



# NFIP Risk Rating and Policy Forms Redesign

## 2018 CAS Seminar on Reinsurance

Federal Emergency Management Agency (FEMA) -  
Federal Insurance and Mitigation Administration (FIMA)

June 04, 2018

# NFIP Moonshots



FEMA



**INCREASE INVESTMENT**

in Mitigation **x4**  
by 2023

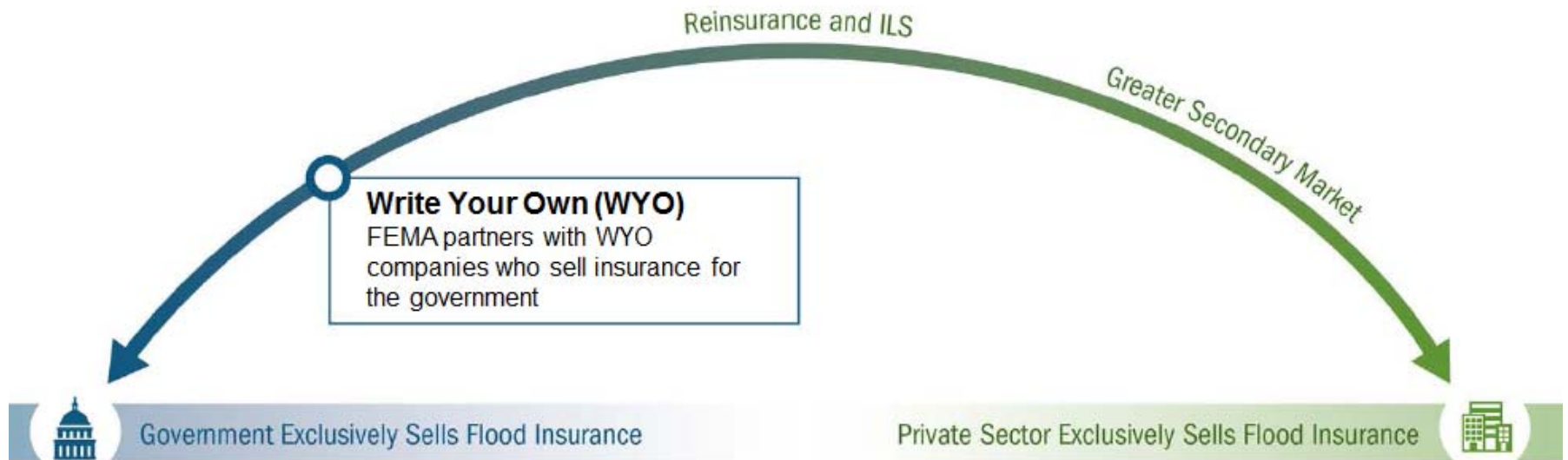
The graphic features a red lifeguard stand on a wooden pier extending into blue water. A blue arrow points upwards from the water towards the text.



**Double Coverage**  
by 2023

The graphic shows a red umbrella with a black handle, positioned under a shower of blue raindrops.

