CHALLENGES AND OPPORTUNITIES IN

THE QUALITY AND QUANTITY OF FLOOD HAZARD INSURANCE POLICIES

Statement of

Carlos E. Martín*

Rubenstein Fellow, Brookings Institution and

Remodeling Futures Project Director, Harvard Joint Center for Housing Studies

before the

Subcommittee on Housing and Insurance of the

Committee on Financial Services

United States House of Representatives

for the hearing entitled

"HOW DO WE ENCOURAGE GREATER FLOOD INSURANCE IN AMERICA?"

March 10, 2023

*The views expressed are my own and should not be attributed to the Brookings Institution or its Metro Program, the Institution's leadership and Trustees, or its funders, or Harvard University, its Officers, or Overseers. I thank my colleague and collaborator, Dr. Carolyn Kousky at the Environmental Defense Fund, for her assistance in reviewing this testimony.

NFIP has faced numerous hurdles since its creation in 1968, not the least of which was the increasingly poor mismatch between its policy rates and actuarial risks, leading to the program's financial stumbling after the severe flood events of recent history. The passage of reforms in 2012 and 2014, along with FEMA's consequent Risk Rating 2.0 efforts, have improved the program's ability to reflect flood risk more accurately, but they have also foregrounded the affordability and access concerns we are discussing today. I identify six fundamental challenges to the widespread adoption of flood insurance, each of which provides an opportunity for federal intervention.

1. Unaffordability is the first and most salient challenge to increased take-up. The creation of a well-designed, means-tested ***assistance program*** for low-valued, high-vulnerability properties could more effectively and efficiently target the households burdened by the rate increases necessary for NFIP's financial soundness as well as the expansion of the marketplace for any provider.
2. Most consumers have limited awareness of their actual flood risks and may not see the need to purchase flood insurance if it is not required. Highly vulnerable groups, such as renters, have little to no information or support for their decisions. Increased ***disclosures and user-friendly information repositories*** would ensure that households have at least basic information to make informed decisions.
3. Institutions that require flood insurance, such as federally backed mortgages, may not have clear, consistent, and enforced requirements, especially for future flood risks that are increasingly material to homeowner exposures but not integrated into terms of existing 30-year or other mortgages. Requiring ***updates and monitoring of the range of consumer financial products*** for which flood risk is relevant could lead to immediate and increased take-up.
4. Consumers are largely unclear about their individual insurance coverage. ***Accessible coverage and premium information*** across public and private insurance policies and providers, including unambiguous language between homeowner and flood policies in the form of an insured's "bill of rights," could increase homeowners' awareness of the gaps in their coverage and lead to the purchase of more flood policies.
5. We have massively underfunded structural mitigation for floods at both the property and infrastructure levels, including thoughtful buyouts for severe-repetitive loss properties. Expansion of ***resources to federal mitigation programs*** for properties and communities in FEMA, HUD, and the Army Corps, particularly for the most vulnerable, would reduce risks and make the expansion of flood insurance sounder for the range of providers.
6. Finally, the lack of transparent data on properties, property owners, and their respective policies prohibits a sound assessment between insurance provider types, the effects of public policy on insurance take-up, and a host of other critical indicators. Open data are also necessary to measure disparities between policyholders by price, coverage, and treatment, necessary evidence for ensuring that federal decisions are leading to fair, efficient, and effective outcomes. Centralized ***national reporting requirements,*** akin to mortgage disclosure data, is needed for monitoring, evaluation, and corollary research.

Given the challenges associated with growing flood hazards and the unique role the federal government has played in preparing and mitigating homes for them, Congress and the Federal Insurance and Mitigation Administration within FEMA must address these opportunities soon.

Along with these broad categories of opportunity lies the expansion of the marketplace for flood insurance providers as a possible method for growth. However, we know too little about how the principles of fairness, efficiency, and effectiveness would play out under that scenario. Historically poor reporting of private insurance data, highly variable across the overseeing state governments, also prevents evidence-gathering with respect to one provider type's potential efficiency in expanding the consumer pool for flood insurance over the currently dominant NFIP option. We also know that that one benefit of the public-sector option has been a closer alignment to other mitigation efforts and the broader federal disaster management framework.

