

Rethinking the NFIP: *An Update on NFIP Reform*



September 2011



FEMA

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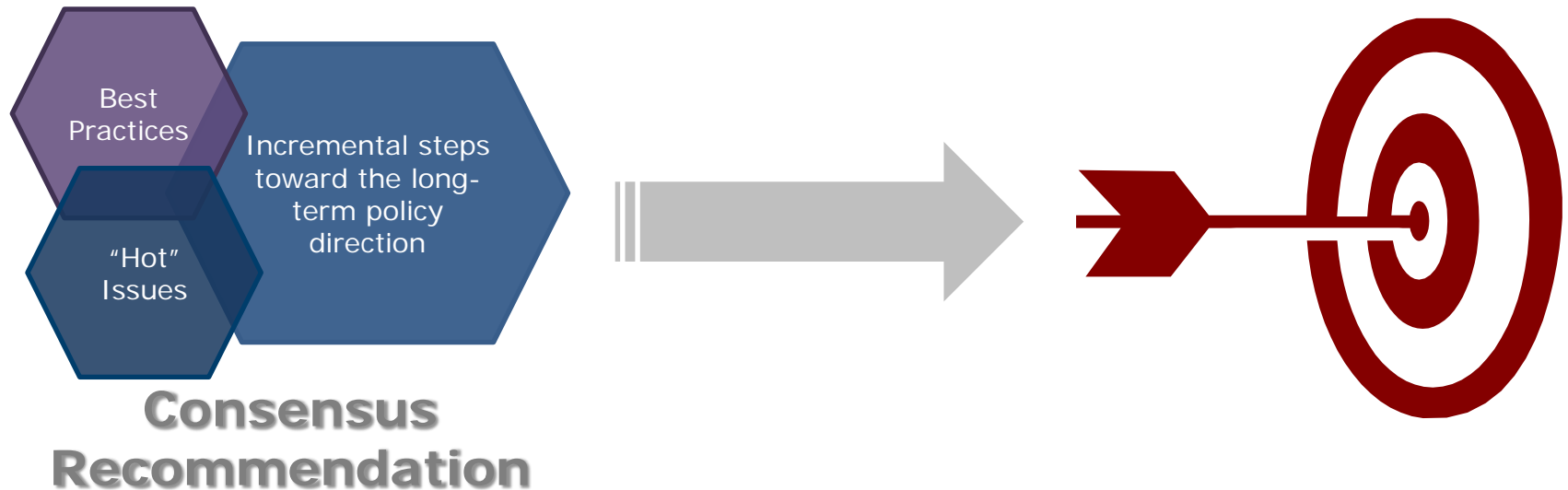
REFORM OVERVIEW



