Risk Rating and Policy Forms Redesign

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Brief NFIP History

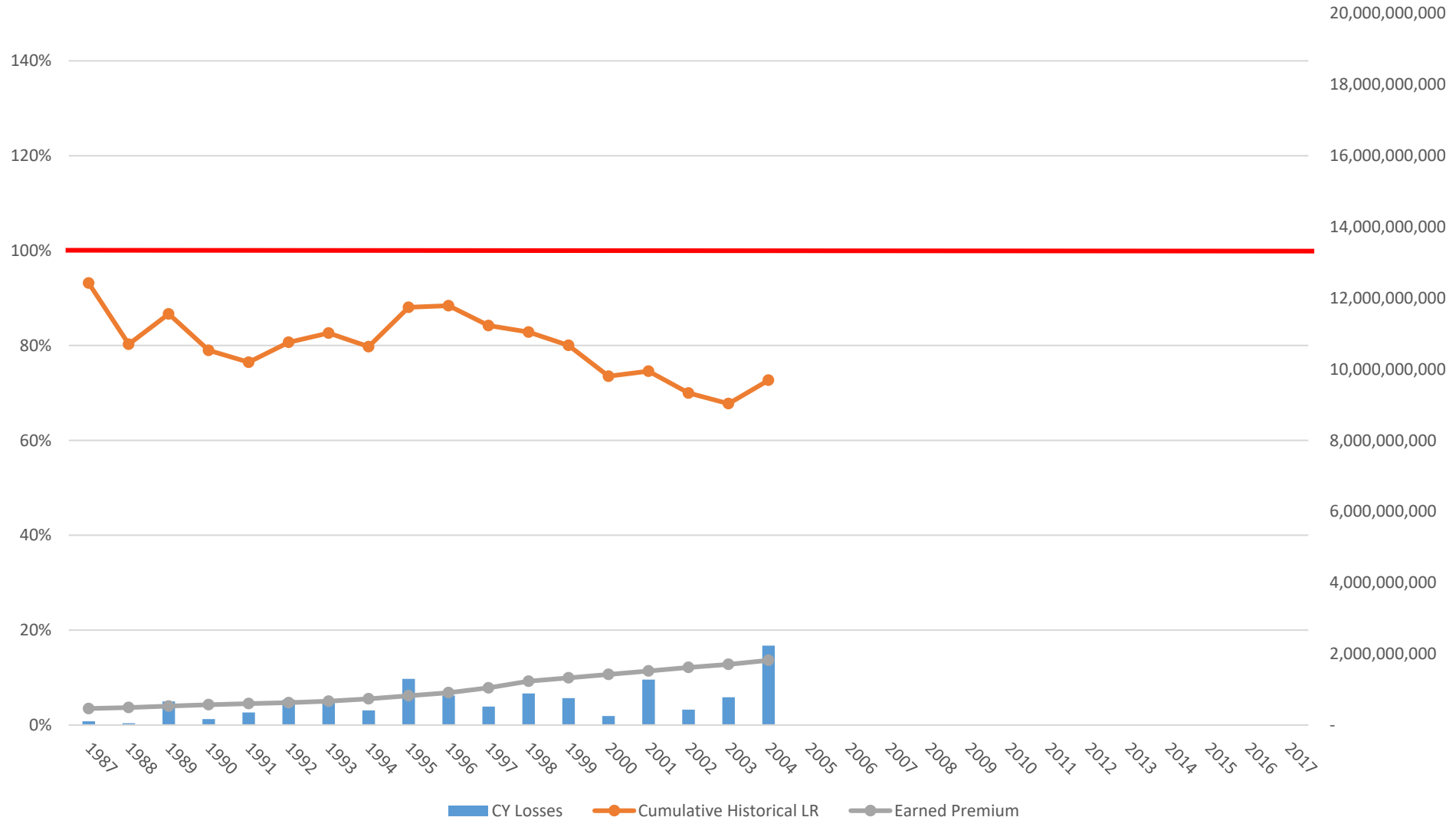
Pre-1927: The private sector offered flood insurance coverage