Efforts to increase private flood insurance should evaluate the effectiveness of private insurance in reducing the risks to and burdens on federal coffers, taking post-flood relief and recovery costs into consideration. It should also examine the costs of pre-flood mitigation infrastructure that would incentivize private insurers' willingness to provide policies and reduce NFIP expenditures. Ultimately, the impact of diversification of insurance providers, including privatization, on the number of policyholders and how they serve consumers in terms of fair pricing and treatment would need to be assessed alongside further experimentation. Fortunately, the six categories of recommendations above benefit any type of flood insurance providers, as well as the flood exposed communities in need of better mitigation support.

We are living in a moment when the unwritten contract between insurers and government is being extensively rewritten. Over one hundred years ago, private insurers stopped issuing fire policies because of great urban fires. In the 1920s, private insurers stopped issuing flood policies after the great disasters along the Mississippi River, which led to the creation of the NFIP in 1968. Expanding flood insurance to more households whose properties and communities are vulnerable is a laudable and necessary goal. But we should tread carefully when designing federal policy precedents, lest we find ourselves in a position similar to 1968.

Background

The federal response to flood exposures and vulnerabilities is unique among all environmental hazards and all causes of insurable losses. Simply, there is no national public insurance program for other hazard risks. In turn, there are few if any special mitigation assistance programs designed for hazards other than floods. Combined with insurance requirements for mortgage borrowers through institutions like the government-sponsored enterprises, floods feature in federal emergency management in monetizable and qualitatively diverse ways beyond the federal relief and recovery assistance available after presidentially declared disasters for all hazard types. The massive attention to floods is partially justified by the higher frequency of flooding either as its own source for a declaration request or as part of other hazard events such as hurricanes.

Consequently, with the passage of the National Flood Insurance Act in 1968, Congress created the National Flood Insurance Program (NFIP). It authorized NFIP primarily in response to the lack of availability of private flood insurance especially after providers retreated from the market following the Great Mississippi River Floods of 1927, which created a gap in coverage for the decades to follow.[1] Combined with a massively increasing population in areas that experience, or would eventually experience, high flood exposures, NFIP filled a unique role in the new federal emergency management framework. Insurers at the time were willing to participate in a subsidized program that included the establishment of an industry pool and congressionally appropriated assistance fund to pay losses, under the assumption that communities would quickly be certified and individual property owners would purchase policies.[2]

Tweaks to the program led to modest improvements, such as the 1973 Flood Protection Act's requirement that all properties receiving federally backed mortgages purchase flood insurance and the Disaster Relief Act the following year which required aid recipients to seek flood insurance and established a range of mitigation incentives and requirements for local governments. Further, the Flood Insurance Reform Act of 2004 eliminated incentives to rebuild repetitive-loss properties and improved the claims process. Yet, NFIP's capacity to provide policy and claims services that respond to both the public need for accessible flood insurance and the ability to remain financially and structurally sounds has been widely variable.

The passage of the Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowner Flood Insurance Affordability Act of 2014, along with the internal reforms under the Risk Rating 2.0 effort, have improved the program's ability to reflect flood risk more accurately but introduced the affordability and access concerns we discuss today. However, take-up has never met expectations, let alone need as defined by real flood risks. The latest research suggests that the number of properties at flood risk and the severity of their risks are significant and daunting.

[1] Knowles, S.G. and Kunreuther, H.C., 2014. Troubled waters: The national flood insurance program in historical perspective. Journal of Policy History, 26(3), pp.327-353.
[2] Anderson, Dan R., "The National Flood Insurance Program: Problems and Potential," Journal of Risk and Insurance 41, no. 4 (December 1974): 579–99; Kunreuther, Howard, "The Case for Comprehensive Disaster Insurance," Journal of Law and Economics 11, no. 1 (April 1968): 133–63

Nearly 4.3 million residential properties currently have substantial flood risk resulting in monetizable damage (that is, a more than a 1 percent likelihood of damage per year), estimated in aggregate at over $20 billion.[3] Increased exposures over the next thirty years will increase this estimate to over $32 billion. Based on research by colleagues at the First Street Foundation, NFIP rates would need to increase by almost 4.5 times current rates to cover those possible losses. Barring hikes in individual policyholder premiums, the costs to the general public from these losses will almost certainly increase. The expansion of flood insurance pools, then, will not only distribute these risks more broadly but will be a clear benefit to the policyholders themselves.

Challenges to Widespread Adoption

Having sufficient resources after a flood is associated with better physical and mental health and financial stability for families.[4] Purchasing appropriate and comprehensive insurance is one such resource. Insurance coverage before a disaster is known to improve recovery after.[5] Yet, we know all too well that too many households do not have adequate flood insurance coverage. To that end, research has identified several critical barriers to widespread adoption. I call the following six to your attention.

