



September 9, 2024

Deanne Criswell
Administrator, Federal Emergency Management Agency
[FR Doc. 2024-15271]

Re: Request for Information on the National Flood Insurance Program's Community Rating System Redesign Effort

Dear Administrator Criswell:

On behalf of the Extreme Events and Property Lines Committee (the committee) of the American Academy of Actuaries,¹ I appreciate the opportunity to provide comments in response to Federal Emergency and Management Agency's (FEMA) [Request for Information](#) (RFI) on potential future changes to the Community Rating System (CRS) under the National Flood Insurance Program (NFIP). The committee appreciates and supports FEMA's efforts to engage with stakeholders on how to improve risk management and increase the availability and affordability of flood insurance. We are providing responses to RFI questions Nos. 2, 3, and 5 below.

(2) Should FEMA auto enroll all NFIP participating communities into the CRS program to give the community CRS credit for activities that they already undertake that exceed NFIP minimum floodplain management standards (e.g., community has an open space preservation program to reduce flooding)? Auto enrollment means all communities would automatically participate in CRS by virtue of participating in the NFIP.

Auto-enrolling participating communities into the CRS program will not necessarily engage communities to take advantage of it. Instead, we suggest presenting the CRS program as a benefit available to communities. Then those proactive communities can engage in CRS more actively. Communities not acting proactively should be made aware of the program as it is in the best interests of their residents to increase their community resiliency and receive discounts on premiums.

Another consideration is the question of the adequacy of the CRS program credits. FEMA's Risk Rating 2.0 program (RR 2.0) was a significant improvement to NFIP rate adequacy and equity. If

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

care is not taken in deploying the CRS program, some communities could end up receiving inappropriate credit for their contributions that undoes the RR 2.0 program's actuarial overall rate adequacy and equity components.

If some communities are accurately identified and credited, it could well necessitate raising rates elsewhere. This result could affect the overall program because current rates are already inadequate. We encourage class plan equity to ensure costs are accurately distributed, where the benefits of the CRS credits are properly allocated within the RR 2.0 rate schema.

(3) Would there be any advantage if FEMA were to assess an escalating surcharge on NFIP policy premiums for NFIP participating communities that are not in compliance with the NFIP minimum floodplain management standards? This would be in addition to the NFIP Probation policy surcharge that is in 44 CFR 59.24(b).

An additional escalating surcharge could deter individuals without flood insurance from purchasing policies. We are concerned that an additional escalating surcharge could be counterproductive to encouraging people to take up flood insurance policies, as there is currently insufficient participation in the program.

If FEMA offers surcharges, it would be preferable to implement them with some other benefit, such as an increase in policy limit or some expansion of coverage. We re-emphasize the importance of actuarial accuracy, where prices should reflect the expected cost or risk. Ultimately, any changes should be practical and realistically implementable.

(5) FEMA currently offers premium discounts for many CRS activities through the NFIP's current pricing approach. In CRS participating communities, this may lead to policyholders receiving "double" discounts for the same CRS activities (e.g., elevation of individual structure above the NFIP's minimum elevation requirement resulting in a structure level discount through the NFIP's current pricing approach and a CRS credit for a community-wide higher structure elevation regulation).

(a) If FEMA were to provide NFIP premium discounts to individual policyholders for CRS activities, through the NFIP's current pricing approach, should FEMA offer duplicate CRS discounts for the same activities that are already reflected in individual premiums? Why or why not?

From an actuarial perspective, establishing rates that are adequate in the aggregate and fair relative to the risks of each homeowner is the primary objective. If FEMA were to provide premium discounts to individual policyholders through the current NFIP pricing approach, we do not believe that duplicate discounts should be offered for the same activities where such discounts are already reflected. Doing so could potentially cause the total premium received to be inadequate for the exposure and could be perceived as unfair to others in the program who have been charged an appropriate premium commensurate with their risk.

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The committee appreciates this opportunity to provide comments on the matter. We hope these observations are helpful, and we welcome further discussion. If you have any questions about our comments, please contact Rob Fischer, the Academy's casualty policy analyst, at fischer@actuary.org.

Sincerely,

Steve Kolk, MAAA, ACAS
Chairperson
Extreme Events and Property Lines Committee
American Academy of Actuaries