

Challenges in Reforming the National Flood Insurance Program (NFIP)

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Today's Paradigm



Then: 1966 Vision for the NFIP

“Flood insurance is viewed as both a means of helping the individual bear more easily the risks of flood damage..., and equally, **as a means of discouraging unwise occupancy of flood prone areas**”

“...moreover, **some continuing Federal subsidy will also be necessary** to a comparably small number of present occupants of high risk areas. Otherwise the cost of their insurance will be more than they can bear...”

“The insurance program should be **designed to encourage construction in locations where there is no special flood hazard**”

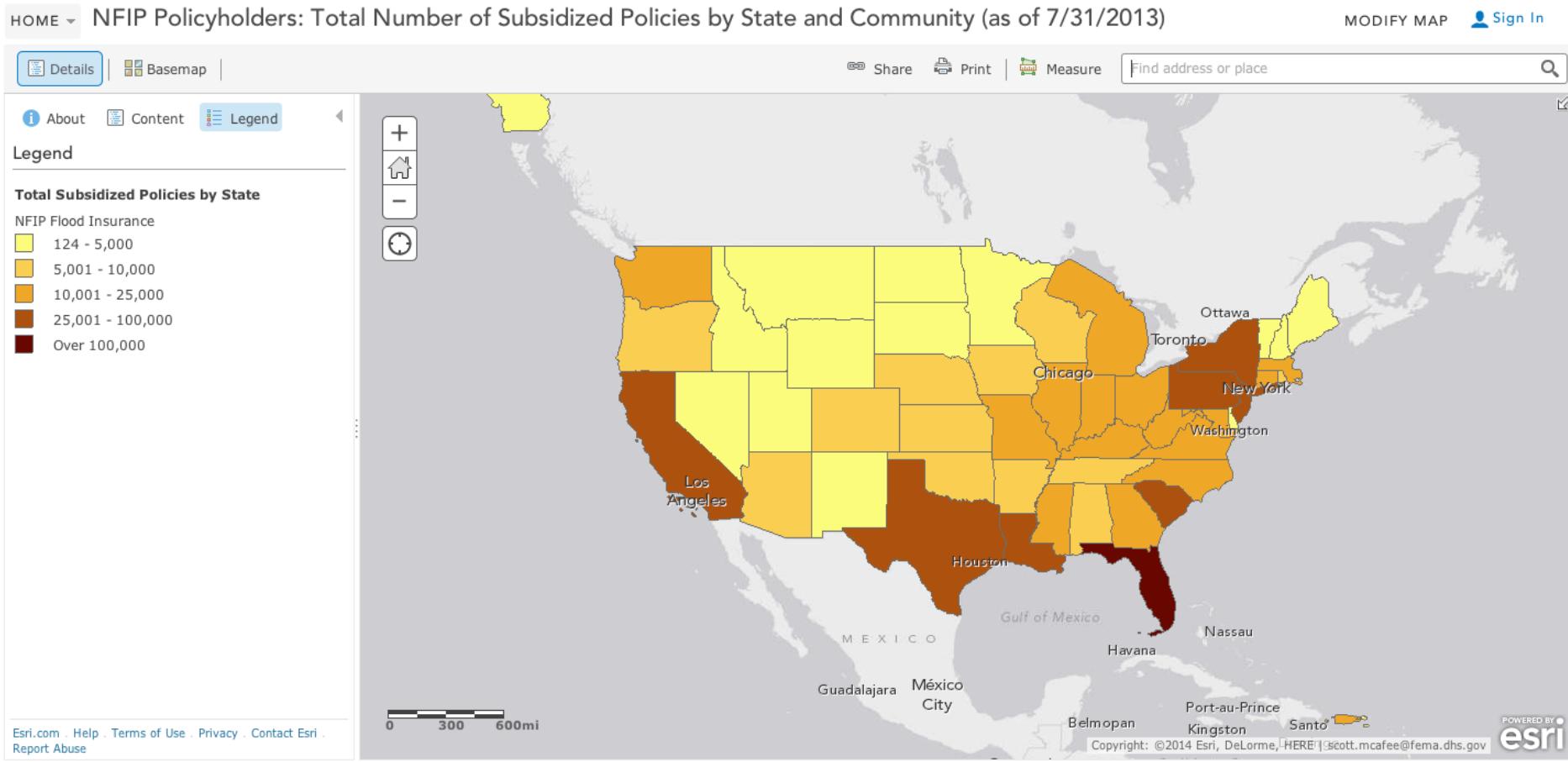
Report to the President on recommendation for establishing NFIP - Secretary of the Department of Housing and Urban Development (HUD) August 1966