1. Unaffordability of flood insurance

All types of hazard insurance policies, including flood insurance, are expensive compared to coverage for more predictable and less severe risks. The losses from flood events are often so extensive that, when compared to the underlying distribution of the risks that would cover those losses, a low-cost flood insurance policy simply does not add up. Not surprisingly, then, insurance coverage varies by income level.[6] One study of post-Katrina Louisiana found a decrease in the likelihood of respondents having flood insurance in lower income brackets.[7] Other studies show that

[3] First Street Foundation, 2021. The cost of climate. America's growing flood risk.
[4] Ratcliffe, C., Congdon, W.J., Stanczyk, A., Teles, D., Martín, C. and Kotapati, B., 2019. Insult to Injury: Natural Disasters and Residents' Financial Health; Farrell, D. and F. Greig (2018). Weathering the Storm: The Financial Impacts of Hurricanes Harvey and Irma on One Million Households. J.P. Morgan Chase & Co. Institute. Washington, DC. February.
[5] Kousky, C. (2019). "The Role of Natural Disaster Insurance in Recovery and Risk Reduction." Annual Review of Resource Economics 11(3)
[6] Fothergill, A. and L. A. Peek. "Poverty and Disasters in the United States: A Review of Recent Sociological Findings." Natural Hazards 32(1), 2004, pp. 89–110; Shao, Wanyun, Xian, Siyun, Lin, Ning, Kunreuther, Howard, Kirby, Goidel. (2017). Understanding the effects of past flood events and perceived and estimated flood risks on individuals' voluntary flood insurance purchase behavior. Water Research. 101, 391-400; Brody, S.D., W.E. Highfield, M. Wilson, M.K. Lindell, and R. Blessing. "Understanding the Motivations of Coastal Residents to Voluntarily Purchase Federal Flood Insurance." Journal of Risk Research 20(6), 2017, pp. 760–775; Netusil, N.R., C. Kousky, S. Neupane, W. Daniel, and H. Kunreuther. "The Willingness to Pay for Flood Insurance." Land Economics 110819, 2021
[7] Cannon, Clare, Fox Gotham, Kevin, Lauve-Moon, Katie, Powers, Bradford. (2020). The climate change double whammy: Flood damage and the determinants of flood insurance coverage, the case of post-Katrina New Orleans. Climate Risk Management. 27 (2020) 100210.

the presence of disposable income contributes to a willingness to purchase flood insurance, but attitudes about purchasing flood insurance are inelastic.[8]

Regardless, lower-income households' past challenges with being able to afford flood insurance are now potentially exacerbated. The new approach to pricing from Risk Rating 2.0, which allows premiums to track more closely with actuarial risks, exacerbates this challenge for some households but improves it for others by reducing the cross-subsidization of some high-risk, high-value property by lower-valued property holders.[9] For many property owners with NFIP insurance policies and, more importantly, for those with flood risks who do not have policies, affordability remains a persistent challenge.

2. Limited awareness of flood risk and the availability of risk information

Another barrier to households' take-up of flood insurance policies has been the fundamental unawareness of their flood risks. The various actors involved in one household's decision to purchase a home and, in turn, appropriate property and hazard insurance have access to different components of that home's aggregate risk profile—and different professional and organizational interests in sharing that information. For example, possible property damages and financial losses typically inform insurers while real estate agents and lenders may seek to contextualize risk profiles based solely on the household's vulnerability and capacity to secure resources and institutional supports for home occupancy. Differences associated with social position, experiences, and worldviews typically drive perceptions of risk.[10] For climate change-related hazards, especially, these socioeconomic factors have defined many households' political biases which, in turn, shape their perception of climate risks.[11]

If we define adequacy of information as the quantity, quality, and accessibility of facts to inform a homebuyer, owner, or occupant about their current or future home's risks, the state of risk information is feeble at best. This situation is compounded by the fact that the information provided to and understood by diverse kinds of households also varies. One study in Harris County, Texas found that low-income and racial minority homeowners are less likely than white households to be informed of hurricanes and toxic materials risks during home purchase and are less equipped to make informed decisions when choosing where to purchase a home.[12]

---

[8] Hung, Hung-Chih. (2009). The attitude towards flood insurance purchase when respondents' preferences are uncertain: A fuzzy approach. The Journal of Risk Research, 12(2), 239 - 258

