in statute or regulation. OFIA continues to work with the program offices to ensure that FEMA applies the law with the maximum administrative flexibility allowed and in a fair and consistent manner.

RECOMMENDATIONS:

1. FID should explore its administrative authorities to define a lapse or reevaluate determination of when payment is received for the flood insurance policy in a manner that minimizes the chances of losing discounts due to a late payment caused by circumstances beyond the policyholder's control.
2. FID should implement monthly installment payments to assist those facing affordability challenges to maintain effective dates, discounts, and "glide path" by spreading the payment over time.
3. FID should develop additional communications to emphasize the importance of not letting a policy lapse and the option to use certified mail to establish a premium payment date.

PROGRAM RESPONSES:

1. FEMA is exploring administrative alternatives for addressing late renewal payments.
2. FEMA is currently in the rulemaking process to allow policyholders to pay their annual premium in monthly installments.
3. FID is updating the NFIP-produced Renewal Notices and will develop other templated communication products to reinforce the importance of paying a renewal on time. With the new rating approach, FEMA increased/improved clarity by publishing standardized requirements for renewal notices in the Flood Insurance Manual. FEMA will update messaging requirements on the renewal notice to be more explicit about the annual cap discount in the April 2024 program changes which FEMA will announce in October 2023.

Frustration with Understanding How to Reduce Flood Insurance Premiums

Insurance agents and floodplain administrators contacting OFIA express frustration and confusion about the limitations they face when providing guidance to a customer on how to reduce their premium by providing more accurate data or undertaking mitigation actions. These policyholders and property owners are frustrated because they feel that they cannot make informed decisions regarding what actions to take to reduce their flood insurance premium.

There are more mitigation discounts available under Risk Rating 2.0, and the number of policyholders receiving those discounts has greatly increased, such as extending CRS discounts outside the Special Flood Hazard Area. However, there is also an increase in policyholder confusion about various discounts and which actions can reduce their risk and their premium, such as elevation of the structure. With property-specific full-risk rates, there is a desire among some policyholders to have a property-specific explanation of which mitigation activity will be the most cost-effective. Floodplain administrators contacting OFIA feel ill-equipped to meet this need.

Historically, communities, and floodplain managers relied on Flood Insurance Rate Maps and floodplain management regulations to help homeowners understand their flood risk and estimate flood insurance premiums. Risk Rating 2.0 applies modern technology and utilizes more rating variables in setting flood insurance rates, making the conversation about mitigation actions less straightforward than it was when the legacy rates were in place. While an insurance agent is best equipped to quote flood insurance premiums, customers rely on floodplain managers to help evaluate mitigation options.

Because the legacy rates only reflected riverine and coastal flooding, policyholders were not aware of the full extent of flood risk to their property. Part of the confusion around mitigation is that certain mitigation actions do not result in the same level of decreased premium rates as they did in the past because flood insurance premiums now consider more sources of flood risk. In some situations, a small number of properties have such a high degree of flood risk that mitigation actions may have minimal impact on premium rates.

WHAT NFIP CUSTOMERS WHO CONTACT OFIA ARE SAYING

“My office manages FEMA’s hazard mitigation grants for [my community] and has successfully mitigated over 1600 structures since 2006. With Risk Rating 2.0 now in full swing, we are starting to see how premiums are being affected by the new rating approach. Many of our mitigated structures are seeing full-risk premiums higher than they were paying before they ever applied for our program.”

CONTEXT

There are many ways stakeholders are attempting to refine and change rates. Policyholders and stakeholders who understand that price signals risk want to know if FEMA has assessed the risk correctly and if there is anything that can be done to reduce the risk with a corresponding reduction in price. This section is organized in three areas: How can more refined data be provided when more refined data is available? How can data be incorporated into the models to show a change in the characteristics of flooding? How can an individual homeowner mitigate their structure against the flood hazards reflected in their rate thereby reducing their flood insurance premium?