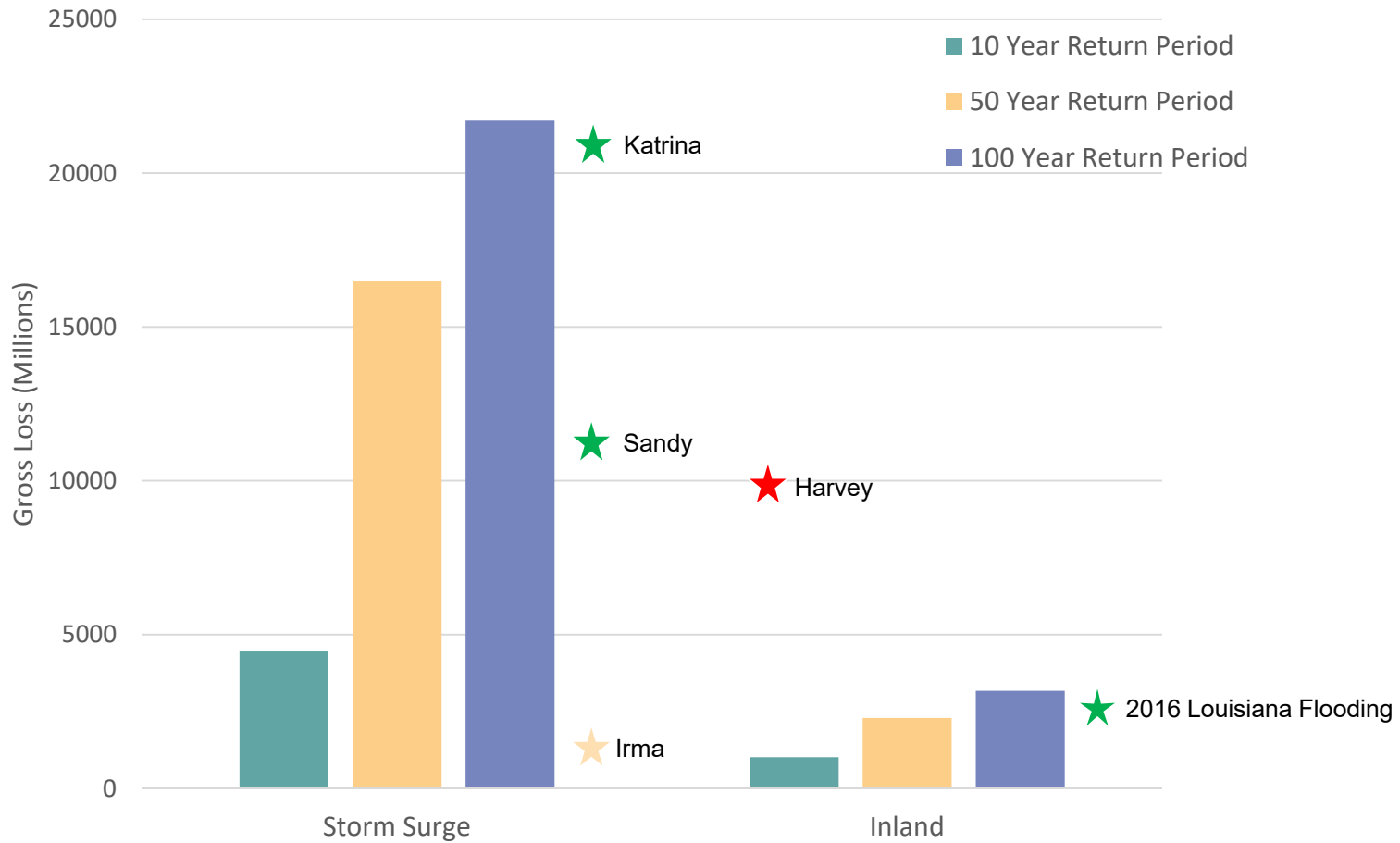
## Flood Insurance Privatization Spectrum



