



Climate Change Won't Wait. We Need NFIP Reform Now.

By Bill Bold, *Chief Strategy Officer, Palomar*

The National Weather Service has declared March 13-17 as Flood Safety Awareness Week. It's as good a time as any to think about how prepared communities nationwide are for massive flooding events. Unfortunately, millions of homeowners across the country **face massive flood risk without even knowing it**, leaving them unprepared for these types of disasters—a serious problem, given the worsening effects of climate change that will inevitably lead to stronger storms and more major flooding.

The story of why we have a flood under-insurance problem starts with the composition of the market. The **National Flood Insurance Program (NFIP)**, as the primary provider of flood insurance for most Americans, is the first line of defense for many homeowners against these disasters. However, after decades of shouldering much of the nation's flood insurance burden the NFIP is losing its ability to provide adequate coverage at rates that accurately reflect actual risk. In order to protect every homeowner from flood risk in the years to come, we need meaningful reform to the NFIP now, and private insurers must play a role in making this critical federal program work for everyone.

Why Does NFIP Need Reforming?

The NFIP was created over 50 years ago by an act of Congress and is managed by FEMA. Its purpose is to assess flood risk across the country and provide affordable flood insurance in participating communities, because most homeowners policies do not cover flood damage. It is also chartered to work with these communities to adopt and enforce floodplain management regulations that mitigate the effects of catastrophic flooding.

The legislation that created the NFIP, the National Flood Insurance Act of 1968, mandates that homes and businesses in designated high flood risk areas

with mortgages from government-backed lenders have flood insurance. When all works as it should, the NFIP is able to provide affordable policies to home and business owners in these areas. But as the effects of climate change worsen, and flood events increase in frequency and severity, the NFIP has faced serious financial difficulties.

There are many factors at play here, including NFIP's use of risk maps that are decades out of date, and the fact that many flood-damaged buildings aren't "built back better," leading to a continued cycle of expensive claims from flood-prone areas. The more



financially insolvent the NFIP grows, the less it will be able to focus on the critical “flood prevention and mitigation” portion of its mission. To make matters worse, the NFIP’s rates often do not reflect the actual risk of flood damage. Academics and policymakers alike believe that the NFIP charges too little and offers insufficient coverage limits in higher-risk areas; conversely, their rates are often higher than private policies in other zones.

Congress has made major **changes** to the NFIP many times since its inception, in attempts to keep it fiscally solvent and give the public more information about how it determines risk and sets premium rates. But over the past several years, legislative reform has proven difficult, and Congress has only

passed short-term renewals of NFIP. Lawmakers including Rep. Scott Peters and Rep. Maxine Waters have introduced or will introduce legislation that would renew NFIP long-term, while reforming the program with meaningful policy changes that would protect more Americans against flood damage. In an era of increasing partisanship, though, flood reform could be an area of rare agreement: progressives want broader, more meaningful coverage for homeowners; conservatives worry that the NFIP is borrowing money to meet its coverage obligations without a clear path to financial stability. Reforming the NFIP is something our government leaders can and should do together—and with help from the insurance industry.

More Choices, Better Coverage, Less Burden for the Government

The federal government has actually taken some positive steps toward reforming the NFIP and improving flood insurance offerings already. Their embrace of private market reinsurance is a great example of public-private partnership done well. Additionally, this October FEMA is planning to introduce **Risk Rating 2.0**, the biggest change to the way the NFIP calculates flood insurance premiums since its founding in 1968. A recent proposed Federal Housing Administration (FHA) **rule change** would allow property owners required to purchase flood coverage to do so through private insurers. Later this year, FEMA may even revise its ratemaking structure for NFIP policies to more accurately reflect underlying risk, and provide more meaningful information to homeowners. Each of these initiatives could help rationalize the flood market and create new, meaningful opportunities for private insurers to address our flood under-insurance crisis.

However, the theme for a truly revitalized NFIP should be partnership—a recognition that the public cannot and should not carry the load with respect to coverage and risk. Palomar is part of a vibrant private flood insurance market that is prepared to step in and partner with the NFIP to achieve this objective.

Here are some steps we believe our government should take to meaningfully reform the NFIP.

- NFIP must update its underwriting process so that its prices and coverage accurately reflect a property’s flood risk.
- The government should continue to find opportunities—similar to the FHA rulemaking referenced above—for private insurers to assume some of the risks currently carried by the NFIP.



- NFIP policyholders should be able to receive a prorated refund when they cancel NFIP coverage in favor of private coverage.
- The NFIP and the federal government at large must focus more closely on mitigation. A recent [report](#) from the National Institute of Building Sciences (NIBS) shows that every \$1 invested in flood prevention and mitigation efforts saves \$6 in repairs. As our risk of serious flood events increases, so too must our commitment to initiatives including smart city planning, and hardening of homes and businesses.
- The NFIP and the federal government can also do more to educate policyholders and insurance agents alike about the increasing hazard of catastrophic floods. This can be achieved in many ways, but one example includes redefining what it means to be in a flood zone. Too many homeowners view flood risk as a binary problem, assuming that if they are not in a high hazard flood zone their property faces zero flood risk. This perspective needs to be adjusted to reflect the varying degree of risk at every home, not just coastal properties.
- The NFIP needs to improve its Severe Repetitive Loss (SRL) grant program to enable and speed the home buyout process. Typically grants can take months, if not years, to get approved, but when a homeowner loses their home in a flood, they need access to funds immediately. Establishing clear-cut eligibility guidelines and removing the red-tape of the grant approval process will allow more homeowners to accept the grant and relocate out of areas that repeatedly suffer flood damage.

Meeting these objectives would pay huge dividends to our country as a whole. Ratepayers would have more options for coverage and more meaningful data with which to make purchasing decisions. Taxpayers would shoulder less of the burden of supporting the NFIP, and the program itself would move toward financial stability. Perhaps, most importantly, a renewed focus on mitigation would help ensure that fewer Americans are exposed to unnecessary flood risks and give them the tools to prepare and protect themselves.

Catastrophic flooding will only become more common in the years to come, as the effects of climate change worsen, bringing us heavier rainfalls, rising sea levels, and more severe storms. Protecting more Americans from flood damage by reforming the NFIP is possible, and the private insurance industry can be an effective partner in making it happen.



Learn more about your neighborhood's risk of flood or other natural disasters using FEMA's National Risk Index.

[READ MORE](#)