[9] FEMA. An Affordability Framework for the National Flood Insurance Program. Washington, DC: Department of Homeland Security, Federal Emergency Management Agency, 2018

[10] Brody, S.D., Highfield, W.E., Wilson, M., Lindell, M.K. and Blessing, R., 2017. Understanding the motivations of coastal residents to voluntarily purchase federal flood insurance. Journal of Risk Research, 20(6), pp.760-775; Shao, W., Xian, S., Lin, N., Kunreuther, H., Jackson, N. and Goidel, K., 2017. Understanding the effects of past flood events and perceived and estimated flood risks on individuals' voluntary flood insurance purchase behavior. Water research, 108, pp.391-400; Cannon, C., Gotham, K.F., Lauve-Moon, K. and Powers, B., 2020. The climate change double whammy: Flood damage and the determinants of flood insurance coverage, the case of post-Katrina New Orleans. Climate Risk Management, 27, p.100210

[11] McCright, A.M. and Dunlap, R.E., 2011. The politicization of climate change and polarization in the American public's views of global warming, 2001–2010. The Sociological Quarterly, 52(2), pp.155-194

[12] Zhang, Y. (2010). "Residential housing choice in a multi hazard environment: Implications for natural hazards mitigation and community environmental justice." Journal of Planning Education and Research

Homeowners typically rely on a range of information sources about a home's risk, its insurance requirements, or its flood history to inform their housing and insurance decisions. FEMA's flood insurance rating maps are among the most referenced public sources for flood risk though they may not be the best indicator of whether flood insurance is needed from the perspective of current and future exposures.[13] Information about NFIP past or current insurance requirements and claim histories for a home is available only to the current policyholders or insurance agents. For flood history, potential homebuyers or current homeowners must rely on the property disclosure information that was made available by sellers during the home purchase process.

Property disclosure rules at the point of sale are the most cited opportunity for improving the consistency and accessibility of information.[14] Because they involve regulation of real property, these rules tend to fall in state governments' jurisdictions which, inevitably, vary significantly across states with respect to the information required and how that information is communicated.[15] Renters, in contrast, are provided no information regarding the risks of their units beyond national lead-based paint requirements and are, therefore, even more in the dark about potential losses to non-property possessions. I should note that renters are also more likely to have lower incomes than their homeowning counterparts.

Most states do not require a seller to detail a home's history of flooding, but some states have set their own hazard disclosure regulations in the absence of a federal mandate.[16] 21 states have no statutory or regulatory disclosure requirements related to a property's history of flood risk or other flood-risk factors. However, 29 states plus Washington, DC have realtor associations that provide voluntary disclosures about whether the property is in a designated floodplain before the sale. In some states, disclosure requirements are plagued by loopholes, such as the ability to pay a $500 fee at closing to avoid disclosure or being able to select an option that information is unknown.[17] In addition, 85 percent of the 29 states with disclosure requirements waive requirements in cases of foreclosure.

Louisiana has been a leader in efforts to improve seller hazard disclosure since revamping its regulations after Hurricane Katrina. Louisiana strengthened home risk disclosure laws in 2008, 2013,

---

[13] More updated information sources, such the First Street Foundation's Flood Factor provide more rigorous and granular information for an additional 5.7 million properties beyond those in FEMA flood maps are in a 100-year floodplain: FloodFactor. Find your home's Flood Factor. Accessed July 8, 2021. https://floodfactor.com/

[14] Smith, Velma. Testimony for The Pew Charitable Trusts Presented by Velma Smith on Behalf of the FloodPrepared Communities Initiative. March 13, 2019: https://www.congress.gov/116/meeting/house/109090/witnesses/HHRG-116-BA00-Wstate-SmithV-20190313.pdf

[15] Washburn, R.M., 1994. Residential Real Estate Condition Disclosure Legislation. DePaul L. Rev., 44, p.381; Yeo, S., 2003. Effects of disclosure of flood-liability on residential property values. Australian Journal of Emergency Management, The, 18(1), pp.35-44; Nanda, A., 2008. Property condition disclosure law: why did states mandate 'seller tell all?'. The Journal of Real Estate Finance and Economics, 37(2), pp.131-146; Nanda, A. and Ross, S.L., 2012. The impact of property condition disclosure laws on housing prices: Evidence from an event study using propensity scores. The Journal of Real Estate Finance and Economics, 45(1), pp.88-109.