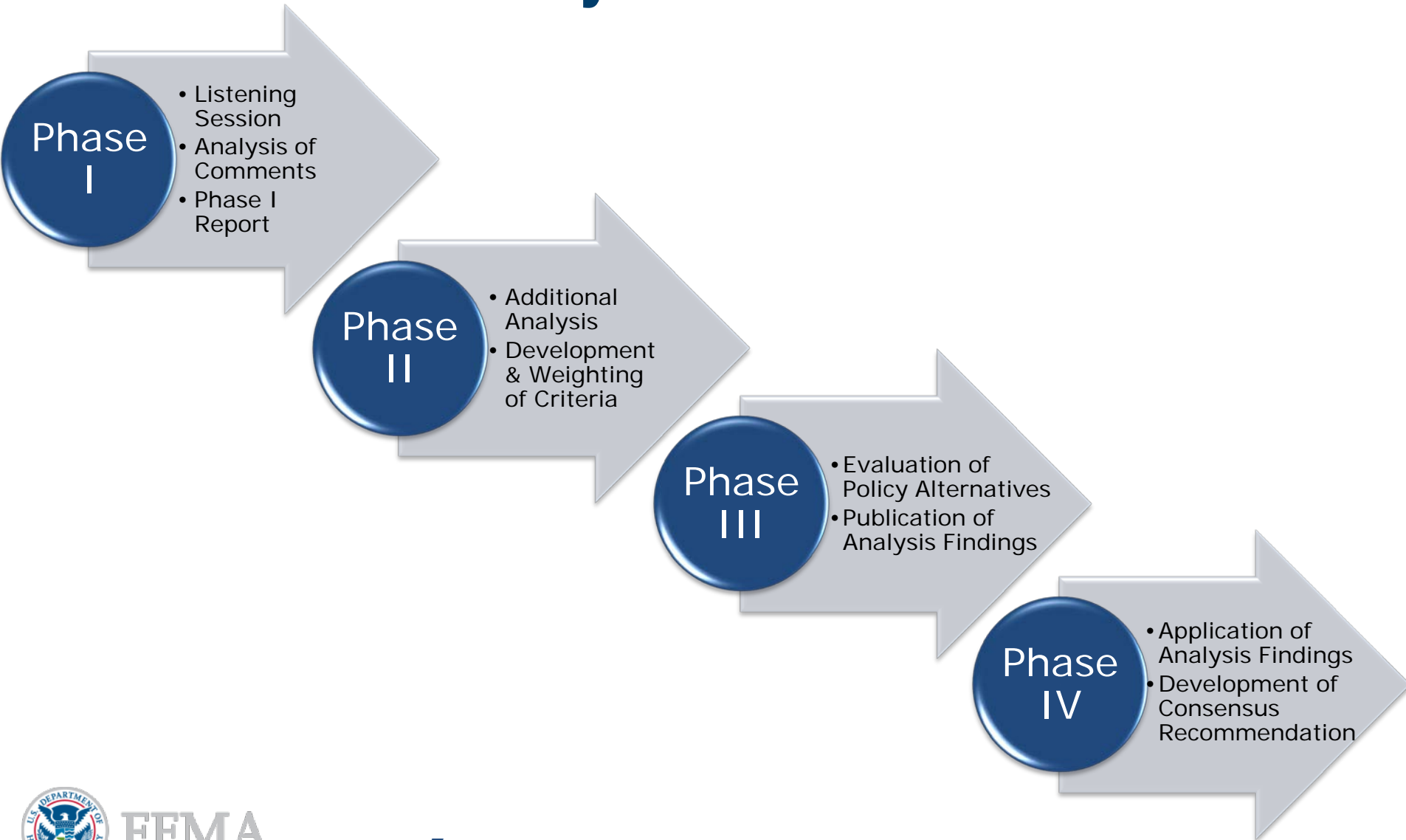
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What does success look like?

- ❑ A Reauthorized NFIP
- ❑ Reform Recommendations that:
 - ❖ Describe a 20-year vision for the NFIP
 - ❖ Address near-term “hot issues” in context of the future state
 - ❖ Consider expert judgment and best practices
 - ❖ Include key elements for initial program changes (incremental changes toward the target state)



NFIP Public Policy Reform Process



Phase I and II Summary

Phase I:

- 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
- Issued final report entitled “NFIP Stakeholder Listening Session: Findings and Next Steps” – April 2010

Phase II:

- Adopted a policy analysis framework to guide the reform effort
- Developed and adopted guiding principles
- Adopted evaluation criteria to be used in evaluating each of the proposed policy alternatives (to be developed in Phase III)
- Issued final Phase II Report – September 2010



Evaluation Criteria

- 1 Cost of Flood is Borne by Individuals**

Encourage individuals to assume the risk of flooding to private and public structures, to incentivize a better accounting of risk in decision making.
- 2 Individuals Incur Cost of Increased Risk Gradually**

Allow for a gradual transfer of the full risk and costs of flooding to the individual, to increase the participation rates.
- 3 Assistance for Those Who Cannot Afford the Cost**

Address the financial needs of the those who live in areas exposed to flood hazards, but cannot afford insurance or risk avoidance.
- 4 Minimize Exposure to Flood Hazards**

Avoid individual and collective action in watershed areas that increase society's exposure to flood hazard.
- 5 Maximize the Natural Functions of the Floodplain**

Manage the habitat, water levels, and qualities of floodplains to complement other mitigation activities to reduce flood-related losses.
- 6 Efficiency – Maximize the Cost/Benefit Ratio**

Maximize the economic benefits, relative to costs, of a national flood policy.
- 7 Administrative Feasibility**

Minimize the complexity of program administration and coordination of a flood policy at the federal state, and local government levels.
- 8 Political Acceptability**

Balance the contradictory viewpoints regarding how best to address flood hazards, to ensure policy adoption, implementation, and sustainability.