Now: How It Played Out

- Federal policy has not prevented development in high risk areas
- Flood insurance available in more than **22,000** communities
- **1,368** communities participate in the Community Rating System, accounting for **68%** of policies
- Lender compliance for mandatory purchase ranges from **50-75%**
- Half of all flood damage occurs outside the Special Flood Hazard Area (SFHA)
- Market penetration outside the SFHA is only about **1%**

- Flood policies in force: **5,133,036**
- Insurance in force: **\$1,251,578,068,030**
- Written Premium: **\$3,541,816,175**
- Average Premium: **\$690**
- Outstanding Debt: **\$23 billion**
- Repetitive loss properties: **127,702**
 - Includes **15,035** severe repetitive loss properties
- **21%** of policies are rated at less than actuarial rates
- **1%** of insured properties represent **30%** of all claims

NFIP Subsidized Policies by State and Community

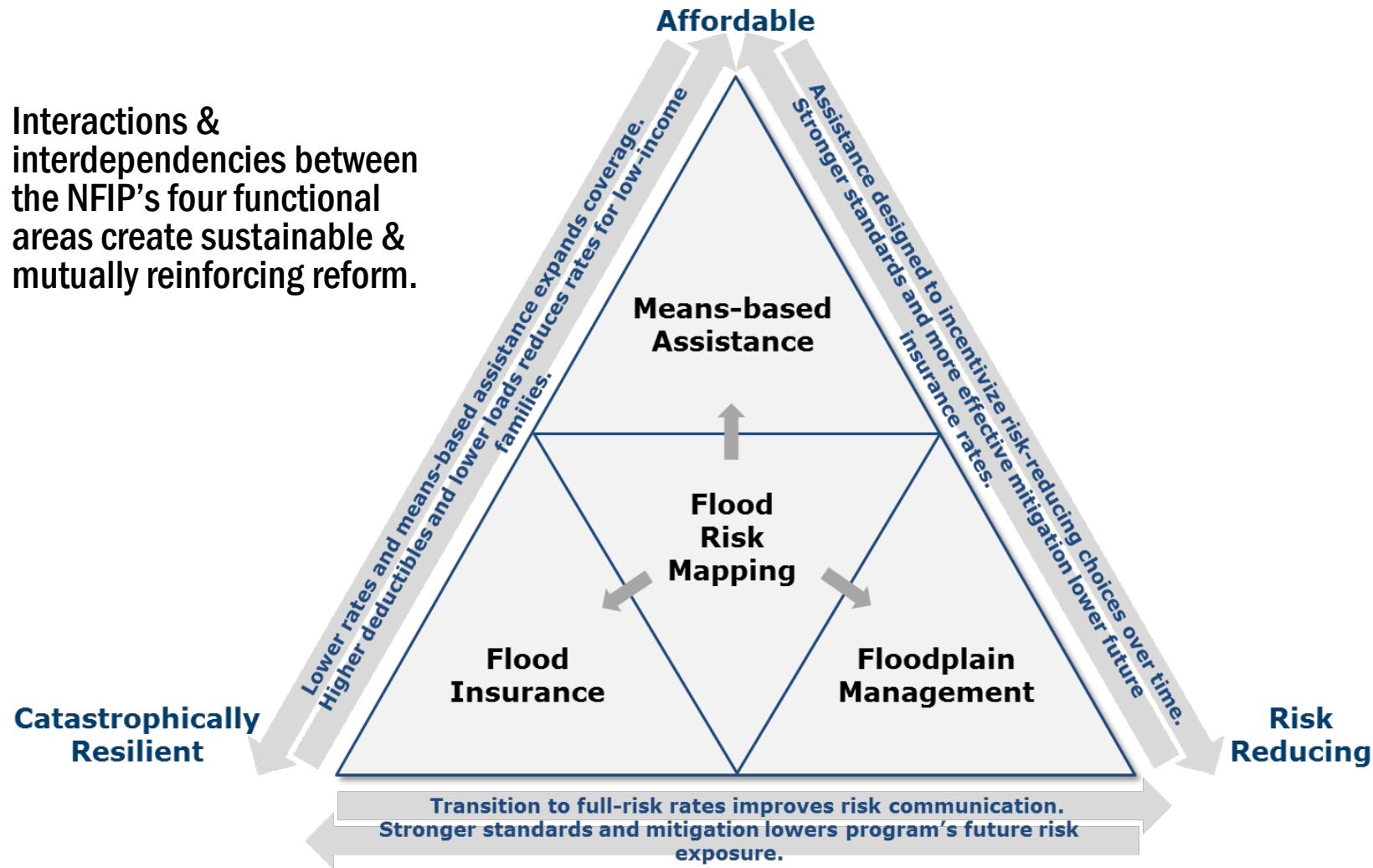


Tensions



The Policy Problem

Interactions & interdependencies between the NFIP's four functional areas create sustainable & mutually reinforcing reform.