Incorporating refined data into the rating

Latitude and longitude: Policyholders want to provide additional detail to FEMA to refine the flood insurance price including correctly identifying latitude and longitude for geolocating the structure. To determine elevations and distance to flood sources, FEMA geolocates the address provided and determines the latitude and longitude. For almost all existing construction, the latitude and longitude are correct. However, in newer developments and very rural areas, the geolocation may be off enough to raise concerns about rating accuracy. Currently, there is not a mechanism for agents or policyholders to correct inaccurate latitudes and longitudes.

Replacement Cost Value: Policyholders, lenders, and agents have sought assistance and clarification to address discrepancies with the replacement cost value, as determined in accordance with FEMA guidance, when it diverges from the replacement cost value determined by other parties. Replacement cost is an industry term that refers to a determination of the value of the cost to repair or replace items with like kind and quality in the event of damage to the property. Because replacement cost is a factor in the flood insurance rate, an accurate replacement cost value is imperative to calculating an accurate flood insurance premium and knowing the amount of coverage to offer. Currently, agents can adjust the five factors most used in the insurance industry to influence the replacement cost value determination, but the rating engine does not allow the input of additional factors such as quality of material used to construct the building. Policyholders, lenders, and agents contacting OFIA have expressed that when they have additional documentation it should be considered when determining replacement cost value in circumstances where the value determined by FEMA diverges from the value determined by other parties.

Incorporating data to reflect changes to the characteristics of flooding

Under the old rating approach, local communities were able to indirectly influence flood insurance premiums for their residents by investing in local mitigation projects that change the flood hazard depicted on the FIRM, thereby reducing premiums in certain areas. Under Risk Rating 2.0, new flood hazard data resulting from completed community mitigation projects may not influence rates the same way it previously did, even if the new flood hazard data results in an updated FIRM. Some floodplain administrators share with OFIA that they want community-owned data or mitigation activities such as stormwater management incorporated into the catastrophe modeling. Communities also want to know which mitigation activities will have the greatest impact on reducing flood insurance premiums.

Mitigating the structure:

Lower premiums were historically obtained by either building or mitigating structures according to the flood hazard information shown on a community's FIRM. FEMA now uses more rating factors to establish premium rates, creating more accurate premiums. This also creates a situation where mitigation actions, such as elevating a structure, may have less influence on the premium price than they did under the previous rating approach. This causes it to be more difficult to provide mitigation advice than the simple solution of elevating every home in the SFHA to or above the BFE. Now, relocating a structure may be a more cost-effective option than elevating the structure.

Policyholders, insurance agents and community officials expressed to OFIA that premiums rates do not seem to adequately reflect mitigation activities. For instance, they have indicated that they believe insufficient credit is given for certain mitigation techniques, such as elevation and adding openings to equalize the pressure of floodwater on the wall of an unfinished enclosure below an elevated building. This makes it harder for homeowners to take action to reduce their flood premiums, and harder for OFIA to advise customers of their mitigation options; a duty assigned to OFIA in its legislation. This also makes it challenging for local officials to determine the cost-benefit of mitigation funding opportunities FEMA makes available to the States and participating NFIP communities.

Floodplain administrators in contact with OFIA expressed a need for additional resources that help them understand what risks the flood insurance premium is conveying and which mitigation activities will have the highest impact on reducing that risk and flood insurance premiums. In the section "Communicating Premium Pricing," OFIA recommends floodplain administrators be provided a resource to estimate cost savings associated with mitigation projects.

RECOMMENDATIONS:

1. FID should update the rating engine to allow agents and insurance companies to provide more accurate geographic coordinate data.
2. FID should consider establishing a process to allow agents and policyholders an opportunity to provide other sources of information to demonstrate replacement cost value used for flood insurance rating.
3. FID should explore ways to incorporate more data from communities into the catastrophe models.

PROGRAM RESPONSES:

1. FEMA geolocates a structure based on the property address provided by the NFIP insurer. If FEMA is unable to geolocate a property, or if the geolocation accuracy does not meet FEMA's standards, FEMA will request a latitude and longitude of the property from the NFIP insurer. FEMA anticipates that over time geolocation accuracy will improve and FEMA will continue to

monitor the accuracy of geolocation, and industry standards for geolocation. Further, FEMA will continue to collaborate with industry for those properties where FEMA requests a latitude and longitude from the NFIP insurer.