The Weighted Criteria

Criteria Weights Analysis

Responses were classified into one of six different stakeholder groups.

Final criteria weights were generated by averaging equally across stakeholder groups.

Criterion	FEMA	Other Agencies	State	Local	Non-Profit	Private Sector	Integrated Weights
Cost of flood is borne by individuals	12.6%	8.0%	11.9%	7.8%	10.7%	9.3%	10.1%
Individuals incur costs of increased risk gradually	9.0%	9.7%	10.6%	7.9%	10.2%	13.7%	10.2%
Assistance is provided to those who cannot afford the cost of the flood	5.8%	3.1%	4.3%	7.9%	7.9%	8.3%	6.2%
Minimize exposure to flood hazards	25.5%	25.6%	27.3%	23.3%	23.7%	21.0%	24.4%
Maximize natural and beneficial functions of the floodplain	21.7%	17.4%	21.0%	15.9%	17.5%	15.6%	18.2%
Efficiency – Maximize the societal benefit/cost ratio	10.7%	21.7%	11.8%	13.5%	11.6%	14.9%	14.1%
Administrative feasibility	8.8%	7.0%	7.9%	13.2%	9.1%	10.7%	9.4%
Political acceptability	5.9%	7.4%	5.2%	10.4%	9.3%	6.5%	7.5%

Note: Percentages may not add to 100% due to rounding. Analysis only includes surveys satisfying a consistency threshold of 0.20, indicating that the degree of internal inconsistency of the survey is less than 20% of the internal inconsistency of a survey in which responses are chosen at random.

