



# FEMA

## National Flood Insurance Program

Agenda

### Today's Agenda

- Overview
- A brief history
- Program description
- Approach to ratemaking
- NFIP reform
- What's next?



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## National Flood Insurance Program

Overview

### Introduction

- Some things have changed.
- Some things have not.



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# National Flood Insurance Program

Overview



"FLOODS ARE AN ACT OF GOD; FLOOD DAMAGES RESULT FROM ACTS OF MEN."

H.D. 465

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# National Flood Insurance Program

Overview

## Managing the Hazard of Flooding

A National Approach



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# National Flood Insurance Program

Overview

## A part of the FEMA Mission



FEMA Administrator  
Craig Fugate

FEMA's mission is to support our citizens and first responders to ensure that as a nation we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from and *mitigate* all hazards.

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# National Flood Insurance Program

Overview

Federal Insurance and Mitigation Administration (FIMA)

Formally the *Mitigation Directorate*



Woodstock, GA, October 1, 2009 - FEMA Mitigation Specialist Gisela Santiago provides information to a flood affected resident.

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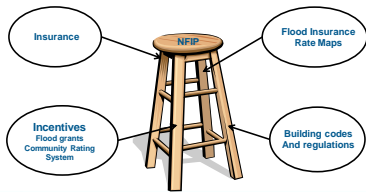
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# National Flood Insurance Program

Overview

## The NFIP – more than insurance

The NFIP is a voluntary Federal program enabling property owners in participating communities to purchase insurance against flood losses in exchange for adopting and enforcing regulations that reduce future flood damages. A participating community's floodplain management regulations, must meet or exceed the NFIP minimum requirements.



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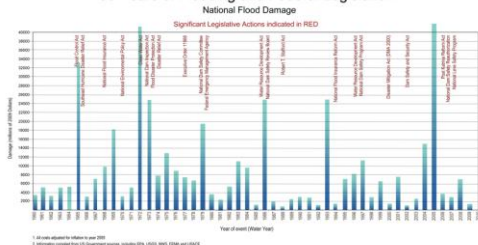
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# National Flood Insurance Program

A brief history

## 50 Years of Flooding and Federal Legislation



1. GDP data obtained from Federal Reserve Board  
2. Legislative actions listed in the National Flood Insurance Act of 1968 and the Flood Disaster Relief Act of 1974

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## National Flood Insurance Program

A brief history

### President Johnson's 1967 Report to Congress

#### Four Possibilities

- Purely Private
- Private but Government backed
- Purely Government
- Government with Private assistance



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## National Flood Insurance Program

A brief history

### National Flood Insurance Act of 1968

Part of the HUD Act of 1968 with the Urban Property Protection & Reinsurance Act of 1968 (created the position of Federal Insurance Administrator)

- Insurance sold by National Flood Insurers Association (NFIA) – Premium equalization payments paid annually to offset premium shortfall
- No initial capitalization



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## National Flood Insurance Program

A brief history

### Flood Insurance Protection Act of 1973

Tropical Storm Agnes in 1972

- Hit Southern Tier of NY, Northeast/Central PA, MD, DC, VA
- Very little flood insurance in force – Wilkes-Barre, PA had 29 policies
- Highlighted the need for incentives to participate and to buy flood insurance

Resulted in Act of 1973

- Established Mandatory Purchase Requirements
- Required FIA to notify all flood-prone communities (approx. 20,000) by June 30, 1974 of their special flood hazard areas (SFHA)



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## National Flood Insurance Program

A brief history

### FIA/NFIA Dispute - 1977

- Dispute over program authority and financial control
  - FIA position – Secretary of HUD, not NFIA, had ultimate authority over program policy and authority to audit NFIA financial records
- FIA opted to exercise Part B of 1968 Act – all Federal program using industry resources
- EDS served as NFIP Servicing Agent
- Began a period of tension with the private insurance industry



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## National Flood Insurance Program

A brief history

### 1980's

- Two key goals:
- Make the NFIP self-supporting for the average historical loss year by 1988 (reached goal in 1986)
- Re-involve the insurance industry in the NFIP (Write Your Own Program)
  - 80+ private insurance companies – sell and service NFIP policies under their own name
  - Expense Allowance ~30% of premium (Based on A.M. Best)
    - 15% agents commission, 13% company expenses, 2% State premium tax
  - WYO Arrangement



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## National Flood Insurance Program

A brief history

### Hurricane Katrina – 2005

- 166,000 losses
- \$16 billion paid
- \$16 billion borrowed from Treasury



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# National Flood Insurance Program

Program Description

## Components of the NFIP that Buy Down Risk

The NFIP is a public safety program implemented at the local level.