[16] Natural Resource Defense Council. 2021. How States Stack up on Flood Disclosure. Accessed July 8, 2021: https://www.nrdc.org/flood-disclosure-map

[17] Scata, Joel. No One Might Tell You if Your Future Home Has Ever Flooded. Natural Resources Defense Council, April 14, 2021: https://www.nrdc.org/experts/joel-scata/no-one-may-tell-you-if-your-future-home-has-ever-flooded

and 2018.[18] The state requires sellers to disclose details related to the nature and frequency of flooding, flood insurance requirements, past repairs (including elevation), and details regarding the type and amount of federal disaster aid previous owners received—but this was not always the case nor is it evenly applied to all households. Louisiana homeowners who acquired their homes before these periods did not benefit from disclosures except possibly if a mortgage lender requires flood insurance. Louisiana also has no rental disclosure requirements beyond those required federally for lead-based paint.[19] In 2019, Texas became the latest in a now majority of states to require basic disclosure of whether a home lies in a floodplain.[20] Sellers in Texas must disclose information about previous receipt of aid for flood damage.[21] In Florida, a Residential Property Disclosures Bill was filed in January 2020, but died in committee in March.[22] Florida has no risk disclosure laws despite its frequent extreme precipitation and rising sea levels.[23] Counties there have also unsuccessfully attempted to create their own requirements for both purchases and rentals.[24]

3. Evolving requirements for purchasing flood insurance

Unless required, few households voluntarily purchase flood insurance for the range of reasons described herein. Most households (approximately 70 percent) inside the 100-year floodplain do not have flood insurance even though flood insurance is typically required for homes whose households received a federally backed mortgage or a loan from a federally regulated lender. There is evidence that mortgages with high flood risks may be purposely valued to increase their likelihood of mortgage securitizations by the government-sponsored enterprises, thereby passing the properties' flood risk onto different federal backs.[25]

The Federal Housing Finance Agency explored the relationship between flood risk and the obligations of the mortgage securitization enterprises in 2021 and continues to explore how possible changes in insurance requirements will affect current and future borrowers and the enterprises' portfolios.[26] There is insufficient evidence about the insurance coverage in those portfolios, and the

---

[18] Louisiana State Legislature. N.d. RS 9:3198. http://www.legis.state.la.us/Legis/Law.aspx?d=181357

[19] Louisiana Department of Justice, (2008). "A Guide to Louisiana Landlord & Tenant Laws:" http://new.dhh.louisiana.gov/assets/oph/Center-PHCH/Center-CH/infectious-epi/EpiManual/MoldComplaints/AGguideToLandlordTenantLaw.pdf

[20] Buchele, Mose. In Texas, Home Sellers Must Now Disclose More About the Risk of Flooding, National Public Radio, October 27, 2019. https://www.npr.org/2019/10/27/772996585/in-texas-home-sellers-must-now-disclose-more-about-the-risk-of-flooding

[21] Korte, Lara, and Connie Hanzhang Jin. After Harvey surprised thousands with unexpected flooding, new law aims to better inform homebuyers, The Texas Tribune, August 22, 2019: https://www.texastribune.org/2019/08/22/texas-law-requires-buyers-to-disclose-flood-risks/

[22] Florida State Legislature via Lobbytools, SB 1842 Residential Property Disclosures (2020 Session), accessed July 8, 2021. https://public.lobbytools.com/bills/55959#summary

[23] Goldsmith, M. 2022. "Are Florida homeowners required to disclose past flood damage when selling a house?" Fox34 Orlando, October 10: https://www.fox35orlando.com/news/are-florida-homeowners-required-to-disclose-past-flood-damage-when-selling-a-house

[24] Cardona, C. 2022. "Osceola County delays tenant's bill of rights, flood disclosure ordinance." ClickOrlando: December 5: https://www.clickorlando.com/news/local/2022/12/05/osceola-county-delays-tenants-bill-of-rights-flood-disclosure-ordinance/

[25] Ouazad, A. and Kahn, M.E., 2022. Mortgage finance and climate change: Securitization dynamics in the aftermath of natural disasters. The Review of Financial Studies, 35(8), pp.3617-3665

[26] https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Climate-Change-and-ESG.aspx

enforcement of flood insurance requirements. But, ultimately, the cumulating risks in the typical thirty-year mortgage term are likely not reflected in the evolving insurance requirements nor in the original underwriting.

4. Unclear insurance coverage and mixed insurance treatment

Another likely reason for the limited purchase of flood insurance is that many homeowners simply are unclear about what their current policies cover. [27] Too often, we hear of stories after floods have damaged people's homes that they misunderstood or simply could not understand what their policies covered, even when NFIP was included. The responsibility for this misunderstanding lies at multiple doorsteps, including the insureds but also the insurer and the state regulatory agencies that dictate clarity and consistency across coverage and pricing.