# NFIP's 2017 Reinsurance Program



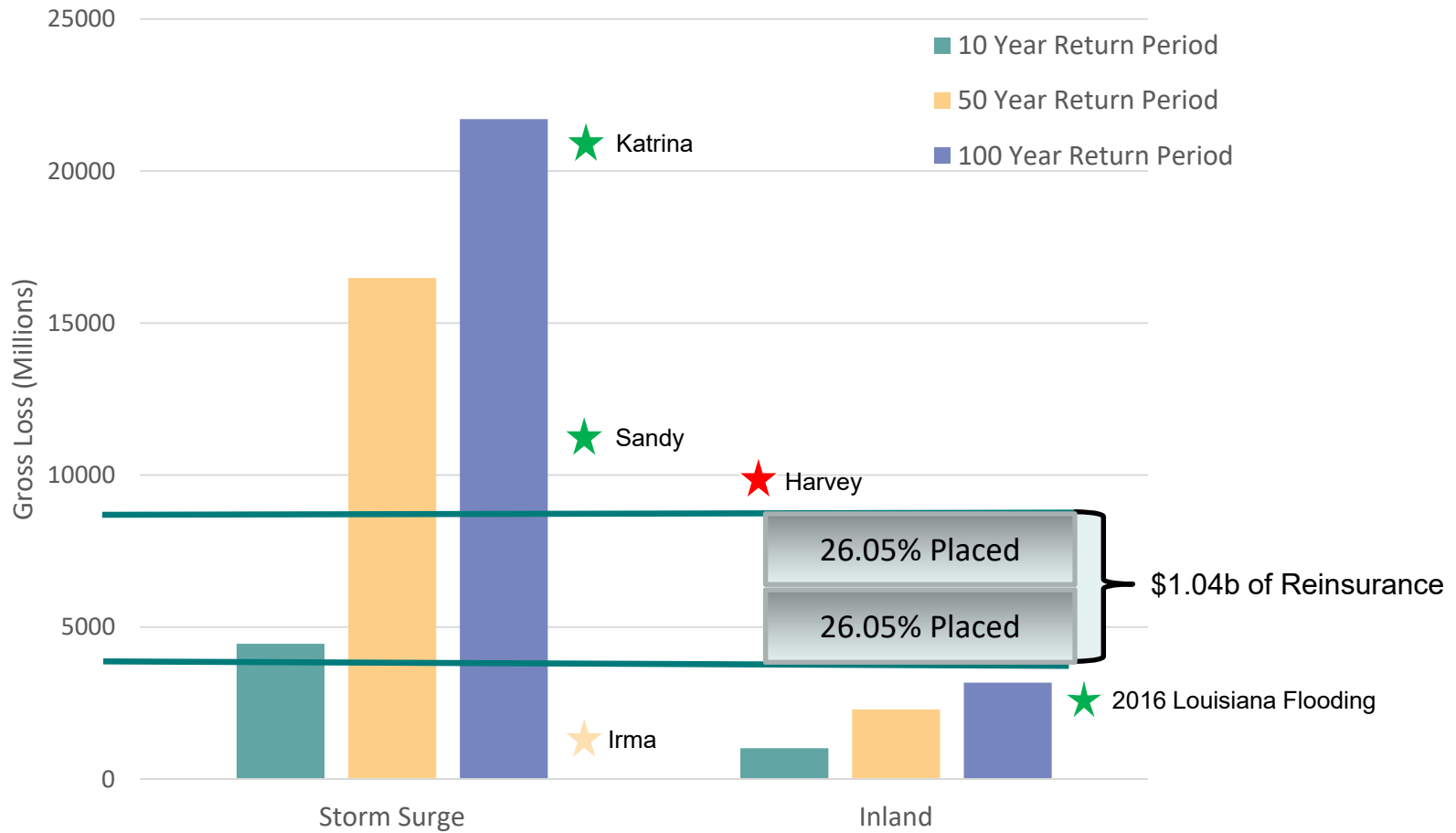
Major NFIP Events Compared with Expected Losses



