



Java Journal

The Official Morning Wake-up Newsletter of the 2004 National Flood Conference

TUESDAY
MAY 4, 2004

TODAY'S HIGHLIGHTS

Exhibit Hall Open
7:00 - 9:00 a.m.

Town Halls
9:00 - 11:00 a.m.

Awards Luncheon
11:15 a.m. - 1:30 p.m.

Workshops
1:30 - 2:45 p.m.

Workshops
3:00 - 4:15 p.m.

Exhibit Hall Open
4:15 - 5:30 p.m.



FEMA

Program Initiatives

“With coffee available on every Seattle street corner, you may be tempted to over-indulge,” said Mike Moyer, Chair of the National Lenders Insurance Council and emcee of the 2004 National Flood Conference (NFC) as he welcomed attendees to the Monday morning general session. “But instead of bouncing from one coffee shop to another, let’s spend the next few days learning how to perk up the National Flood Insurance Program.”

Next, Anthony Lowe, Director of FEMA’s Mitigation Division greeted conferees through a prerecorded message in which he recounted recent NFIP successes as well as several of the challenges faced by the Program in the last year.

The Director described legislation introduced in Congress to address repetitive flood loss properties and provide for a 5-year reauthorization for the NFIP. He also talked about some of the Mitigation Division’s efforts to further multi-hazard flood map modernization and implement a new “FloodSmart” marketing program designed to help increase the number of NFIP policies by 5 percent.

Lowe referred to policyholder dissatisfaction with claims procedures following Hurricane Isabel, a storm that hit the Mid-Atlantic in September 2003, and described some FEMA efforts to remedy the situation. The Director announced the formation of a Mitigation Division design team to consider ideas and proposals for improving the NFIP as a result of Isabel.

“It may be time to look at offering some variety in our policy choices,” he said. “In the past we’ve provided a ‘one size fits all’ policy. Perhaps its time to allow policyholders to choose among a range of basic, standard, or even premiere policies.”

The Director addressed education efforts underway to better prepare



Emcee Mike Moyer welcomes conferees

insurance agents, State Insurance Departments, and other NFIP partners for flood disasters. He talked about Program simplification and mentioned a number of alternatives under investigation for determining building elevation.

“This year we have made significant strides amidst major challenges,” concluded Director Lowe. “Our challenge is to avoid complacency in the aftermath of success, not succumb to failure, and learn from both.”

What Role Do You Play After a Disaster?

Next on the program, Bill Lokey, a Federal Coordinating Officer with FEMA, detailed the public outreach efforts of his team in the aftermath of Hurricane Isabel.

Next on the program, conference attendees viewed “Making Sense Out of Chaos,” a video about the roles of many FEMA partners who respond to disasters. The video was produced in the months following the flooding in Maryland, North Carolina, and Virginia after Hurricane Isabel hit last fall. Included were descriptions of local and national preparations for the storm as well as the efforts of multiple national, State, and local efforts organizations—public and private—to assist flood victims during after the storm.



Jacqueline Meszaros, University of Washington

Taking Irrational Risks

The keynote speaker for the opening general session was Dr. Jacqueline “Jack” Meszaros, an Associate Professor at the University of Washington who specializes in behavioral decision theory. Dr. Meszaros has studied decisions about ambiguous and high-consequence risks for nearly a decade. She is a Principal Investigator for the National Science Foundation’s Pacific Earthquake Engineering Research Center at U.C. Berkeley where her focus is on earthquake risks.

Dr. Meszaros explained that behavioral decision theory explores why people make decisions that seem apparently irrational. “If you give me the opportunity to make an investment that can reduce the probability that something is going to happen or that can reduce the expected amount of loss, then, rationally, I should go ahead and make that investment,” suggested Dr. Meszaros. “But we see over and over again that in the realm of low-probability/high-consequence risks, people refuse to make investments that are not only economically rational, but even subsidized.”

Studies in the late 1970s showed people being systematically irrational when offered heavily subsidized flood and earthquake insurance. “You might draw the inference that all you have to do is to get people a better estimate of what the probability, the loss, and the cost of insurance is and the problem should be solved,” said Meszaros. “But you all know that isn’t true. Simply giving people information doesn’t solve the problem. They noticed even in the early studies that there were a lot of people who just refused to worry about risks and wouldn’t even consider investing in insurance.”

According to the Prospect Theory, which won the Nobel Prize in Economics in 2002, there is a dramatic reversal in behavior when people make decisions based on perceived risks rather than perceived losses.

“For example, most people believe they have to pay a certain amount for health insurance,” explained Dr. Meszaros. “As long as they pay that amount, they are in the realm of gains, But if you raise the price of health insurance, they may feel pushed into the realm of losses,

become uncomfortable, and are less willing to consider the investment. If these people and their neighbors do not pay for flood insurance, then even being asked to pay \$1 for flood insurance may feel like a loss.”

Ambiguity is key among the numerous aspects of behavioral decision theory that impact NFIP stakeholders. People tend to use ambiguous information to support their original positions or make decisions they think others will support. “In a location where the flood risk is only moderate, the best predictor of whether people will insure is if their neighbor has insured,” stated Meszaros.

Noting that people who don’t worry are unlikely to insure under any condition and people who do worry are most likely to take additional steps to mitigate future losses, Dr. Meszaros closed by citing a study of the Seattle business community after the Nisqually earthquake in early 2001. She explained that earthquake victims as well as businesses that had mitigated prior to the earthquake were the most likely to take mitigation measures afterward. “It is cognitive, emotional factors that influence decision making,” she concluded. “I hope that having a richer appreciation for why people seem so irrational will make it easier for you to work more constructively with your constituents.”

Identifying the Hottest Issues

In this morning’s Town Halls we will be exploring stakeholder questions and concerns in five key areas of the NFIP: floodplain management/mapping; marketing; lender; underwriting; and claims.

In the closing general session on Wednesday morning, we will hear collective reports about the topics raised in each of these Town Halls. The Hot Issues Panel that follows will investigate possible solutions to problems identified in each Town Hall. The Hot Issues discussion held at the conference each year has been an important source of feedback that is used later in formulating NFIP policy. Your insights and unique perspective are needed. Please join us at the closing general session and let us know where you see the program working well and what suggestions you have for making it work even better.

On View

Hundreds of conferees were welcomed to the Exhibit Hall yesterday to learn firsthand about flood-related



products and services. You are invited to drop by again today before the Town Halls convene (7:00-9:00 a.m.) or after the afternoon work-shops (4:15-5:30 p.m.).