1929: The impacts of the Great Mississippi Flood of 1927 cause the private sector to stop covering flood

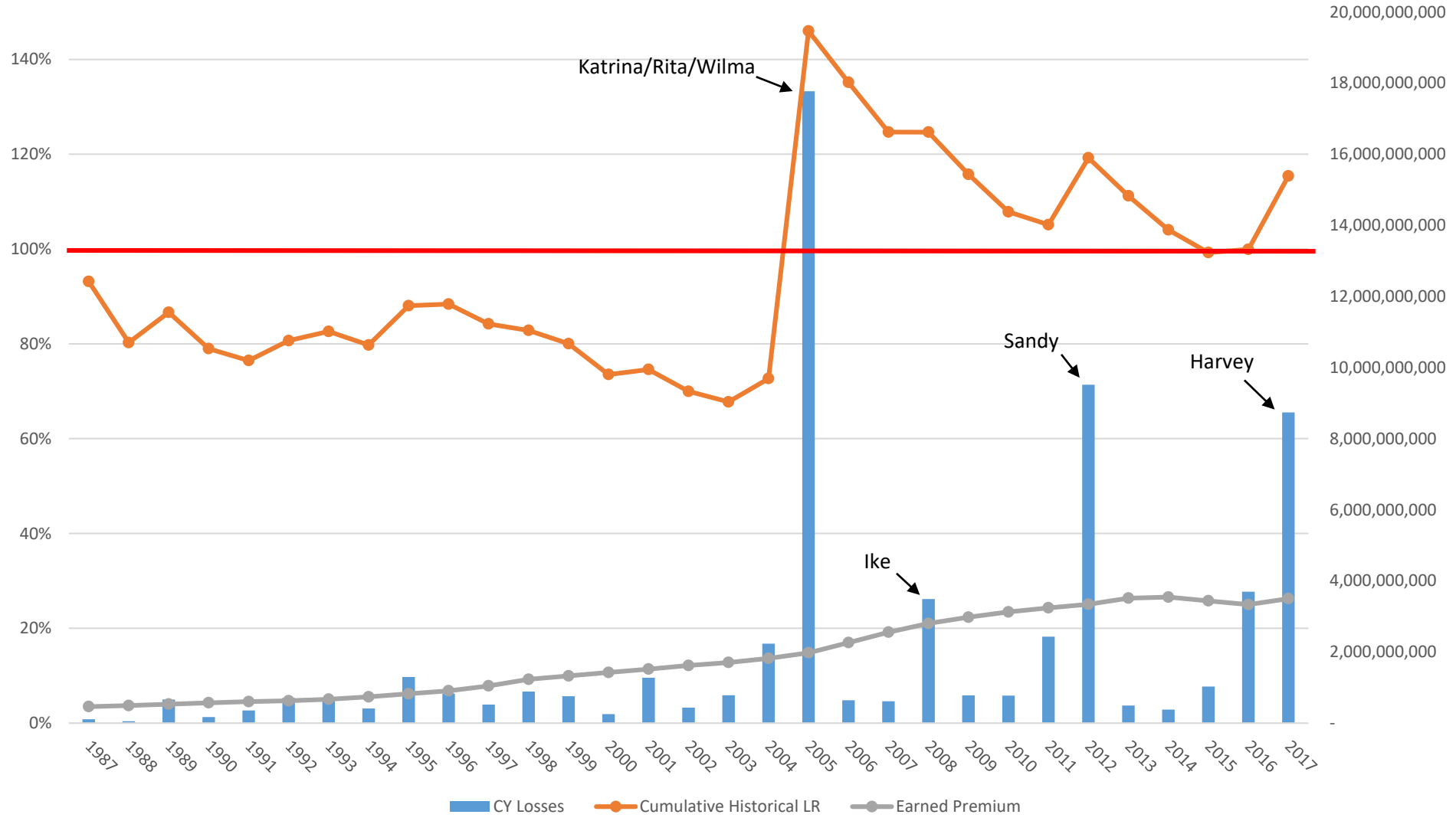
1968: Congress passed the National Flood Insurance Act to create the National Flood Insurance Program

1960s and 1970s: Current rating system developed jointly by the NFIP and private insurance industry based on best practices of the fire and home insurance sectors

NFIP Historical Experience 1987-2004



NFIP Historical Experience 1987-2017



Recent NFIP History

2005: Hurricane Katrina - Losses paid from Katrina were greater than the sum of all NFIP losses paid up to that point.