Legislative Reforms



July 2012
Biggert-Waters Flood
Insurance Reform Act

October 2012
Hurricane Sandy

March 2014
Homeowner Flood
Insurance
Affordability Act

Summer 2017
NFIP
Re-authorization

Dramatic flood insurance increases could force residents to flee the coast, restoration officials say

Agents, Insurers Cheer Congress OK of Flood Insurance Reform Bill

By Andrew G. Simpson | June 29, 2012

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Fugate: FEMA has no authority to delay or lessen flood insurance rate increases

Cost of Flood Insurance Rises, Along With Worries



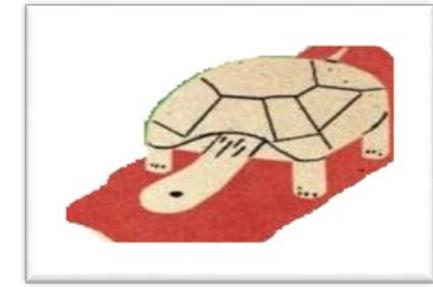
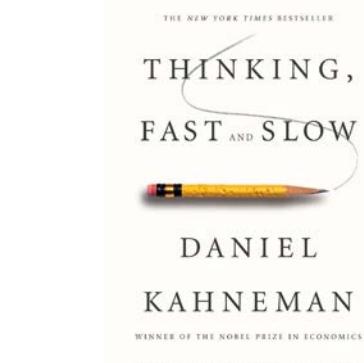
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Thinking About the Problem



System 1 operates automatically and quickly with little or no effort

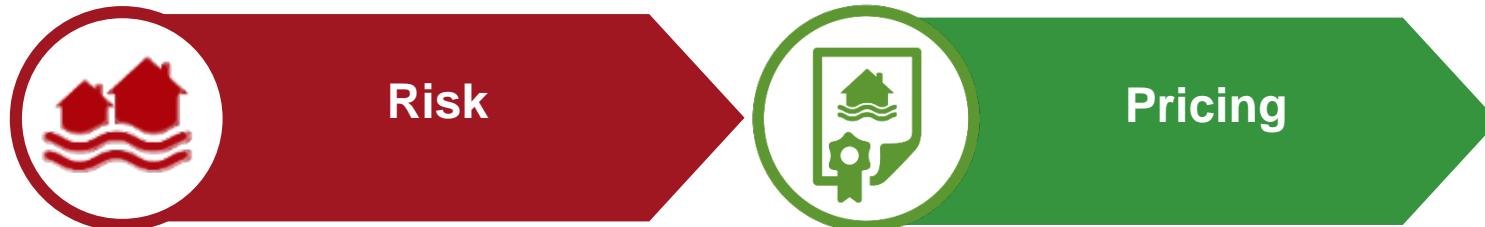
- Individuals use simple associations including emotional reactions
- Highlight importance of recent past experience
- Basis for systematic judgmental biases and simplified decision rules