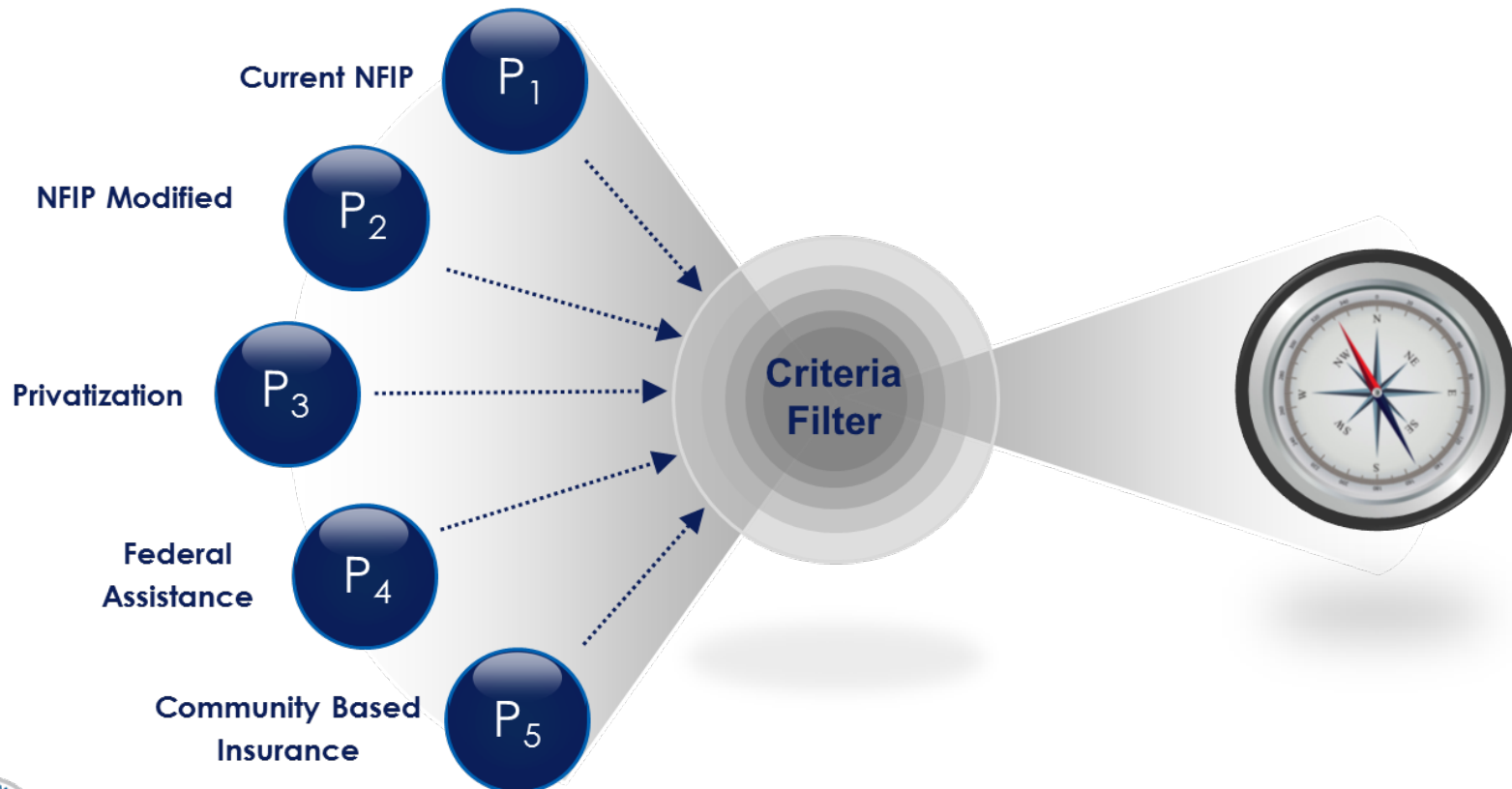


In Phase III, the Working Group identified, developed and refined five policy options for evaluation.

IDENTIFY POLICY ALTERNATIVES

EVALUATE POLICY ALTERNATIVES

INFORM LONG-TERM POLICY DIRECTION



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Policy Theme 1: NFIP Modified Policy Options

- This strawman policy proposal seeks to make enhancements to the existing program to address programmatic weaknesses and current challenges while maintaining the current NFIP framework
- Two policy alternatives have been proposed under this theme to reflect varying levels of legislative and regulatory modification:
 - Program Upgrade
 - Program Optimization
- Modifications to the existing program have been mapped against the review criteria to identify those with the greatest impact



Policy Theme 2: Privatization Policy Options

- Under this theme, FEMA is seeking the optimal balance of shared flood coverage between the private and public sectors
- Increasing the private sector's role provides some advantages:
 - Innovation (improved rating, marketing, products)
 - Increased market penetration, leading to a reduction of Federal cost burden
 - Improved credibility in FEMA risk communications and increased focus on Mitigation versus Insurance sales



Policy Theme 2: Privatization Policy Options (cont'd)

- Challenges to privatization continue to exist:
 - We are seeking short and long-term solutions to these challenges. Note that for each challenge, example solutions are offered in parentheses.
 - Rating Freedom (Federal rate setting that bypasses state regulators; Federal reinsurance set at low thresholds; exemption from state regulation)
 - Adverse Selection (Better flood analysis tools; mandatory purchase clauses)
 - Catastrophic Losses (Federal reinsurance; national risk pools; Federal government carries residual pools)



Policy Theme 3: Community Policy Options

- This policy proposal seeks to establish a direct link between the land use and construction decisions of a community and the full cost of flood.
- FEMA is exploring a communitywide insurance policy under this theme;
- While some communities have reservations about this approach, others have expressed interest in this policy option. Points of discussion include methods for risk assessments and methods for premium collection.



Policy Theme 4: Federal Assistance Policy Options

- This policy proposal examines the question of “who pays” for the cost of flood and explores ways to manage the escalating costs associated with the flood hazard.
- The options proposed recommend creating a quid pro quo system which ties to the availability of federal disaster assistance and other federal investment with a community’s enacted mitigation measures.
- Two options are proposed, each representing opposite ends of the spectrum of “who pays” (*see next slide*).