# NFIP's 2017 Reinsurance Program



Major NFIP Events Compared with Expected Losses



**Slide 5**

---

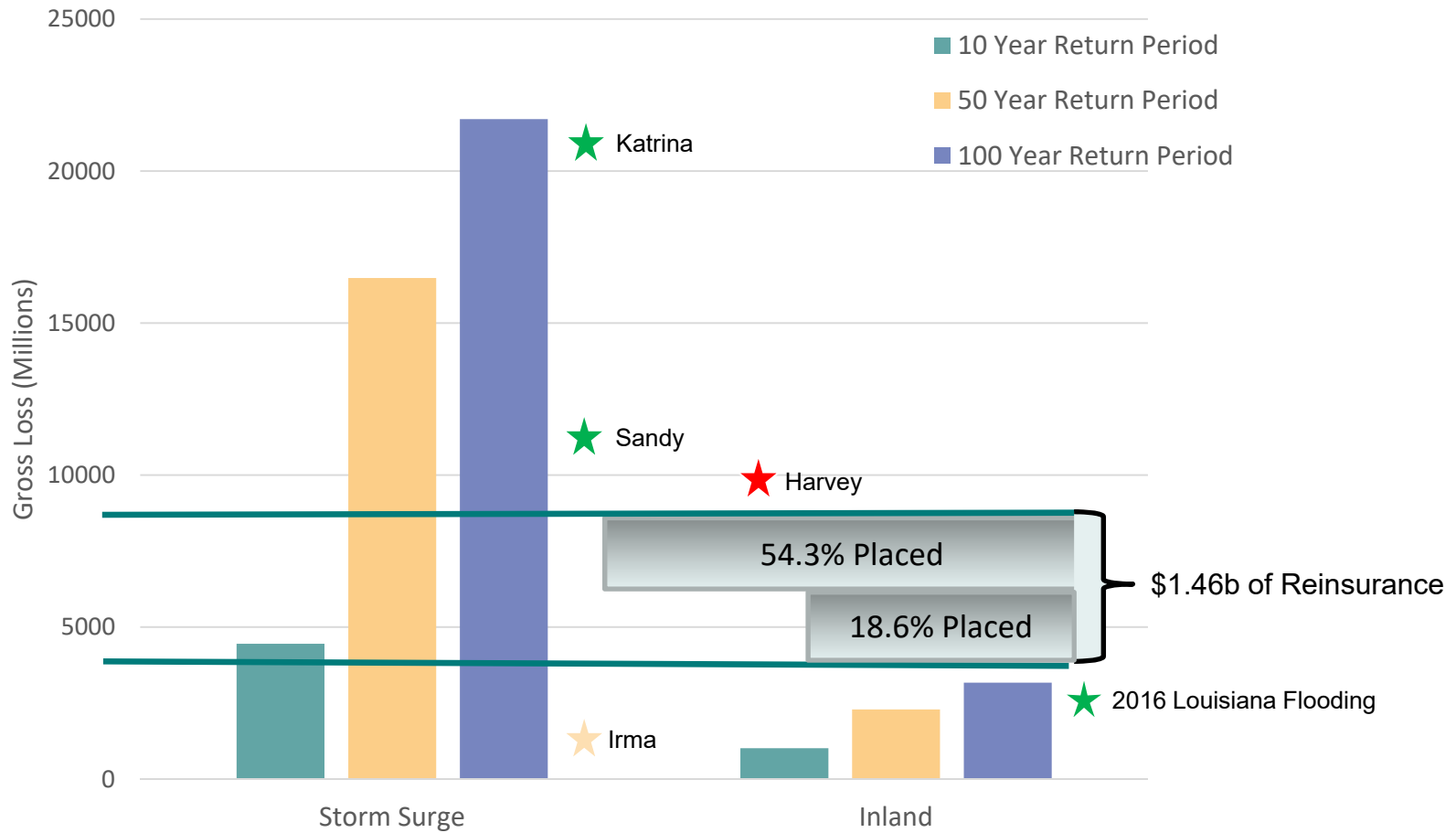
**A81**

Author, 2/28/2018

# NFIP's 2018 Reinsurance Program



### Major NFIP Events Compared with Expected Losses



*How is Risk Rating and Policy Forms Redesign supporting FIMA's moonshots?*



- Covering more mitigation credits will incentivize risk reduction efforts
- Intuitive rating variables that clearly communicate risk will highlight mitigation opportunities



- Automated underwriting will make policies easier to sell
- A digital engine and plain-language policy forms will streamline application experience
- A more credible view of risk will encourage coverage in all risk-prone areas