There may also be inconsistencies in treatment of insureds that causes households to be further confused or downright suspicious of their pricing and coverage, particularly during claims processing. This is likely true especially for lower-income or otherwise disadvantaged households. In a forthcoming study I conducted with colleagues at the Urban Institute, we found that household income is positively associated with the quality of claims processing. Specifically, homeowners with higher household income ($90K or more) were significantly more likely to face a shorter claim processing time and were nearly four times more likely to have higher levels of satisfaction with the claims process.[28]

5. Insufficient investment in structural mitigation

One benefit of a public program like NFIP is that it can more readily align with public mitigation policies—focusing needed mitigation resources to reduce the likelihood and magnitude of NFIP claims and, in turn, stewarding taxpayer dollars. Yet, our national investment in the physical infrastructure as well as community programming and building construction codes and land use plans that could reduce flood losses for whole regions has been insufficient.[29] This investment reduces the flood exposures that necessitate flood insurance from any provider yet has until recently been under-resourced. Targeted mitigation dollars could have the additional unintended benefit of building local awareness of the need for flood risk tools, including flood insurance, in addition to making flood insurance more affordable.[30]

6. Lack of flood insurance policy data

Unfortunately, we simply do not know the extent to which the decision to purchase flood insurance may interact with other household and home characteristics, especially for private insurance, because

---

[27] Schwarcz, D., 2011. Reevaluating standardized insurance policies. The University of Chicago Law Review, pp.1263-1348; Schwarcz, D., 2013. Transparency opaque: Understanding the lack of transparency in insurance consumer protection. UCLA L. Rev., 61, p.394.

[28] Martín. C et al. (In Review). "Housing Resilience in Greater New Orleans." Urban Institute.

[29] Martín, C., 2021. Public Funding of Coastal Adaptation: A Review of US Public Sources—and the Case for More. In Kousky, C., Fleming, B. and Berger, A.M. eds., 2021. A Blueprint for Coastal Adaptation: Uniting Design, Economics, and Policy. Island Press, pp.126-53

[30] Ge, Y., Peacock, W.G. and Lindell, M.K., 2011. Florida households' expected responses to hurricane hazard mitigation incentives. Risk Analysis: An International Journal, 31(10), pp.1676-1691

there is no public database for private flood insurance policies, their coverage, terms, pricing, or claims treatment. NFIP, as a public entity, provides vastly more information about its policyholders' flood insurance terms even though the sharing of NFIP microdata information could be expanded to reflect other federal research and evaluation practices. For private flood insurance, public information about policies would likely vary based on state regulations and reporting requirements—challenges that have been identified in high-risk places like Louisiana where reporting requirements have diminished over time.

The lack of data makes it difficult to evaluate other contributing factors to NFIP's constrained adoption, but also to understand how private insurance performs in comparison to NFIP.[31] In places such as Puerto Rico and Florida, where there is a known private insurance market, granular information about policies and policyholders could help confirm the role of insurance in improving recovery and household outcomes and in justifying mitigation activities be they public or private, infrastructure or at the property level. Better data, finally, could help identify other opportunities for improving the delivery, terms, and implementation of better flood insurance policies and related public policies.

Opportunities for Expanding Adoption

There are a broad range of strategies that Congress and FIMA could take to expand the pool of flood insurance policyholders and to reduce the fundamental flood risks that require insurance.[32] However, I refer to those that specifically address the challenges I have presented above.

1. Creating a low-income assistance program

Members of this Subcommittee in past Congresses have already been presented with the literature supporting a means-tested affordability assistance program for low-income households as well as possible policy decisions for statutory language and program implementation.[33] Not only would this program increase the likelihood of better targeting the affordability challenge, but it would expand the population of policyholders to include those households who are more likely to need mitigation and financial preparation before disasters due to their likely suffering afterwards. An assistance program could also support a broader range of policy provider types, including privately provided flood insurance, compared to the current NFIP pool.

---

[31] Kousky, C., Kunreuther, H., Lingle, B. and Shabman, L., 2018. The emerging private residential flood insurance market in the United States. Wharton Risk Management and Decision Processes Center.

