

National Flood Insurance Program Risk Rating 2.0: Frequently Asked Questions

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This Insight answers some frequently asked questions about Risk Rating 2.0, which came into effect fully on April 1, 2022, changing the way the National Flood Insurance Program (NFIP) calculates flood insurance premiums. For additional information, see CRS Report R45999, *National Flood Insurance Program: The Current Rating Structure and Risk Rating 2.0*.

What Is Risk Rating 2.0?

[Risk Rating 2.0](#) is a new pricing methodology and represents the biggest change to the way the NFIP calculates flood insurance premiums since the program began in 1968. Premiums calculated under Risk Rating 2.0 reflect an individual property's specific flood risk, as opposed to being placed in a general risk category based on location and property type.

Why Did the NFIP Introduce Risk Rating 2.0?

The NFIP updated its rating methodology to calculate flood insurance premiums for individual properties based on actual flood risk. This is intended to produce [rates that are more equitable](#), and to inform policyholders of their true flood risk.

How Have Flood Insurance Premiums Been Calculated Previously?

The NFIP's rating structure followed the general insurance practices in place when the NFIP was established and had not fundamentally changed since the 1970s. It used several basic characteristics to classify properties and assign rates. Structures were evaluated by location within a [flood zone](#) on a [Flood Insurance Rate Map](#) (FIRM), [occupancy type](#), and elevation relative to the [Base Flood Elevation](#) (BFE). This rating system did not take into account the individual flood risk or the cost to rebuild, and considered only two sources of flood risk: river flooding and coastal flooding.

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How Are Premiums Calculated Under Risk Rating 2.0?

Premiums are calculated based on specific features of an individual property, including distance from water, type of flooding, flood frequency, structure foundation type, height of the lowest floor relative to BFE, [prior claims](#), and the structure's [replacement cost value](#). FEMA has provided a [Rate Explanation Guide](#) and a [Discount Explanation Guide](#) to illustrate how certain rating variables affect premiums. Risk Rating 2.0 also adds [pluvial](#) flood risk—flooding from heavy rainfall.

Will Subsidized Premiums Increase Under Risk Rating 2.0?

Risk Rating 2.0 continues the phase-out of NFIP subsidies, which began with the [Biggert-Waters Flood Insurance Reform Act of 2012](#) (BW-12) and continued with the [Homeowner Flood Insurance Affordability Act of 2014](#) (HFIAA). Properties currently [grandfathered](#) will see their premiums move towards a full risk-based rate. New policies and those renewed under Risk Rating 2.0 will not be grandfathered but will be limited by statutory rate increases. All new policies pay the full risk-based rate, and existing policies move to Risk Rating 2.0 pricing on renewal.

How Much Can Premiums Increase Annually?

The NFIP is not able to increase rates beyond statutory limits set in HFIAA, which allow premium increases of up to 18% annually for primary residences. Other categories of property are required to have their premium increased by 25% per year until they reach full risk-based rates, including (1) non-primary residences; (2) non-residential properties; (3) business properties; (4) properties with [severe repetitive loss](#); (5) properties with substantial cumulative damage; and (6) properties with [substantial damage](#) or [substantial improvement](#) after July 6, 2012.

Are There Discounts for Flood Mitigation Activities?

Policyholders can receive [mitigation credits](#) for elevating a property, elevating machinery and equipment above the lowest floor, and installing [flood openings](#) below BFE. All policyholders in communities in the [Community Rating System](#) (CRS) receive discounts of 5%-45%, based on the community's [CRS score](#).

How Have Average NFIP Premiums Changed in Recent Years?

Since HFIAA, NFIP average premiums have increased between 6% and 11% per year (see [Table 1](#)).

Table 1. Percentage Increases in Selected NFIP Premiums, 2015-2021

Rate Category	2015	2016	2017	2018	2019	2020	2021
Pre-FIRM Subsidized	14.0%	5.0%	5.0%	5.0%	7.3%	7.9%	7.7%
V zone	9.0%	10.0%	7.0%	11.0%	6.0%	5.9%	0.3%
A zone	12.0%	9.0%	1.0%	1.0%	4.0%	4.1%	1.7%

Rate Category	2015	2016	2017	2018	2019	2020	2021
X zone	11.0%	3.0%	2.0%	1.0%	1.0%	3.5%	1.4%
Average	9.9%	9.0%	6.3%	8.0%	8.2%	11.3%	10.2%

Source: Compiled by CRS from annual [WYO Company Bulletins](#).

Note: Rate increases for 2021 do not include changes from Risk Rating 2.0.

Does Being Mapped into a Different Flood Zone Affect Premiums?

No, [flood zones](#) are no longer used in calculating a property's premium under Risk Rating 2.0. Instead, premiums are calculated based on the specific features of an individual property. FIRMs are still used for the [mandatory purchase requirement](#) and [floodplain management](#).

How Does Being Behind a Levee Affect My Premium?

FEMA uses data from the U.S. Army Corps of Engineers [National Levee Database Levee Screening Tool](#) (LST) to determine a [levee's level of risk reduction](#). Currently, 20% of levees have been screened and have information to fulfill all levee data needs for Risk Rating 2.0.

Does Risk Rating 2.0 Change Requirements to Buy Flood Insurance?

No, if a property is in a [Special Flood Hazard Area](#) (SFHA), the owner is required to buy flood insurance to secure a federally backed mortgage. Lenders use FIRMs to make this determination.

Can New Premiums Under Risk Rating 2.0 Be Appealed?

No appeal procedure has been established for changes under Risk Rating 2.0. Policyholders can [appeal against NFIP flood maps](#), but this will not change insurance premiums.

How Are Premiums Changing in My State Under Risk Rating 2.0?

FEMA has posted [state profiles](#) showing changes under Risk Rating 2.0, and data at the [county](#) and [zip code level](#) can be downloaded. FEMA has also provided information on the [cost of flood insurance for single family homes](#) under Risk Rating 2.0, showing the number and percentage of policies by price range at the state, zip code, and county level, including the average replacement cost value in each price range and the percentage of policyholders facing different types of flood peril.

Are Premiums Under Risk Rating 2.0 Affected by Changing Flood Risk Under Climate Change?

Premiums for a single year will not increase due to future climate change. However, if flood risk increases over time, premiums will increase to reflect the [increased risk](#).

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