- **Risk Analysis** (Mapping, Assessment and Planning)
- **Risk Reduction** (Floodplain Management, Building Science and Hazard Mitigation grants)
- **Risk Insurance**



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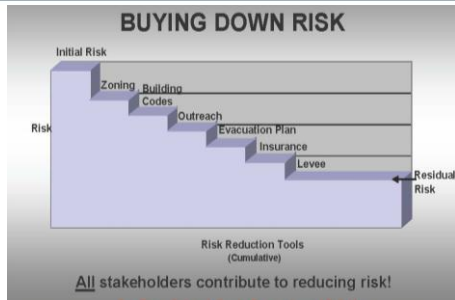
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# National Flood Insurance Program

Program Description



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# National Flood Insurance Program

Program Description

## FIMA: Risk Reduction Division

Through collaboration with State, Local, and Tribal entities, Risk MAP will deliver **quality data** that increases **public awareness** and leads to **action** that **reduces risk** to life and property.



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## National Flood Insurance Program

Program Description

### FIMA: Risk Reduction Division

#### Floodplain Management



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## National Flood Insurance Program

Program Description

### FIMA: Risk Insurance Division

#### The National Flood Insurance Program (NFIP)

Nation's largest single-line property insurance carrier, with over a trillion dollars in insured assets and over 5 million policyholders in 20,600 communities.

Sets underwriting and claim policies to sell and service the NFIP policies by the insurance industry.

Why require Community Membership in the NFIP instead of selling policies to all individuals?



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## National Flood Insurance Program

Program Description

### FIMA: Risk Insurance Division

#### The scope of the National Flood Insurance Program

- Over 5.6 million policies in force.
- Over a trillion dollars in assets insured.
- Average Paid Loss - \$43,508
- Almost 21 thousand communities participate in the NFIP.
- 1,110 Communities participate in the Community Rating System.
- Only 23.3 % of homes in a Special Flood Hazard Area have flood insurance



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## National Flood Insurance Program

Program Description

### FIMA: Risk Insurance Division

#### Flood Insurance vs. Disaster Assistance

Disaster assistance is in the form of loans (must be repaid with interest) and grants; most forms of federal disaster assistance require a Presidential declaration.

Flood insurance is a payment on a claim; there is no payback requirement.



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## National Flood Insurance Program

Rate-making

### Risk Rating Elements

- Flood Hazard (Coastal vs. Riverine)
- Elevation (difference from 1% flood, or from ground)
- Structure Type (number of floors, with or without basement, ventilated crawlspace, etc.)
- Contents Location (first floor and above, second floor and above, etc.)
- Community mitigation through CRS (Community Rating System – discounts for communities that actively manage their flood risk)



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## National Flood Insurance Program

Rate-making

### Mapped Flood Hazards

#### Elevation rated hazards

- AE, A1-30 – elevation based riverine flooding (difference from 1% event)
- VE, V1-30 – elevation based coastal (velocity) flooding (diff. from 1% event)
- AO/AH – ponding and sheetflow (diff. from community standard)
- Unnumbered A – flood hazard based on approximate techniques

#### Non-elevation rated hazards

- D – Sparsely populated areas that do not warrant study
- B/C/X – less than 1% chance of flooding – Preferred Risk Policy (PRP) rates available



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## National Flood Insurance Program

Ratemaking

### Elevation rating – the science behind the rates

$$\text{RATE} = \left[ \sum_{i=\text{Min}}^{\text{Max}} \text{PELV}_i \times \text{DELV}_i \right] \times \frac{\text{LADJ} \times \text{DED} \times \text{UINS}}{\text{EXLOSS}}$$

- PELV is the probability that flood waters reach a certain depth (frequency)
- DELV is the ratio of the flood damage to the value of the insurable properties (severity)
- LADJ, DED converts from expected flood damage to expected loss and loss adjustment dollars paid
- UINS is an underinsurance factor (explained later)
- EXLOSS is the loading for expenses and contingency



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## National Flood Insurance Program

Ratemaking

### Subsidized Rates – less than full risk rates

- Pre-FIRM (Flood Insurance Rate Map)
- Pre-'81 V
- AR/A99 incomplete or de-accredited levees



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## National Flood Insurance Program

Ratemaking

### Grandfathered Rates

Not the same as a subsidy

- Zone Grandfathering
- Elevation Grandfathering
- "Standard X Zone" has become a residual class



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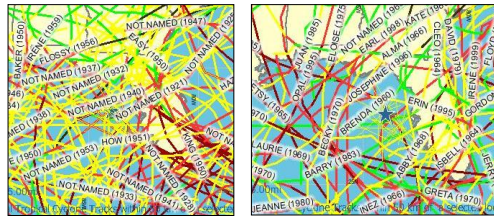
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# National Flood Insurance Program

Ratemaking

## Challenges to rating



1920-1959

1960-1999

Source: <http://www.hurricane.csc.noaa.gov/hurricanes/index.htm>



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# Rethinking the NFIP

The National Flood Insurance Program (NFIP) Reform Working Group

## Today's Update

- The NFIP Today
- The Call for Reform
- The Reform Process
- NFIP Reform - Phase I
- NFIP Reform - Phase II
- What's Next?



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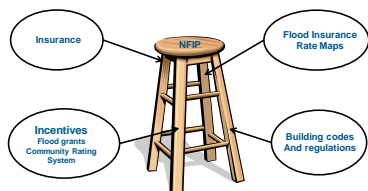
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# Rethinking the NFIP

The National Flood Insurance Program (NFIP) Reform Working Group

## Today's Paradigm

The NFIP is a voluntary Federal program enabling property owners in participating communities to purchase insurance against flood losses in exchange for adopting and enforcing regulations that reduce future flood damages. A participating community's floodplain management regulations, must meet or exceed the NFIP minimum requirements.