[32] I encourage the Members to read the recently released report written by colleagues at EDF, Dr Carolyn Kousky and Karina French, for additional ways to expand flood insurance coverage to be as inclusive of US residents as possible: Kousky, Carolyn and Karina French. Inclusive Insurance for Climate-Related Disasters: A Roadmap for the United States. Boston: Ceres, 2022.

[33] Kousky, C. 2022.Written Testimony for the Hearing on Reauthorization and Reform of the National Flood Insurance Program, U.S. House Committee on Financial Services. Subcommittee on Housing, Community Development, and Insurance, United States House of Representatives. May 25: https://democrats-financialservices.house.gov/uploadedfiles/hmtg-117-ba04-wstate-kouskyc-20220525.pdf; National Academies of Sciences, Engineering, and Medicine (2015). Affordability of National Flood Insurance Program Premiums: Report 1. Washington, DC: The National Academies Press.

Tied to better mitigation strategies that focus on the homes of low- and moderate-income households and infrastructure resources for the communities in which they dominate, an assistance program could ensure that the most vulnerable families are provided with modest safety nets to make informed and thoughtful decisions. It should be noted, again, that there is no evidence that supporting low-income households in this manner would further incentivize them to move to or stay in harm's way.

2. Increased disclosures and accessible risk information

The transparent and ready access of information about any home's current and future flood risk profile is a critical tool for expanding flood insurance, and every tool available should be harnessed. This includes national requirements for property disclosures at the point of sale, other exchange, or at financing. Accompanying that requirement is the training necessary to ensure real estate and related professionals adhere to guidelines about what disclosures mean, and monitoring to ensure that misinformation is minimized.

Further, current owners, renters, and other vulnerable households who do not own property should have easy access to information about their home's flood risk. This could come in the form of a public platform tied to Risk Rating 2.0 information that is readily accessible to anyone in the public to identify properties that are currently at flood risk, have suffered past losses, and/or which may require flood insurance (along with estimated NFIP flood insurance premiums and other risk management resources). The information should be understandable for households from any background.

3. Better calibrated requirements from lenders and local governments

FEMA has improved risk mapping, but this has not translated into changes in required levels of flood insurance coverage, nor has it appropriately distributed risks away from the federal government since at least some of the flood risk is being borne by mortgage securitizers along with NFIP. Congress should support further inquiry by the Federal Housing Finance Agency, along with other key consumer finance institutions such as the Consumer Financial Protection Bureau and the Federal Reserve Bank, to explore how they might expand private lender and insurer reporting requirements regarding flood risks and policy coverage of the homes and properties being underwritten. This exploration could also examine how these institutions could incentivize more and better flood insurance adoption along with increased home mitigation activity, particularly for the lower-income households they have a fiduciary duty to serve. NFIP might also track coverage limits to these institutions' definitions for conforming loans.

4. Transparent and accessible information about flood insurance terms.

Because even the most sophisticated of insured households may not understand the terms and conditions of coverage and claims processing in their policies, a fundamental and universal checklist of declaration by the insurer, that can be easily accessed and translated by households, is needed. Several states have developed a consumer "bill of rights" regarding access to information about their policies and the treatment to which they are entitled under those policies; these often include guidelines for providing information to consumers clearly and in ways they can compare across insurers.

5. Increased property and infrastructure mitigation funds

A range of improvements in the delivery of physical mitigation resources is in order. For private insurers, better transparency around the benefits of individual property mitigation is needed. For public insurers, better knowledge about when and for how long property mitigation is effective is needed. Simply put, more resources are needed to "flood-proof" homes, including increasing property buyouts for buildings suffering repetitive losses, with supportive wraparound services for low-income households and possibly even renters in those at-risk properties such as what's being done in New Jersey's Blue Acres Buyout Program, which helps residents and communities identify and avoid risks of flooding through strategic climate resilience planning and the state-led acquisition of flood-prone property.

There exists an unwritten contract between insurers and government in which government supports and builds physical defenses, mandates new construction requirements, and funds retrofits and buyouts of existing property in exchange for insurers being financially willing and actuarily able to insure the individual homes and buildings on protected land. This contract goes back to the Great Fire of Chicago and has been repeatedly under negotiation. It is currently being rewritten once again. I remind the Subcommittee of the fact that NFIP was created as part of a broader federal strategy to address floodplain losses. This effort included harnessing the Army Corps of Engineers, the US Geological Survey, and the newly created Water Resources Council to better assess and address flood risks through land management and mitigation strategies, in addition to providing individual financial mitigation tools like insurance, rather than relying increasingly on post-flood assistance.

