

6. Use of Replacement Cost Value in Determining Premium Rates – Accounts for the replacement cost value (RCV) of insured structures when determining premium rates. Use of RCV of insured structures in setting NFIP rates will reduce cross-subsidies and more accurately signal policyholders’ true risk.

Legislative text:

SEC. ____. USE OF REPLACEMENT COST VALUE IN DETERMINING PREMIUM RATES.

(a) Use of replacement cost value in premium rates; implementation.—

(1) Estimated rates.—Paragraph (1) of section 1307(a) of the National Flood Insurance Act of 1968 (42 U.S.C. 4014(a)(1)) is amended by inserting after “flood insurance” the following: “, which shall incorporate replacement cost value, and”.

(2) Chargeable rates.—Subsection (b) of section 1308 of the National Flood Insurance Act of 1968 (42 U.S.C. 4015(b)) is amended by inserting after “Such rates shall, insofar as practicable,” the following: “incorporate replacement cost value and,”.

Analysis:

This proposal would mandate FEMA to use a building’s replacement cost value when assigning premium rates. The NFIP’s ability to identify individual policyholder risk has been improved with FEMA’s increased technological and mapping capabilities. As a result of these advances, FEMA now has the capability to consider the cost to rebuild (i.e. replacement cost value). Replacement cost value has been an industry standard for years. It enables us to fulfill our statutory mandate to set actuarially sound rates and clearly communicate flood risk. By incorporating the cost to rebuild into policy premiums, FEMA will equitably issue premiums across all policyholders based on the unique flood risk of their property. By providing policyholders a clear and concise picture of their unique flood risk we are also equipping them with the information necessary to make more informed decisions about taking mitigation actions.

Comparative type:

National Flood Insurance Act of 1968

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SEC. 1307. Estimates of Premium Rates. (42 U.S.C. 4014)

(a) **Studies and investigations** The Administrator is authorized to undertake and carry out such studies and investigations and receive or exchange such information as may be necessary to estimate, and shall from time to time estimate, on an area, subdivision, or other appropriate basis-

(1) the risk premium rates for flood insurance, which shall incorporate replacement cost value, and which-

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SEC. 1308. Chargeable premium rates. (42 U.S.C. 4015)

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(b) Considerations for rates

Such rates shall, insofar as practicable, incorporate replacement cost value and, be-

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