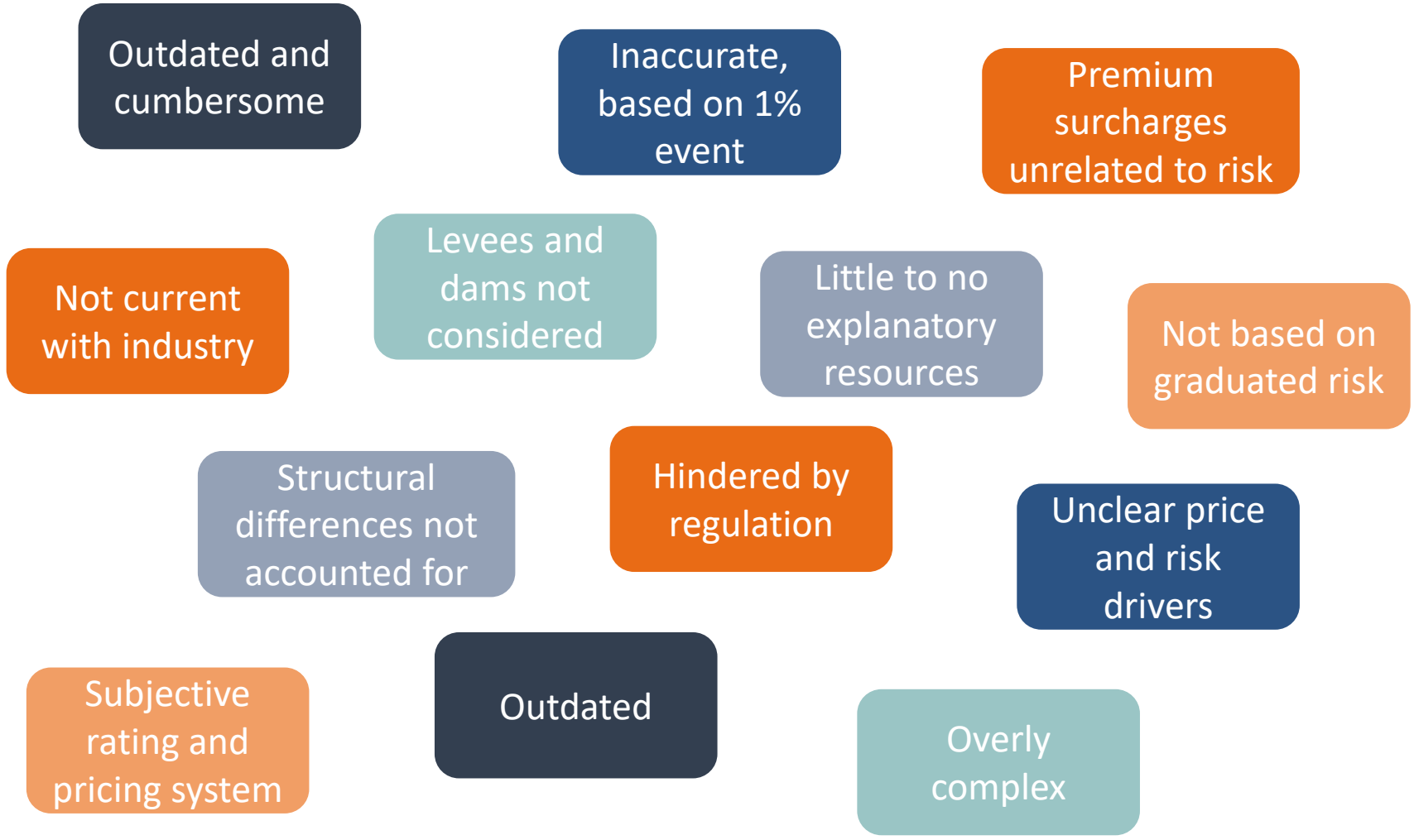
2008: Hurricane Ike – Borrowing authority increased to $30.5B