# Case for Change: What We've Heard



Outdated and cumbersome

Levees and dams are not considered

Not based on granulated risk

Hindered by regulation

Little to no explanatory resources

Inaccurate, based on 1% event

Surcharges on premium are unrelated to risk

Not current with industry

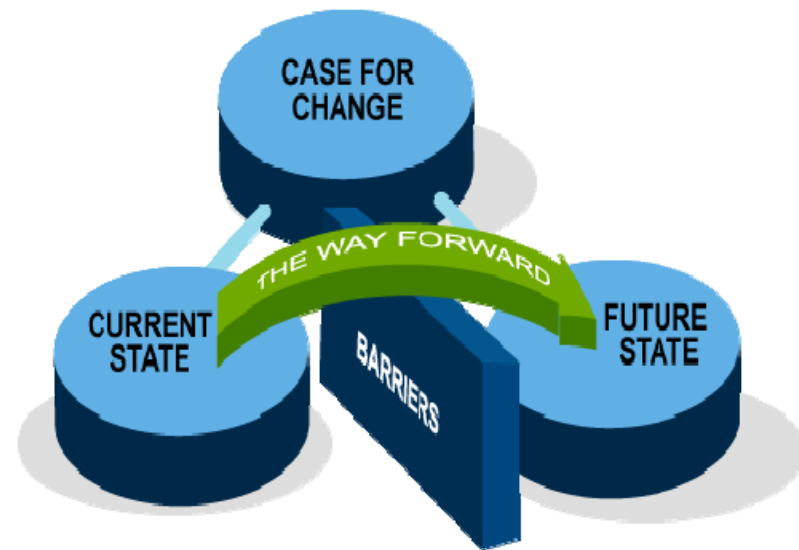
Subjective rating and pricing system

Outdated

Overly complex

Unclear risk and price drivers

Structural differences not accounted for



## Through Risk Rating Redesign:

- Rates will be a **fair** representation of risk.
- Rates will be **clear** about the risk factors that drive citizen and community mitigation and insurance decisions—ultimately saving lives and property.
- Rates will take advantage of **technology** and **data** to be delivered as broadly and efficiently as possible.

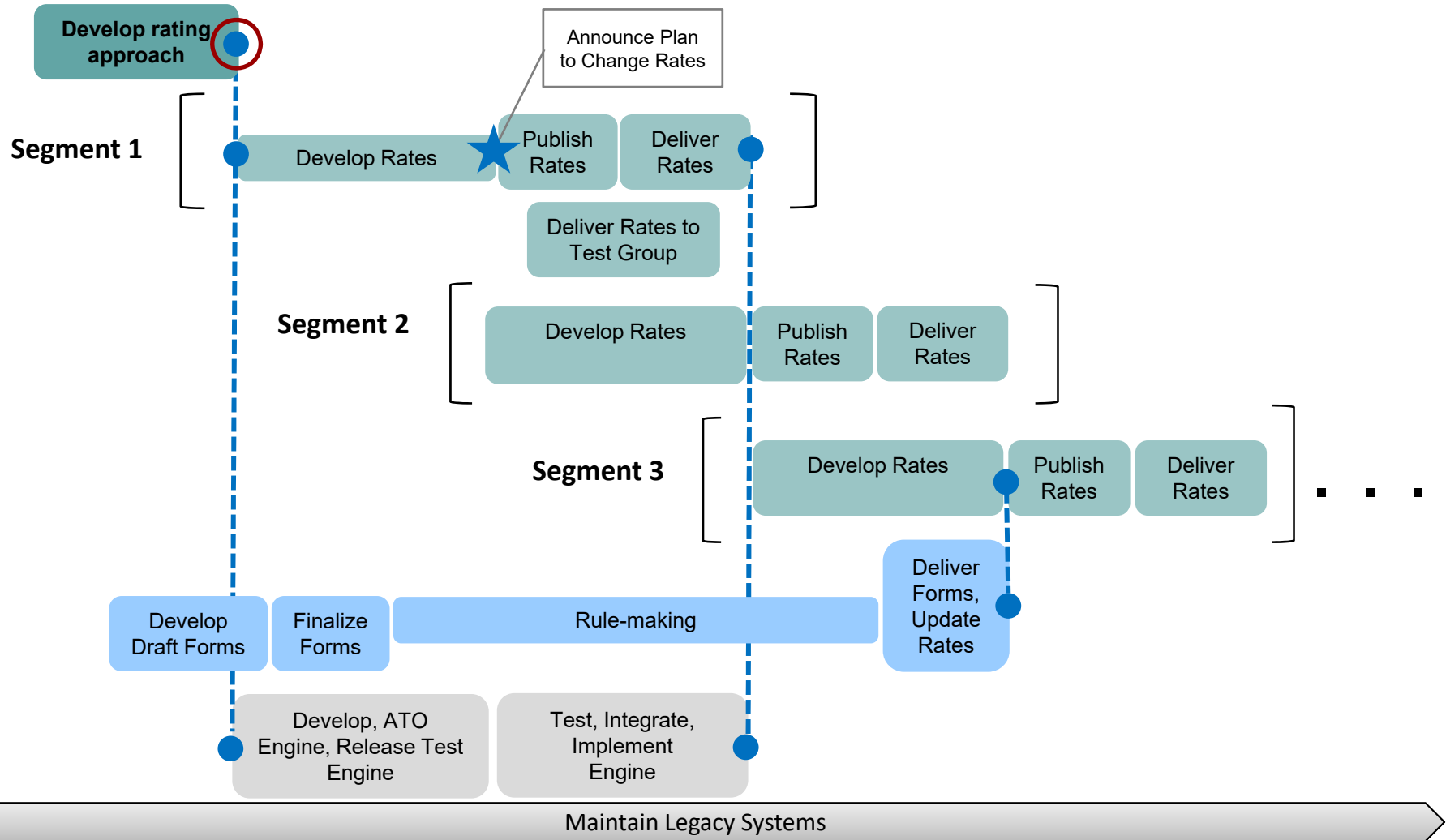
## Through Policy Form Redesign:

