How to reform flood insurance to keep more Americans afloat

By Carolyn Kousky, opinion contributor - 07/05/17 05:00 PM EDT

This summer, Congress is working to reauthorize and reform the National Flood Insurance Program (NFIP). Currently, there are two bills proposed in the Senate and a suite of linked bills proposed in the House. All of these reform efforts would make changes to a lesser known component of the program: increased cost of compliance (ICC) coverage.

This program makes funds available to policyholders after a flood to elevate, demolish, or relocate their home. These actions are done to bring the home into compliance with current land use regulations and to reduce future flood losses. Universally, it is praised because it makes funds available right away for risk reduction, unlike federal disaster aid, which may take many months or many years to get into the hands of victims.

It is just as universally criticized, however, because the available funds do not fully cover the cost for projects like elevation. Hurricane Sandy victims, for instance, found that elevating a home could cost around $100,000, while the ICC currently provides at most $30,000.

ICC coverage has some parallels to a type of insurance that can be added to homeowners policies. This is called building codes coverage or law and ordinance insurance. It pays for the costs of upgrades to meet current regulations when repairing a damaged home. Many communities might require upgrades to meet plumbing, roofing, or electrical standards when rebuilding, for example.

The same holds true for floodplain regulations: once a home is substantially damaged by a flood, during rebuilding it must come into compliance with any regulations on elevation or other building requirements in the floodplain.

Many stakeholders, however, view the increased cost of compliance coverage not as an insurance product but as a grant. Straddling this divide — between insurance and grant — is making ICC coverage less effective than embracing either.

In its effort to update the National Flood Insurance Program, Congress should consider updating ICC coverage to be a useful insurance product for meeting changed building codes while simultaneously expanding and reforming mitigation grants to better address homeowner needs, particularly in terms of timeliness.
An insurance product for compliance with updated floodplain regulations should have three key features: it is paid quickly, it covers the full costs of all upgrades to be compliant with current floodplain regulations, and it is triggered by a flood claim.

A grant product for risk reduction should have three different key features: it can be used by any property in an at-risk area, it can cover a wide range of hazard mitigation options, and it can be used pre-flood.

Reform of the ICC to more closely mimic ordinance and law coverage would make it a product more familiar to companies and agents, thereby improving understanding and communication about it. As well, the funds should be enough to cover the full costs of all necessary upgrades in order to be compliant with current floodplain regulations.

This will increase the cost of ICC coverage, but it is already only a small addition to the annual premium, ranging from $5 to $70 annually. The amount of coverage offered should be linked to the value of the home. It should be available to anyone filing a flood claim and funds should be made available quickly, with some paid before construction begins to ease the financing burden on homeowners.

This will leave certain policyholders still needing help with hazard mitigation: those who have not suffered a flood loss and those who are not out of compliance with current building codes. These homeowners should be eligible for assistance on mitigation costs, either through grants or low interest loans, or a combination. The Federal Emergency Management Agency (FEMA) already administers several grant programs, but they suffer from two problems that need fixing.

First, it takes too long for dollars to get to those who would make use of them. An expedited process is needed for administering mitigation grants that doesn’t take years between appropriation and use by the homeowner. Second, the vast majority of mitigation dollars are only made available after a disaster declaration and through supplemental funds.

As a colleague, Leonard Shabman, and I have suggested, more pre-disaster dollars could be targeted at cost-effective investments to reduce risk before a flood occurs. Current proposals in Congress would increase ICC funding and allow it to be paid in excess of National Flood Insurance Program coverage caps. These changes will help make the coverage available to more policyholders.

Instead of trying to force increased cost of compliance coverage to be a grant for all mitigation and all properties, however, the bills could usefully couple ICC improvements to changes in mitigation grants to make more dollars available pre-flood and to be allocated faster post-flood. Two proposals do indeed increase grant funding for pre-disaster mitigation, and one targets this at the riskiest properties. Coupled to strategies to improve timeliness, these should help more families lower their risk.

Carolyn Kousky is director of policy research and engagement at the Wharton Risk Management and Decision Processes Center at the University of Pennsylvania.