2. In order to ensure a standardized and consistent method of determining building value for NFIP premium purposes, FEMA will continue to determine the property building value based on inputs provided by NFIP insurers on the flood insurance application. Allowing multiple sources of building values would introduce inconsistency into the rating process and inconsistency in quoting among the various NFIP insurers. NFIP policyholders can update the application information (for example, building square footage) which may impact the building value used for rating. Policyholders can purchase coverage above (up to the program maximum) or below the building value determined by FEMA. Policyholders should consult with their insurance provider or lender on the appropriate amount of coverage to purchase.
3. Using consistent, nationally available data is necessary to produce accurate rates that support a nationwide program. This approach also reinforces FEMA's commitment to equity so that those communities with the resources to procure highly specialized engineering studies aren't disproportionately favored over those that can't. FEMA is always studying the evolution of flood risk and how that is reflected through industry best practices and catastrophe modeling. That study includes review of mitigation activities that have been proven to reduce expected flood losses.

Final Thoughts

Risk Rating 2.0 more accurately communicates risk to NFIP policyholders and addresses several challenges with the NFIP. The OFIA identified some frustrations in previous Annual Reports that have now been addressed because of Risk Rating 2.0. FEMA estimated that Risk Rating 2.0 would reduce the rates for roughly twenty-three percent of NFIP policyholders and ensures that owners of lower value property are not paying the same rate as owners of higher value property.

In its 2017 OFIA Annual Report, OFIA identified complexity within NFIP programs as an overall customer frustration. Risk Rating 2.0 reduces some complexity by automating data collection in the application process and applying a consistent rate methodology to everyone, whereas the old rating approach used different underwriting rules for different types of risk. Risk Rating 2.0 introduced a more nuanced approach with property-specific and graduated flood risks. Thus, OFIA believes FEMA must undertake a more nuanced approach to explaining mitigation actions and their property-specific impact on both risk and the full-risk premium.

Where it rains, it can flood, and for homeowners in lower risk areas who previously felt priced out of the market, maximum coverage can now be purchased for less than under the previous methodology. Yet, even where premiums have decreased, some policyholders still face affordability challenges that no rating approach could alleviate.

OFIA highlighted affordability as the topic of the 2021 OFIA Annual Report. Although FEMA lacks the statutory authority to address the affordability issue, policyholders now have a price that more accurately signals the reality of their flood risk, which is important information for everyone to have. Affordability is an issue that is of crucial importance, but artificial suppression of prices to alleviate affordability concerns only suppresses the perception of risk. At the request of Congress, FEMA prepared an Affordability Framework for the National Flood Insurance Program. The Department of Homeland Security on behalf of FEMA delivered Legislative Proposals for the National Flood Insurance Program, including a proposal to establish a means-tested assistance program, to the 117th Congress in May 2022 and the 118th Congress in April 2023. These proposals are also included in the current presidential budget. OFIA will continue to advocate for solutions to affordability, noting mitigation assistance remains an important tool.

Risk Rating 2.0 was an important modernization that creates future opportunities to increase the availability and accessibility of flood insurance. For the first time in NFIP history, it is conceivable that a direct-to-customer means of obtaining a quote on a cell phone could be achieved. This may cut program expenses and therefore reduce premiums. The new rating approach also creates future opportunities to rethink the terms and conditions of insurability. New products may be developed that are more suitable to renters and lower income households. We encourage FEMA to continue to find new ways to improve their commitment to delivering quality customer experience.

From a holistic perspective, Risk Rating 2.0 was the first step in modernizing the NFIP. This monumental change succeeded in modernizing the insurance component of the NFIP. Floodplain management and risk identification are also key components and are still in the process of modernization, which is crucial to building an enduring NFIP. Integration of all components of the NFIP is imperative to ensuring FEMA and all stakeholders communicate a consistent flood risk message to policyholders and property owners. This integration will enable policyholders to make informed decisions to reduce their flood risk, which will, in turn, reduce the suffering caused by disasters. As insurance price and other data more accurately communicate risk, the conversation is better informed. A better-informed risk conversation may change where we build and how we build in a more resilient America.