The tab for mitigation is intimidating; just this week the Army Corps estimated that $52.6 billion would be needed to protect the New York City area from coastal storms and associated floods alone.[34] Yet, the costs of mitigation are known to reduce the burden on federal coffers after disaster strikes.[35] Support for such programs as the Building Resilient Infrastructure and Communities grants at FEMA or the Community Development Block Grant Mitigation funds at HUD can only serve to further reduce flood risks, particularly when they are targeted more equitably by prioritizing places with majority low-income, highly vulnerable households as these programs have recently done. But these investments may also improve the take-up of flood insurance by reducing the affordability barrier and increasing a local culture of risk awareness and action.

6. Better data transparency

Along with improved transparency for individual policyholders to understand their policy's terms, coverage, and claims process, there is a need to aggregate information across all insurance providers for better transparency between states. This would enable the research community to study the

[34] Jaconbson, L. 2023. "$52.6 Billion Is Needed to Protect the NYC Area From Coastal Storms, According to a New Plan Proposed by the Army Corps of Engineers" CNBC, March 4: https://www.cnbc.com/2023/03/04/52point6-billion-needed-to-protect-the-nyc-area-from-climate-change-acoe.html

[35] National Institute of Building Sciences. 2019. Natural Hazard Mitigation Saves: Interim Report

equity, efficiency, effectiveness, and environmental effects of insurance more readily, but also provide assurances that expanding flood insurance in specific ways (including those suggested here) are reasonable and lead to improvements for both households and the US government. Presuming that increasing flood insurance policies will mean that more private carriers who are subject to state regulations will enter the market, this transparency and uniformity in reporting is even more urgently needed. A required disclosure of insurance policy data to federal regulators modeled off the Home Mortgage Disclosure Act could bridge this final challenge to expanding the flood insurance pool.[36]

Conclusion

Diversifying the pool of insurers in this space to include private-sector providers could also be a helpful strategy to increase the number of flood policies, provided these same entities offer policies with sufficient coverage, at affordable rates, with fair and equal terms and claims processing, and with transparent disclosures to the public. Private flood insurance is currently permitted by the legislative reforms of the past decade, and increasingly competitive given Risk Rating 2.0. Yet, the largest US insurance companies have largely been reluctant to reenter the flood market since their departure 100 years ago, relying on reinsurers or surplus line carriers to provide private flood insurance options. The most recent review of insurer practices suggests that a range of factors inform this hesitancy, including the dynamic nature of contemporary flood risks and flood management policy (particularly across state regulatory practices), concern about their ability to raise premiums or reduce coverage given the current attention to NFIP, and even their satisfaction with the status quo of NFIP policies.

However, we do not know whether a continued movement in this direction will create the same scenario the country faced in 1968. From wind insurance pools across Gulf states to earthquake insurance in California, the private insurance market has seen the potential losses from a severe disaster while offering consumers affordable polies with adequate coverage and treatment as too great to bear. They have subsequently transferred the risk to public authorities. Private providers could assist an immediate expansion of flood insurance markets. Should the underlying risks increase further, as they are expected to do based on all climatological models, will the public sector once again be forced to step in?

A transition from federal insurance to private flood insurance, further, does not guarantee fair pricing and treatment. Private flood insurance, as regulated by states, is subject to a range of terms. For example, policyholders' financial capacity (e.g., income and assets) can legally be included as a factor in insurance quotes. Disparities in property insurance offerings and in the subsequent outcomes for different policyholders remains a national policy concern and will continue to be without a clear public role. These disparities will only grow as more severe flood events occur.

Whomever the insurer is, the federal government must ensure that the insured is protected fairly, transparently, accurately, and without undue financial or transactional burden. Indeed, all the

[36] Schwarcz, D. "Towards a Civil Rights Approach to Insurance Anti-Discrimination." Depaul Law Review 69(2), 2020, p. 43.

opportunities I have suggested would benefit NFIP and the private flood insurance market equally. Most importantly, they benefit the policyholder. By removing information asymmetries for all stakeholders, we both expand the population of insureds and assure them that their premiums are fair. By renegotiating the contract between public policies and private insurance providers, further, we could lessen the fiduciary exposure of federal coffers while reducing the moral hazard from a reliance on public disaster relief and recovery.

Flood insurance is a critical tool in the fight to make our homes, households, and communities safe. I thank the Subcommittee for once again calling attention to the gaps in the uses of this critical tool and in its relation to the other tools in the federal toolbox.