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## Rethinking the NFIP

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### Then (1966)...vision of how it should work

*"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"*

*From Report to the President on recommendation for establishing NFIP - Secretary of the Department of HUD August 1966*



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## Rethinking the NFIP

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### And now...how it actually played out

- Federal policy has not prevented development in high risk areas - e.g. since 1980 coastal county population growth rate (28%) is consistent with the nations rate of increase, but density is much greater (17% percent of the land area holds 53% of the total population).
- Over 80,000 insured repetitive loss properties (and growing) and over 8,000 severe repetitive loss properties (and growing).
- About 25% of the 5.5 million policies are rated at less than actuarial rates.
- Half of all flood damage occurs outside Special Flood Hazard Area (SFHA).
- 1% of insured properties represent 30% of all claims.
- Lender compliance mandatory purchase is about 75%.
- Market penetration is only about 1% outside SFHA.



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## Rethinking the NFIP

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### We're building on what we heard...

- Call for Issues (1998 - 2000)
- American Institute for Research (2001 - 2006)
- GAO reports (multiple)
- NFIP Listening Session (2009)



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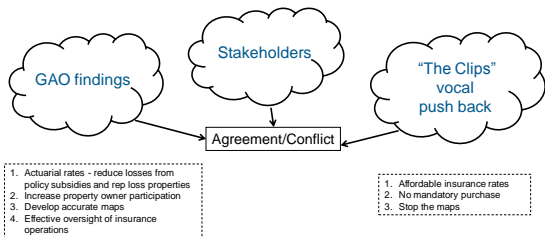
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## NFIP REFORM



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# Rethinking the NFIP

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## Hot Issues: Turning towards Innovation



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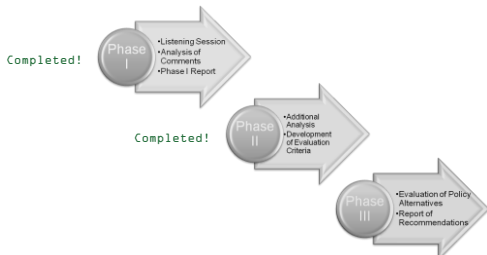
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# Rethinking the NFIP

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## NFIP Public Policy Reform Process



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## Rethinking the NFIP

The National Flood Insurance Program (NFIP) Reform Working Group

### Phase I - **COMPLETED**

- Phase I Goal: Capture stakeholder concerns and recommendations to understand the need for NFIP reform
- Listening Session held November 5-6, 2009 in Washington, DC ~ 200 participants ~ 1,285 comments
- Web Comment period open from November to January ~ 165 comments
- The analysis of comments culminated in a final report entitled "NFIP Stakeholder Listening Session: Findings and Next Steps"



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## Rethinking the NFIP

The National Flood Insurance Program (NFIP) Reform Working Group

### Phase II - **COMPLETED**

- Adopt a policy analysis framework to guide the NFIP reform effort
- Analyze existing stakeholder input regarding the NFIP to understand the public policy context
- Develop and agree to guiding principles to direct the NFIP reform effort
- Create evaluation criteria to be used in scoring each of the proposed policy alternatives (to be developed in Phase III)



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## Rethinking the NFIP

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### Phase II – Step 1

#### NFIP Reform Public Policy Context



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## Rethinking the NFIP

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### Phase II – Step 2 Develop Guiding Principles

- Protect lives, property, environmental and cultural assets.
- Motivate people to voluntarily participate in reducing society's risk.
- Make the best use of public resources.
- Ensure selection of an adoptable and sustainable policy.
- Consider notions of equity with regard to risk and socioeconomic status.
- Recognize and consider the governance and responsibility of states, communities and tribes as a means to achieve sustainability and resiliency.



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## Rethinking the NFIP

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### Phase II – Step 2 Cont. Develop Evaluation Criteria

- Cost of flood is borne by individuals
- Individuals incur costs of increased risk gradually
- Full assistance is provided to those who cannot afford the cost of flood
- Minimize exposure to flood hazards
- Maximize natural and beneficial functions of the floodplain
- Efficiency - Maximize the societal benefit/cost ratio
- Administrative feasibility
- Political acceptability



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## Rethinking the NFIP

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### Phase III Evaluation of Reform Packages



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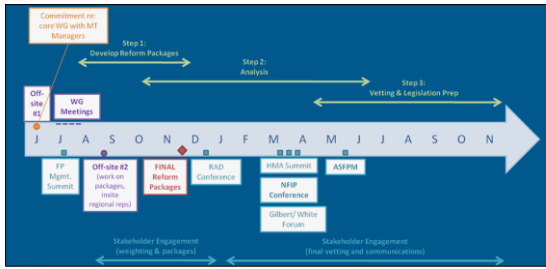
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# Rethinking the NFIP

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## Phase III NFIP Reform Timeline (18 Month View)



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