2012: Biggert-Waters Flood Insurance Reform Act of 2012

2013: KatRisk and AIR Worldwide release first commercial Inland Flood Models

Case for Change

What we've heard



Risk Rating Redesign Solves Major Issues

- **Make Rates Fairer:** Fixes the current cross-subsidization of higher-cost homes from lower-cost homes

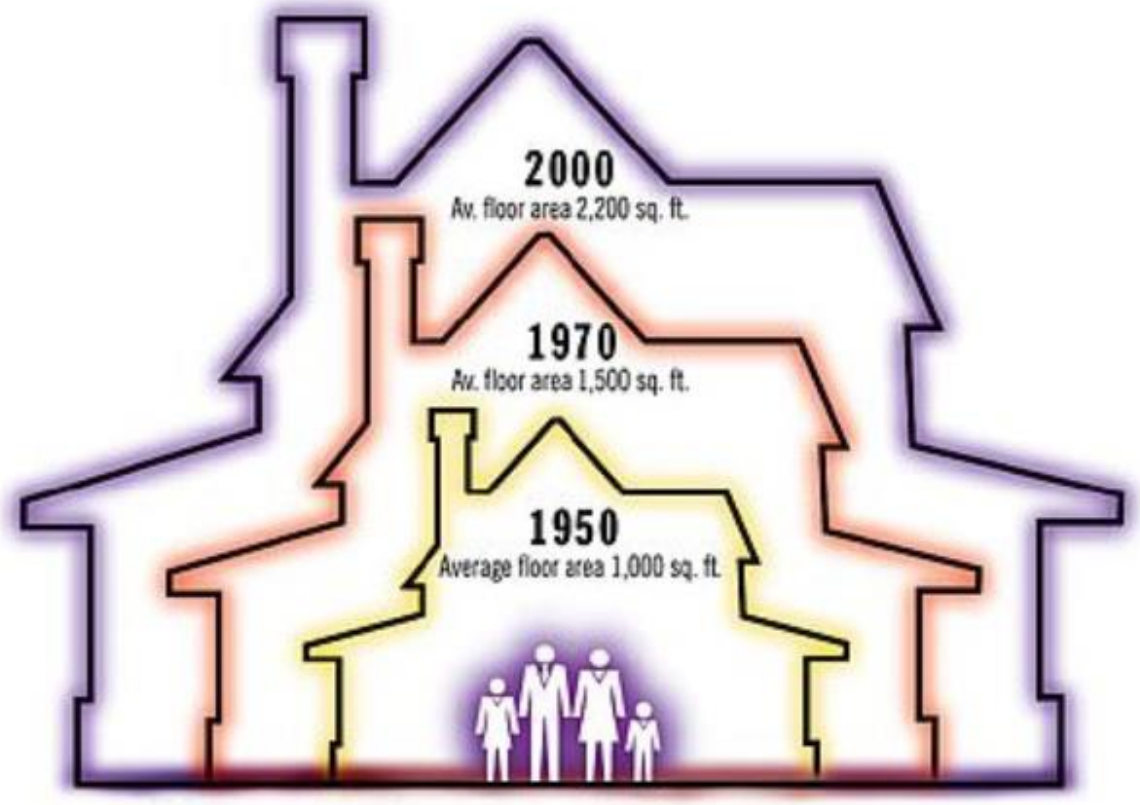
- **Reflect More Types of Flood Risk:** Current rates do not account for heavy rainfall (i.e., Harvey) and other types of flooding (levee, tsunami, etc.), nor do they account for the full range of flood frequency (currently flood is depicted simply as “on” or “off”)

- **Increase understanding of flood risk with intuitive rating variables**: Current rating variables are complex, hard to understand, and create steep cliffs