System 2 allocates attention to effortful and intentional mental activities

- Recognizes relevant interconnectedness and need for coordination
- Focuses on long-term strategies for coping with extreme events
- Individuals undertake trade-offs implicit in benefit-cost analysis

Using Risk as a Pricing Function



Price can influence a property owner's understanding of their risk



**Does property owner have the ability to pay?
If not, who pays?**

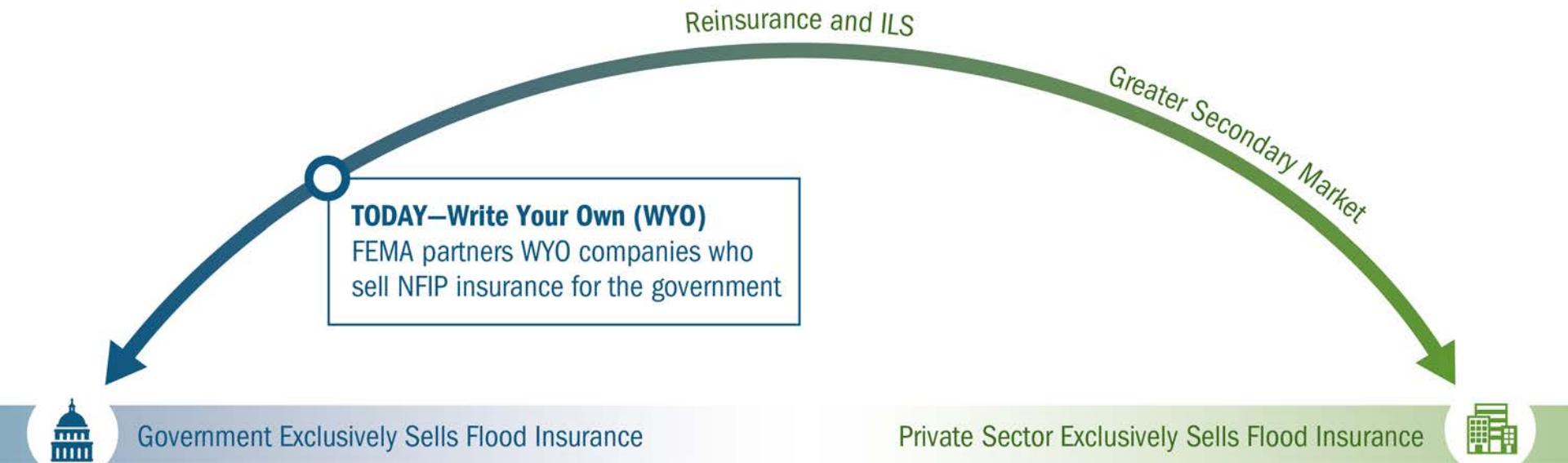
Vision: A Unified National Program

“Flood insurance can promote the public interest by providing appropriate protection against the perils of flood losses and encouraging sound land use by minimizing exposure of property to flood losses. The objectives of a flood insurance program should be integrally related to a unified national program for floodplain management.”

- Congress, National Flood Insurance Act of 1968

Privatization encompasses an array of options

Flood Insurance Privatization Spectrum



What is the Right Answer?

- How do we address the competing lenses and perspectives?
- Should the government be in this business?
- What would happen if the government were to get out?
- What should the government's role be?
- What does the future look like?
 - Affordability
 - Social aspects of mitigation and insurance
 - Fiscal responsibility
 - Greater secondary market



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