- Insurance products will be **simpler** so policyholders understand their flood coverage.
- Insurance products will **align** with industry products to enhance agents' ability to sell flood coverage and adjusters' ability to efficiently adjust claims.
- Insurance products will provide **choice** to policyholders.

# Notional High-Level Timeline



Year 1: 2017				Year 2: 2018				Year 3: 2019				Year 4: 2020				Year 5: 2021				Year 6: 2022			
Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct



Overall, the new rating plan will use:

**Catastrophe models  
+  
NFIP Map Data**

**Insurance to value**

**Intuitive rating  
variables**

**Easily collected  
data**

# Old Rates vs. New Rates



## Old Rates

Bright lines with little geographic differentiation

Use a 50-year-old method

Limited mitigation integration

Underwriting is costly and slow

Requires Elevation Certificates

Narrow view of hazard

## New Rates

Graduated risk with complete geographic differentiation

Use agile method & industry best practices

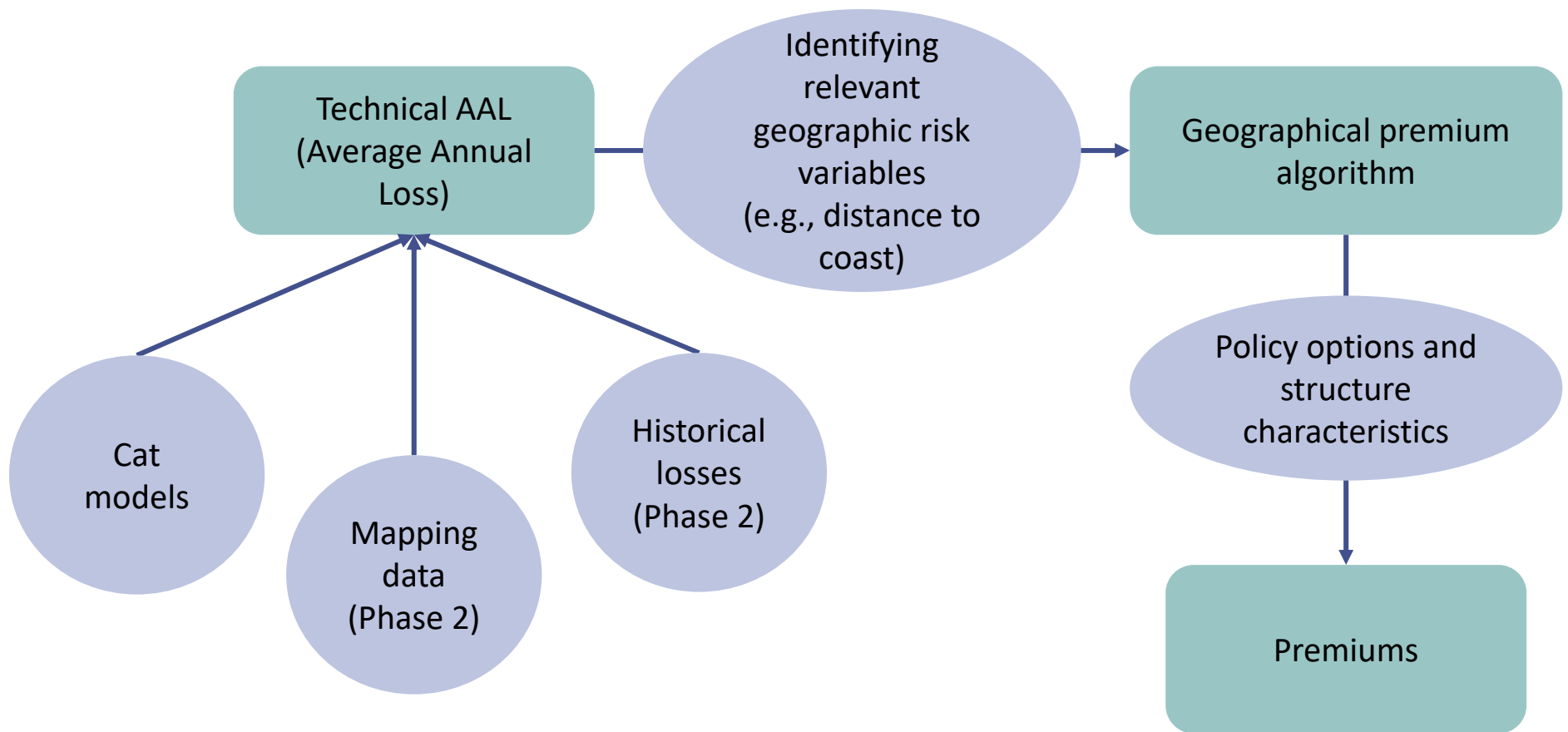
Account for more mitigation actions through credits

Automated underwriting process

Reduced role of Elevation Certificates

