

Public Policy & the Denial of Risk

Government-University-Industry Research
Roundtable

June 20, 2012

Approaches to flood risk

- Approaches prior to NFIP
 - Build protective structures to keep floods away from people and property
 - Use Federal funds to finance recovery
- National Flood Insurance Program
 - Use public/private insurance to reduce Federal cost of recovery – private sector willing to cooperate
 - Design new structures to move away from floods or build above them

Understanding/Measuring Flood Risk

- Model developed by the Corps based on the “hydrologic method of estimating flood damage
 - NFIP also incorporates into the model other relevant factors, such as a building’s location, construction, and elevation relative to expected flood levels.
- Communicated to 20,000+ communities
 - Flood Insurance Rate Map (FIRM) – shows nature and extent of flood risk throughout entire community.
 - “Community “ – jurisdiction with authority to issue building permits

Key Decisions

- Risk Standard
 - 1% flood – not the safest, but accepted as reasonable by the public
- Extent of floodplain regulation
 - Prohibit all development in high risk areas?
 - Allow development, but impose safer building standards?

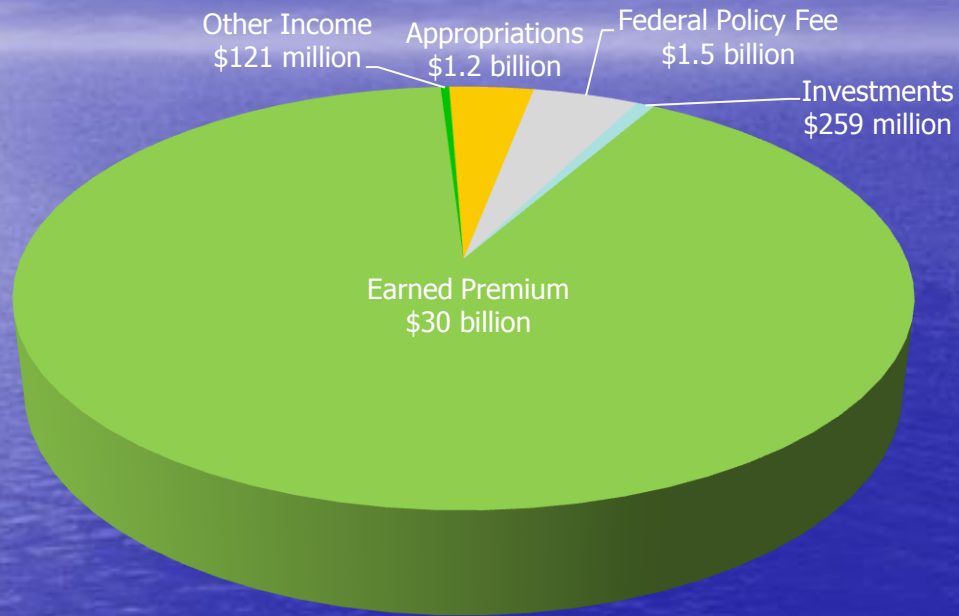
Key Decisions

- Insurance Program
 - Designed to provide financial indemnity AND change behavior in the face of risk
 - Financial burden to be distributed equitably among beneficiaries and the general public
- Deviations from standard insurance principles
 - No initial capitalization
 - Insure all properties in the community
 - Insure existing properties at “subsidized” rate

Obstacles

- Denial of risk
 - Communities
 - Individuals
 - Addressed by 1973 Act
 - Unique marketing challenge
- Program Myths
 - NFIP provides “cheap” insurance to high-risk properties
 - NFIP encourages unwise coastal development
 - NFIP is a drain on the Treasury

National Flood Insurance Program Total Revenue 1969 - 2008



Obstacles

- Short-term thinking
 - Solutions to immediate problems with long-term implications
- Lack of understanding of program complexity by people who should know better
 - Congress
 - Public officials
 - Analysts and researchers