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Government Overhaul of National Flood Insurance Cheered by Climate Resilience Experts

By Christopher Flavelle (https://www.insurancejournal.com/author/christopher-flavelle-bloomberg-view/) | March 18, 2019

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Climate advocates say an overhaul of the nation's flood insurance program being unveiled by the Trump administration will spur communities around the country to

better plan for extreme weather, but could drive up costs for some homeowners.

The [changes being announced](https://www.insurancejournal.com/news/national/2019/03/12/520275.htm)

(<https://www.insurancejournal.com/news/national/2019/03/12/520275.htm>) Monday by the Federal Emergency Management Agency represent one of the most significant reforms in the history of the National Flood Insurance Program. It will tie premiums to the actual flood risk facing individual homes nationwide starting in October 2020. The current system sets prices based largely on whether a home is inside or outside of the 100-year flood plain.



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"This is badly needed," said Shana Udvardy, a climate resilience analyst for the Union of Concerned Scientists. She called the shift "a huge step in the right direction, so we can let communities, particularly those communities that have been repetitively flooded, know what their actual risk is."

But the change risks increasing costs in the most flood-exposed areas, Udvardy cautioned. "We also have concerns about affordability," she said. "How do we protect those people that are historically disadvantaged and low-income, and that are also on the front lines of flooding?"

The initiative, which FEMA calls Risk Rating 2.0, follows a string of catastrophic events, including the Baton Rouge flood in 2016, Hurricanes Harvey and Irma in 2017 and Hurricane Florence last year. In each of those events, a large share of damaged homes lacked flood insurance, in part because FEMA's current system didn't accurately measure their risk.

"We have too much disaster suffering because we don't have insured survivors," David Maurstad, FEMA's deputy associate administrator for insurance and mitigation, said in a phone interview Friday. He said the recent disasters spurred the agency to improve its risk identification, mapping and prices, and use those prices as a signal for homeowners.

"The new rating plan will help customers better understand their risks," Maurstad said. "I believe that will actually increase the demand for our product."

The overwhelming majority of American households with flood coverage receive their policies through the National Flood Insurance Program, which covers about 5 million policyholders, including approximately 3.5 million single-family homes. Despite the growing risk of flooding due to climate change, the number of policies under the program has fallen about 10 percent from its peak in 2009.

The pricing overhaul comes as climate change places growing pressure on the publicly subsidized flood insurance program. Claims often outpace premiums, saddling the program with a debt that topped \$30 billion in 2017. The models that determine those rates ignore certain kinds of flooding, like heavy precipitation. And many Americans at risk of flooding nonetheless don't buy insurance.

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Maurstad said the agency doesn't yet know what effect the change will have on total premiums. "We're not going to design it to either increase or decrease revenue," he said Friday. "Our effort is to improve our product and price it more fairly."

In a follow-up email, FEMA press secretary Elizabeth Litzow said the new approach could have the effect of raising total revenue, by accounting for new types of flood risk.

"Risk Rating 2.0 will be introducing new sources of flooding, such as intense rainfall, that have not been previously considered in the rating structure," Litzow wrote. "While these new sources of flooding have a lesser impact on risk and rates than those already considered, their introduction could result in the increased premium levels."

Under the change, FEMA will use private-sector data to calculate the real flood threat for each home. A briefing document used by the agency last October offers the example of two homes in a 100-year flood plain. The first home, at the edge of that zone, faces low risk of flooding from inland flooding or storm surge; the second faces higher risk from both.

Under the current system, each home pays the same premium. With the changes, the first home's premiums would fall by 57 percent, while premiums for the second home would more than double.

Rates are likely to go up in neighborhoods with the greatest exposure to flood risks, which could hurt property values in those areas, according to Michael Berman, a former chairman of the Mortgage Bankers Association who worked on housing issues for the Obama administration and has been briefed on the plan.

Still, Berman said the initiative was an important one. "Anything that they can do to improve people's understanding of flood risk compared to binary 100-year flood plain is good for consumers and good for investors in the long run, even if it raises premiums," he said.

Increasing the cost of flood insurance tends to depress home values for two reasons, according to Asaf Bernstein, an economist at the University of Colorado at Boulder whose research includes asset pricing and household finance. Not only do higher premiums raise the cost of owning a home; they also act as a warning to potential buyers about the likelihood that a house will flood.

Past attempts to base flood insurance premiums on risk have sparked political blowback. In 2012, Congress passed changes that would impose premiums that reflected the full risk for homes, only to back down two years later in the face of intense public opposition.

What's different now, and what Maurstad said helped prompt FEMA to overhaul its pricing structure, is that the flooding has gotten worse.

"We're seeing more intense events," Maurstad said. "We're going to have a program that's going to be able to serve the nation better in the years to come."

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