



# Association of State Floodplain Managers, Inc.

2809 Fish Hatchery Road, Suite 204, Madison, WI 53713

Phone: 608-274-0123 | Fax: 608-274-0696 | Email: [asfpm@floods.org](mailto:asfpm@floods.org) | Website: [www.floods.org](http://www.floods.org)

## The National Flood Insurance Program (NFIP)

The NFIP was created in 1968 to better indemnify individuals for flood losses through insurance, to reduce future flood damages, and to reduce federal (taxpayer) expenditures for disaster assistance and flood control. The NFIP makes flood insurance available in exchange for communities agreeing to adopt, implement, and enforce floodplain management regulations. This *quid pro quo* arrangement has resulted in a unique program that attempts to balance flood risk management using three primary components:

- Providing flood hazard maps to communities and citizens.
- Reducing flood damage through floodplain management regulations and mitigation programs.
- Making flood insurance widely available to citizens to protect their financial investments.

Consider the following benefits of the NFIP:

- Building in accordance with floodplain management regulations now results in over \$2.3 billion in losses avoided annually. Structures built to NFIP standards experience 80% less damage than those that are not.
- Flood maps are used over 30 million times each year. Conversion of flood mapping data to a digital format has resulted in \$100-\$200 million in annual savings versus using older paper maps.
- Investments in improving flood mapping show a benefit cost ratio ranging from 1.5:1 to 2.3:1.<sup>1</sup>
- In the past 10 years (1999-2008) the average flood insurance claim paid in the US was \$49,529. The average amount of federal flood disaster assistance is \$2,400. Flood insurance, not disaster assistance, allows flooded property owners to fully recover. If there is no Federal disaster declaration, there is no federal disaster assistance.

## Why Should Congress Care About the NFIP?

While the NFIP has shown successes over the years, there are significant policy issues that Congress must wrestle with.

- **Identifying and communicating flood risk.** Although flood mapping has been done since the creation of the NFIP, mapping models and technology have changed significantly. Also, flood hazard areas and flood risk change over time. This is due to a number of factors including watershed development, climate change, and sea level rise. While many flood hazard areas have been identified, many others have not, or have not been identified using detailed engineer studies. A robust, ongoing flood mapping program is necessary.

After flood hazards have been identified, it is necessary to communicate flood risk. FEMA's new mapping program, Risk MAP, provides traditional flood mapping, but enhances the information with specific, actionable data on flood risk. For example, potential loss information or flood depth data can help homeowners, businesses, and communities choose appropriate mitigation actions.

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<sup>1</sup> *Mapping the Zone: Improving Flood Map Accuracy*. (2009). National Academies

A current issue in flood hazard identification revolves around levees. All levees have flood risk in protected areas and this risk can be characterized as both residual and potentially catastrophic. FEMA and the Corps of Engineers are working with communities on potential solutions to this issue; however, it is important that the risk be appropriately identified and that the NFIP not ignore the risk or reduce personal responsibility.

- **Fiscal Solvency.** The NFIP was designed to accommodate the “average loss year.” Thus, it is an actuarially sound program, most of the time (1986-2004). However, when you have catastrophic loss years (i.e., 2004 and 2005), the program can and will go into debt. Should the NFIP be fully solvent? What steps can lead to increased solvency? Should Congress reduce the cross-subsidy for Pre-FIRM structures and second homes? What about affordability of flood insurance policies? Should there be a program in HUD to assist low-income people purchase needed flood insurance? It is apparent that issues of fiscal solvency and policy affordability are intertwined. Should the federal provide subsidies and disaster relief to those who continue to build and live at risk? Should there be a “one bite or two bites free” policy? Ultimately, Congress will need to decide “who pays?”
- **Flood Mitigation.** The floodplain management element of the NFIP includes the mitigation programs that can be used for the built environment, focusing on mitigating risk to buildings constructed before the NFIP standards were in place. FEMA flood mitigation projects provide \$5 in benefits for every \$1 spent to mitigate. (Two of the three flood mitigation programs in the NFIP work well; however, the Severe Repetitive Loss program is significantly undersubscribed due to the complexity of the statute implementing it.)
- **Flood Insurance.** Currently, the flood insurance regime in the US includes both the public and private sectors. The public sector (NFIP) pays all claims for flood losses of NFIP policyholders; however, these policies are mostly sold and serviced by the private sector, for which the NFIP pays them a fee. Also, there is a robust private sector involvement in the secondary insurance market for coverage in excess of NFIP limits.
- **Rethinking the NFIP and the NFIP Evaluation.** The basic structure of the NFIP has not been changed since it was authorized in 1968, and many changes in development, technology, population, and the insurance industry have occurred since that time. Currently, FEMA is undertaking a rigorous, stakeholder based exercise in looking at making major policy improvements to the NFIP. This evaluation includes an examination of multiple alternatives. However, the results of this effort will not be completed until June 2011. Furthermore, a comprehensive evaluation of the NFIP in 2007 by the American Institutes of Research included several recommendations. All of these data should be incorporated into Congress’ consideration of NFIP reforms.



*The mission of ASFPM is to promote education, policies, and activities that mitigate current and future losses, costs, and human suffering caused by flooding, and to protect the natural and beneficial functions of floodplains - all without causing adverse impacts. For additional information, please contact the ASFPM Executive Office at 608-274-0123 or visit ASFPM’s website at [www.floods.org](http://www.floods.org).*