Inclusive of other hazards (e.g., pluvial) and vulnerability

# The New Rating Methodology



# User Experience: Notional Prototype Graphic



## SAMPLE RISK FACTORS

### Distance to coast



**LOW**

You are relatively far from the coast. This results in a decrease to your premium.

[view details](#)

### Relative elevation



**HIGH**

Your home is low lying. This results in an increase to your premium.

High volume rain events could flood your home even though you are not near a flooding source.

[view details](#)

### Basement



**LOW**

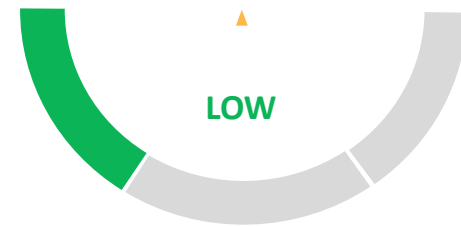
Your home does not have a basement. This results in a decrease to your premium.

[view details](#)

## YOUR FLOOD INSURANCE PREMIUM FOR JANUARY 2018



Your flood insurance premium is  
**\$-\$\$\$**



### Mitigation actions to reduce risk

[view details](#)

## New Policy Forms



- NFIP must provide insurance products that **customers value** and agents can **easily sell**
- New forms will be **understandable** to policy holders, agents, and adjusters
- FEMA will **test the new forms** against the rating plan to determine whether **pricing is reasonable**
- New forms will **mirror industry** contracts with an emphasis on plain language