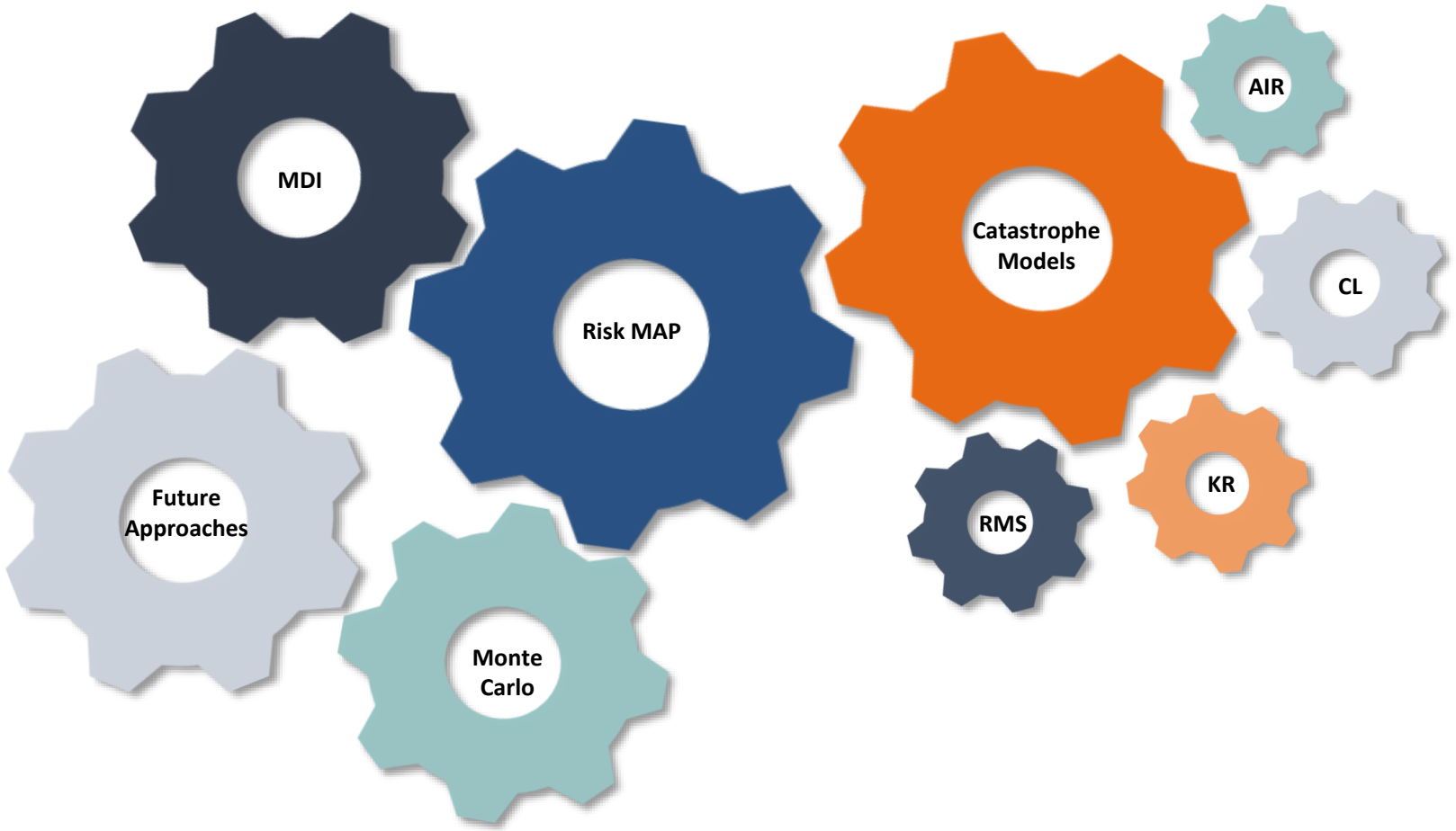
- **Help Americans rebuild their lives more quickly by closing the insurance gap:** Policies that are easier to sell and buy = more insurance coverage = more Americans having their lives rebuilt more quickly

