



Policy Brief: National Flood Insurance Program Reform

Executive Summary

90% of natural disasters within the U.S. involve flooding. The cost of flood damage will increase by an average of 26% and \$40.6 billion within the next 30 years (Figure.1). To combat this and to reduce the socioeconomic impact. The Federal Emergency Management Agency (FEMA) maps and mandates national flood insurance for communities within a 100-year flood zone. A 100-year flood zone is an area with a 1% chance of water inundation in one year. These communities are known as the Special Flood Hazard Area (SFHA). However, the National Flood Insurance Program (NFIP) is not serving its purpose and is currently burdened by debt and a low participation rate. Compared to private flood insurance coverage, the national insurance rebuilt limit is half of the private sector. The waiting period is twice as long for insurance to activate. National insurance does not cover replacement cost contents, loss of use, and loss avoidance coverage. Consequently, 100-year flood zone communities mandated to purchase from the government are disadvantaged, and other vulnerable communities would choose private over national insurance. The National Flood Insurance Program must reform to be compatible with the private counterpart to encourage engagement and to recover from debt with a higher participation rate.

Background

The Federal Emergency Management Agency (SFHA) identifies Special Flood Hazard Areas with frequent 100-year floods,

mudflow, and other flood-related erosion hazards throughout the nation. The Flood Disaster Protection Act of 1973 and the National Flood Insurance Reform Act of 1994 mandate the SFHA communities to participate in the NFIP, where the program's floodplain management regulation must be enforced. The program was first introduced to share the risk of flood losses through affordable flood insurance, reduce flood damage by restricting floodplain development, and enforce floodplain management regulations. Communities outside SFHA also have the option of purchasing NFIP to help reduce the socioeconomic impact of floods. Today, the Federal Emergency Management Agency has registered more than 20,000 communities in the U.S. as flood zones.

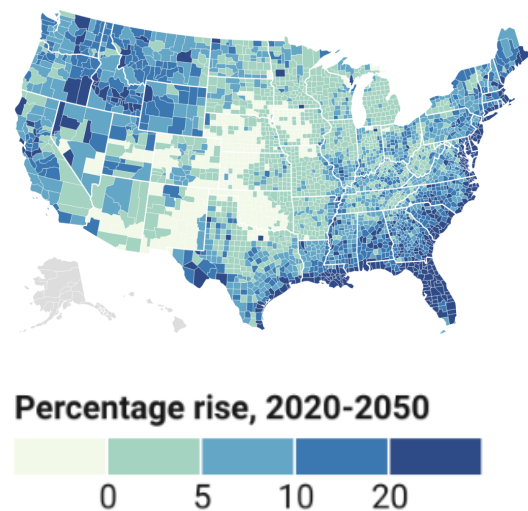


Fig 1: An analysis of projected changes in flood risk between 2020 and 2050 by zooming in on every neighborhood across the U.S. The map shows county-level data on the average annual loss due to flood damage ([Wing et al., 2022](#)).



Issue Analysis

The National Flood Insurance Program (NFIP) fails to address floods' socioeconomic impact and prevent flood damage. Communities mandated to participate in NFIP only have half of the maximum home rebuild limit, where NFIP offers up to \$250,000 for a single-family home, while private insurance can increase the limit to \$500,000. The NFIP's 30-day waiting period is significantly longer than the standard 15-day. This left the house owner vulnerable to a sudden rainfall or hurricane that could cause a flash flood. Furthermore, the NFIP has no room for customization where it does not offer replacement cost contents coverage, loss of use coverage, and loss avoidance coverage (Figure 2). With the lack of customization, the NFIP can sometimes be more expansive than private flood insurance. Some of the private companies' average annual cost that is less than NFIP includes Wright Flood with a 36% cost difference, Bankers Insurance with a 71% cost difference, Centauri Insurance with an 11% cost difference, and Steadfast Insurance with a 30% cost difference ([Howard & Bloom, 2022](#)).

Additionally, NFIP has been struggling to pay off its debt in recent years. Major coastal flooding from Hurricanes Harvey, Maria, and Irma in 2017 caused \$11.1 billion in damage. While inland flooding can also cause major damage. Such as the Louisianan flood in 2016 caused another \$3 billion in damage. A Low participation rate over the last decades and increased precipitation and sea level rise leads to more frequent rain and seawater inundation. With high-cost flooding and a low

participation rate, the program is currently in a \$20.5 billion debt ([FEMA.org, 2022](#)).

The latest significant update to the NFIP was over eight years ago through the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA). The Congress bill delayed the increase of flood national insurance premiums and allowed homeowners to pass the original insurance premiums to the next owner when selling their properties ([113th Congress, 2014](#)). The NFIP's authorization ends on December 16th, 2022, and Congress must reauthorize NFIP's statutory authority to operate. The reauthorization is an opportunity for Congress to reform and improve the program's financial framework ([FEMA.org, 2022](#)).

	NFIP	Private flood insurance
Maximum home rebuild limit	\$250,000	Typically up to \$500,000 or higher
Availability	Participating communities in all 50 states	May be limited in higher-risk areas
Waiting period	30 days	Two weeks
Accepted by mortgage lenders	Yes	Yes
Replacement cost building coverage	Yes	Yes
Replacement cost contents coverage	No	Yes
Loss of use coverage	No	Yes



Loss avoidance coverage (sandbags, etc.)	No	Yes
Debris removal coverage	Yes	Yes

Fig 2: Side-by-side comparison of national and private flood insurance policies (Howard & Bloom, 2022).

Policy Recommendations

A low participation rate results in debt when the program lacks sufficient funds to cover claims. The NFIP must be compatible with the private counterparts to encourage engagement. Below is a list of potential reforms recommendations to the NFIP:

- Reevaluate the Design Flood Elevation within the Special Flood Hazard Area.
 - The Design Flood Elevation is the highest elevation standard for new construction.
- Shorten the reevaluation period of flood zone mapping and zoning code.
- Strengthen building codes for critical infrastructures such as hospitals, fire and police departments, schools, and electric and water plants.
- Reconsider the 100-year benchmark as the Special Flood Hazard Area.
- Develop a national program that mandates the local government to support the relocation of repeatedly-flooded families.
- Require sellers to disclose all past flood damages to prospective buyers.

- Shorten the waiting period from 30 days to 20 days.
- Add a minimum replacement loss content, loss of use, and loss of avoidance coverage.
- Increase the maximum rebuilt limit from \$250,000 to \$350,000.

The Federal Emergency Management Agency is currently open to receiving any comments and concerns regarding the NFIP through [Federal eRulemaking Portal](#). Submissions are due December 13th, 2022.

Further reading (linked)

- New Flood Maps Show Stark Inequity in Damages, Which Are Expected to Rise Over Next 30 Years
- An Overview of the National Flood Insurance Program in Washington, DC
- Request for Information on the National Flood Insurance Program's Floodplain Management Standards for Land Management and Use, and an Assessment of the Program's Impact on Threatened and Endangered Species and Their Habitats

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