Policy Theme 4: Federal Assistance Policy Options

- Community Rating Model - A community rating would determine local cost-share for disaster assistance, flood control projects (USACE), and other federal projects.
 - Advantages: Greater flexibility of implementation on the part of the community. Could also include “community resiliency” measures.
 - Concerns: Would need to account for small and impoverished communities.
- “Total Federal Responsibility” Model - Local communities enact minimum mitigation measures (land use measure, mitigation planning, etc.) in exchange for full protection through disaster assistance.
 - Advantages: With promise of “full coverage,” communities may be willing to adopt more rigorous minimum standards. Higher mitigation standards could ultimately mean less federal liability in the long run.
 - Concerns: Could create substantial federal liability, esp. in the short run.



EVALUATION OF THE POLICY OPTIONS



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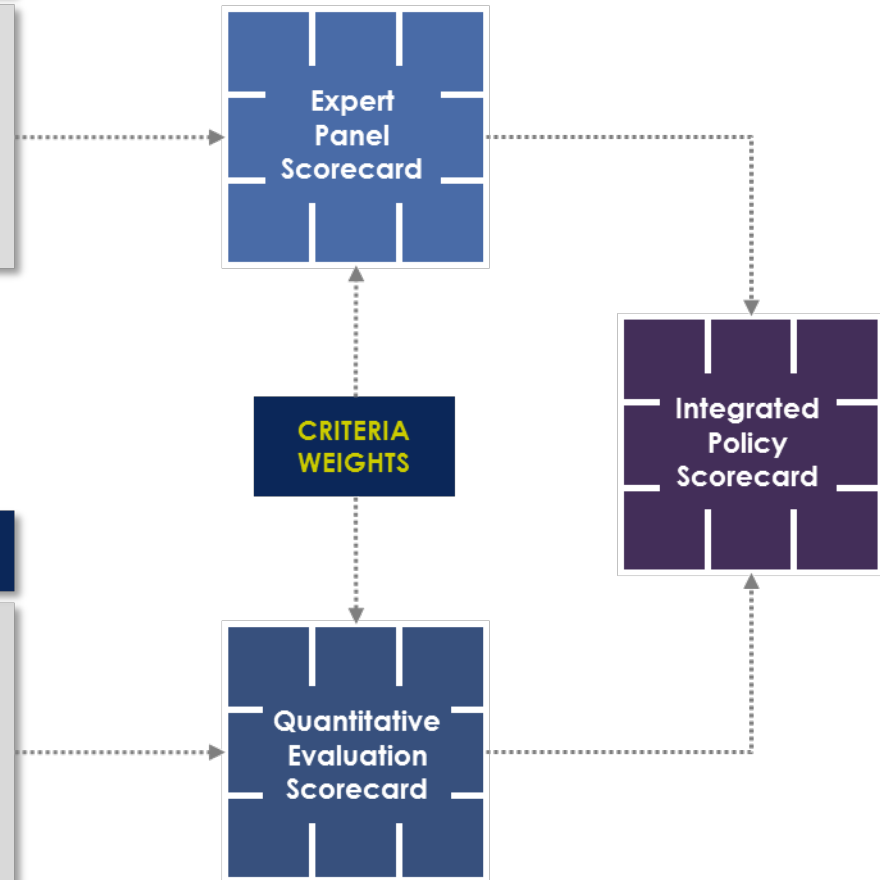
The Evaluation Process: A Two-Pronged Approach

QUALITATIVE EVALUATION

- **Scope:** All criteria
- **Participants:** Academics & other experts
- **Format:** Pairwise comparison survey.
- **Method:** Convert pairwise comparisons into standardized scores for each policy using the Analytic Hierarchy Process (AHP)
- **Output:** An Expert Panel Scorecard that includes a composite score for each policy across all eight criteria.