Fairer Rates with Replacement Cost

- Because of increased housing sizes and related costs, the current system overcharges inexpensive homes
- The new rates will use replacement cost data to estimate the cost to rebuild the home, correcting the current inequalities



Localized Flood Risk with Multiple Models



- Rates are developed using FEMA-licensed commercial catastrophe models and FEMA-built models and data

Understanding Risk with Intuitive Variables

Potential New Rating Variables

- Distance to Coast
- Elevation above River
- Basement
- Relative Elevation
- Construction Type
- …

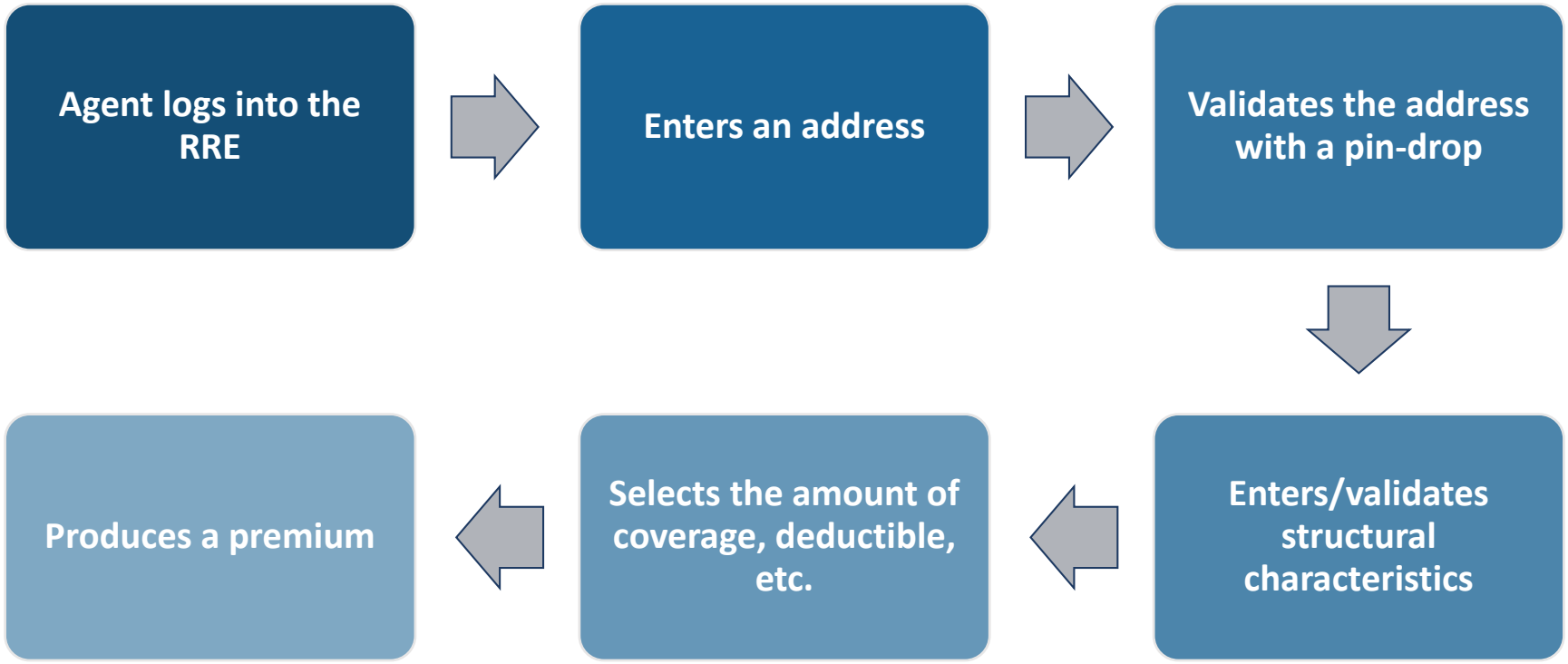
Example of two homes in AE zone:

