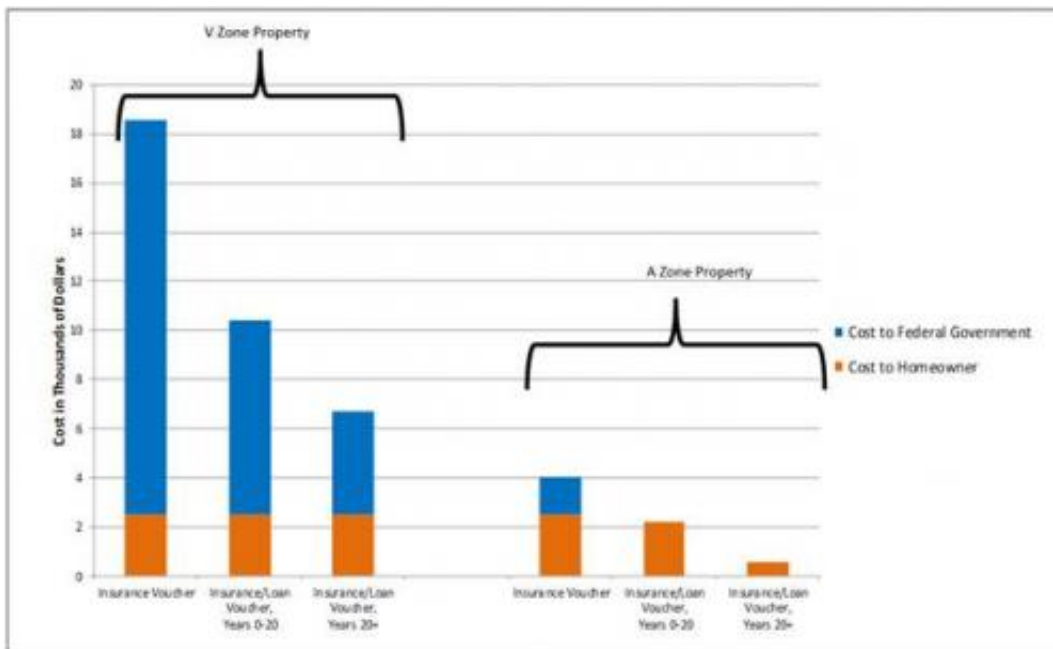


# Is the US National Flood Insurance Program affordable?

July 17 2014



This figure shows the costs of the insurance-only voucher and the combined insurance and loan voucher in V-Zone properties subject to wave action and A-Zone properties that have a lower flood risk. It also shows the payments after the loan has been fully repaid. The savings from coupling mitigation with the insurance voucher are quite substantial, as shown in the figure. During the life of the loan, the total annual savings (the difference between the premium with no mitigation and the combined loan and premium after mitigation) are \$1,800 for the A zone property and \$8,190 for the V zone property.

There is often tension between setting insurance premiums that reflect

risk and dealing with equity/affordability issues. The National Flood Insurance Program (NFIP) in the United States recently moved toward elimination of certain premium discounts, but this raised issues with respect to the affordability of coverage for homeowners in flood-prone areas. Ultimately, Congress reversed course and reinstated discounted rates for certain classes of policyholders.

Carolyn Kousky (Resources for the Future, USA) and Howard Kunreuther's (The Wharton School, University of Pennsylvania, USA) paper in the inaugural issue of the Journal of Extreme Events, "Addressing Affordability in the National Flood Insurance Program", examines the tension between risk-based rates and affordability through a case study of Ocean County, New Jersey, an area heavily damaged by Hurricane Sandy. Kousky and Kunreuther argue that the NFIP must address affordability, but that this should not be done through discounted premiums. Instead, the authors propose a means-tested voucher program coupled with a loan program for investments in hazard mitigation. As a condition for a voucher, homeowners would be required to take steps to invest in flood loss reduction measures such as elevating their property. They show that the cost of a program to homeowners and the [federal government](#) would be considerably less than if a voucher were just provided to cover the cost of insurance.

Kousky and Kunreuther conclude that a more detailed, nationwide (United States) analysis is needed to estimate the costs to the federal government of a coupled voucher and mitigation loan program, as well as the expected benefits of reduced flooding losses in the future. This could include an assessment of the amount households could reasonably be expected to pay toward insurance and investing in flood loss reduction measures. Surveys of residents, both in and out of floodplains, regarding their perception of the equity of risk based pricing and insurance vouchers could help inform the public dialogue on the subject.

Financial support for this project was provided by the Center for Risk and Economic Analysis of Terrorism Events (CREATE) at USC, the Center for Research on Environmental Decisions (CRED; NSF Cooperative Agreement SES-0345840 to Columbia University), the Travelers Foundation, National Science Foundation Grant No. SES-1062039/1061882, and the Wharton Risk Management and Decision Processes Center of the University of Pennsylvania.

**More information:** *Journal of Extreme Events*  
[www.worldscientific.com/doi/pdf/10.1142/S2345737614500018](http://www.worldscientific.com/doi/pdf/10.1142/S2345737614500018)

Provided by World Scientific Publishing

Citation: Is the US National Flood Insurance Program affordable? (2014, July 17) retrieved 19 April 2024 from <https://medicalxpress.com/news/2014-07-national.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.