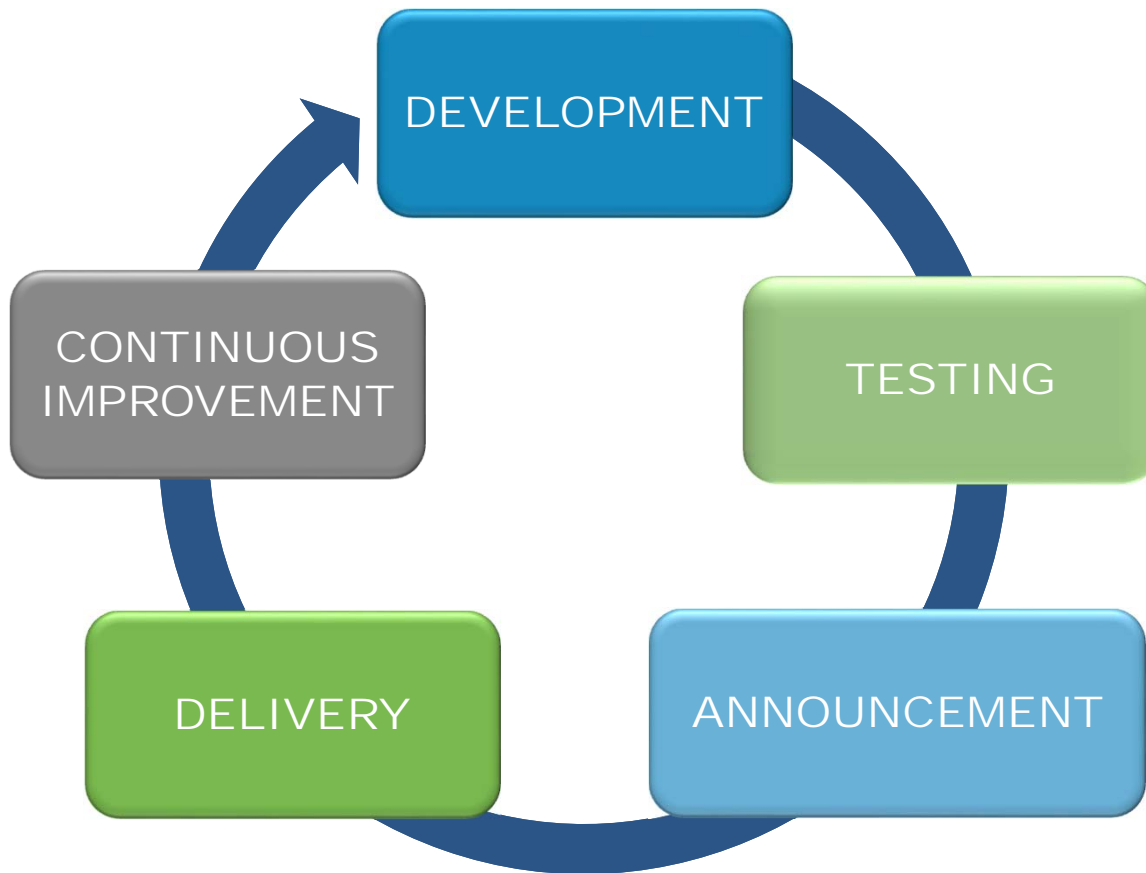
# Current vs. Future State of Policy Forms



Developing new policy forms that **align with industry** best practices



<b>Current State: Three Policy Forms</b>	<b>Future State: Align with Property &amp; Casualty Industry</b>
<ul style="list-style-type: none"><li>• Dwelling</li><li>• General Property</li><li>• Residential Condominium Building Association Policy</li></ul>	<ul style="list-style-type: none"><li>• Residential (building and/or contents)</li><li>• Residential Renters Comprehensive</li><li>• Residential Renters (building and/or contents)</li><li>• Condominium Unit Owner</li><li>• And Others</li></ul>



- Finalize new risk rating methodology
- Develop a risk rating engine that leverages technology and data
- Finalize new forms for rule-making
- April 1, 2019: Announce rating plan; deliver rating engine for testing
- April 1, 2020: Deliver rates for segment 1; deliver rating engine

Thank You