Low storm surge and inland flood risk

High storm surge and inland flood risk

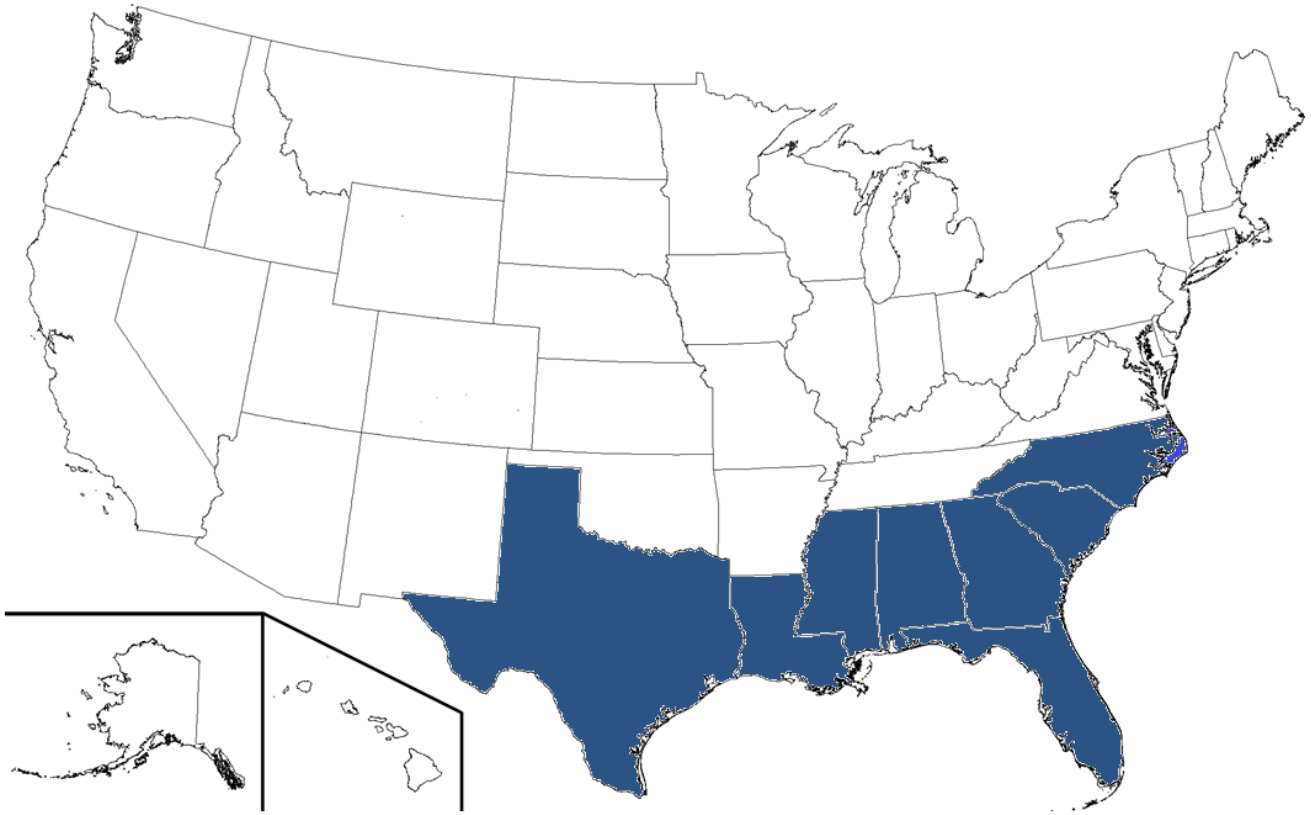
Streamlined Experience with Engine

- Rates will be delivered using the Risk Rating Engine (RRE) which will give a seamless experience for agents and policyholders
- The RRE will be a one-stop-shop for getting a consistent premium for an NFIP policy across all WYOs



Helping to Achieve NFIP Moonshots

Segment 1: Southeast States



- The first Segment of rates will be for ***single family homes*** in Southeast states (blue)
- Rolling out in segments instead of nationwide helps deliver rates sooner
- This region was chosen because of the large number of policyholders in or near floodplains and availability of up-to-date data
- The order of rollout for additional Segments will be determined at a future date

Thank you!

Questions?