QUANTITATIVE EVALUATION

- **Scope:** Subset of criteria amenable to quantification
- **Participants:** Keybridge Research; NFIP Reform Working Group
- **Format:** Criteria-specific analysis to evaluate the relative impact of each policy option on key metrics.
- **Method:** Partial equilibrium modeling using a variety of publically and privately available datasets.
- **Output:** A Quantitative Evaluation Scorecard that includes a composite score for each policy across criteria examined.



NFIP Reform Expert Panels

Institution/Affiliation	
Texas A&M University	The Wharton School, University of Pennsylvania
University of Washington	RAND Corporation
Arizona State University	University of Colorado Boulder
Georgia State University	Harvard Business School
Resources for the Future	University of Minnesota
University of Georgia	Washington & Lee University



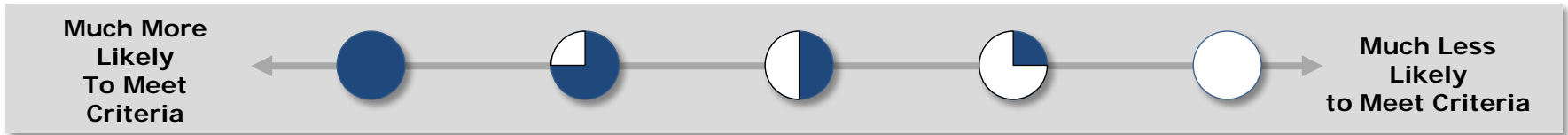
Expert Panel Assessment: Policy Rankings by Criteria



Criteria	Policy Options				
	Current NFIP	NFIP Modified	Privatization	Federal Assistance	Community Based
Costs of Flood Borne by Individuals	5	2	1	4	3
Individuals Incur Costs Gradually	2	1	3	5	4
Assistance Provided to Those Who Cannot Afford the Cost of Flood	5	1	3	2	4
Minimize Exposure to Flood Hazards	4	3	5	2	1
Maximize Natural & Beneficial Functions of the Floodplain	4	2	5	1	3
Efficiency	4	2	1	5	3
Administrative Feasibility	2	1	3	4	5
Political Acceptability	3	2	1	4	5



Data Analysis: Policy Rankings by Criteria



Criteria	Current NFIP	NFIP Modified	Privatization	Federal Assistance	Community Based
Cost of Flood is Borne by Individuals					
Individuals Incur Costs Gradually					
Assistance Provided to Those Who Cannot Afford the Cost of Flood					
Minimize Exposure to Flood Hazards					



Cause and effect drivers from the analysis...

1

- Individual mitigation is relatively unresponsive to insurance prices.

2

- Participation is primarily driven by mandatory purchase requirements, not insurance prices (*except for truly low-income homeowners*).

3

- Full-risk rates will not substantially decrease participation or increase mitigation, but they will place the program on solid fiscal ground.

4

- Building codes and standards can make meaningful improvements toward reducing exposure, but the benefits will be realized gradually as new structures are incorporated into the built environment.

5

- Community mitigation projects are likely to have greater and more immediate impacts on reducing exposure than individual actions.



Key Insights

1 Reform is Needed

The Current NFIP has several shortcomings:

- Policies that are subsidized or discounted
- Low penetration in and out of the flood zone
- Inadequate mandatory purchase compliance
- Absence of a means-based assistance

2 No One Policy Option Emerges as "Best"

- Among the "pure" policy options, no one option clearly emerges as the best alternative to the status quo as a long term solution.
- Each policy option has a unique mix of strengths and weaknesses.

3 "NFIP Modified" Offers a Strong Platform for Reform

NFIP Modified offers the strongest platform for Reform in the short and medium term

- These elements are already influencing current legislative discussions.
- However, this option shares shortcomings of the current framework:
- Low participation
- Less-than full risk rates
- Insufficient incentives to mitigate and discourage new development in the floodplain.

4 Analysis Points to Hybrid Solution

- Strong elements from each alternative should be incorporated by decision-makers to form a hybrid option.
- A hybrid policy serves as an effective vehicle for gradually introducing, testing, and scaling up models that appear promising in the long term without compromising critical program goals in the short term.



NEXT STEPS: PHASE IV



Phase IV Process

