Climate Change and Flood Insurance

A DVRPC Climate Adaptation Forum | June 5, 2018 | Meeting Summary

Welcome and Introductions

Rob Graff, manager of DVRPC's Office of Energy & Climate Change Initiatives, welcomed attendees and panelists, provided some logistical details, and kicked the meeting off with a round of introductions.

Chris Linn, manager of DVRPC's Office of Environmental Planning, welcomed audience members, introduced DVRPC and described the agency's activities, including its resiliency planning work. For example, DVRPC has undertaken or participated in numerous projects to identify vulnerabilities within transportation system to the impacts of climate change and extreme weather events. DVRPC has also worked with the region's municipalities to identify vulnerabilities to climate change, such as coastal flooding. Lastly, he stressed the importance of policy in shaping how people prepare for and respond to extreme weather events.

Before introducing the panel, Mr. Linn summarized the National Flood Insurance Program (NFIP), the challenges it faces, and numerous reform issues. His presentation focused on the cumulative debt of the program – now approaching $41 billion – as a result Hurricane Katrina and subsequent extreme weather events, and the fact that flood insurance premiums collected by the NFIP are vastly insufficient to cover the program's pay-outs. He then introduced the panelists.

Presentations

Carolyn Kousky, Ph.D., Director of Policy Research and Engagement at the Wharton Risk Management and Decision Processes Center, University of Pennsylvania

Dr. Carolyn Kousky gave a further overview of the NFIP and its role in disaster recovery. According to Dr. Kousky, as an insurance program, the NFIP provides "larger and timelier payments to the insured" than do disaster assistance programs (which only provide limited and partial assistance to homeowners following a flooding event). Therefore, the NFIP is critical to increasing the speed and likelihood of recovery, limiting the potential economic shock to families and individuals, and thereby the community as a whole. But, the NFIP suffers from a participation gap. In some areas where substantial flooding disasters have occurred, participation in the NFIP has been low and therefore people were forced to turn to other forms of disaster assistance or suffer substantial losses. Dr. Kousky speculates there are several reasons for this lack of participation, but that at least two factors are low levels of information about flood risk and the value proposition of insurance products in general. Dr. Kousky also discussed discounted rate classes, including "pre-FIRM" properties and "grandfathered" properties, which account for 17 and 3 percent of all policies respectively. She also described how pre-FIRM rates are currently being phased out over time as a result of legislation in 2012 (Biggert Water Act) and 2014.

John A. Miller, PE, CFM, CSM, Vice Chair, City of Lambertville Planning Board, Legislative Co-chair of the New Jersey for Floodplain Management

John Miller described recent efforts to reauthorize the NFIP, including a bill he was involved in drafting as part of Senator Robert Menendez's staff. He described a number of the tensions at play in the legislative process, including the push and pull between those who would like to see premiums set higher to maintain program solvency and legislators representing coastal communities who seek to keep the premiums affordable for individual rate payers. Some have also sought a greater role for private market insurers in what is now a government-run insurance program. However, private market insurers won't participate unless they can be profitable, which means they will likely only insure the least risky properties, leaving the taxpayer to insure the most risky. Lastly, he talked about the looming crisis of climate change, permanent inundation, and the consequent reduction in municipal tax revenues as properties become uninhabitable. In light of this, some credit rating agencies are starting to consider downgrading municipalities who aren't taking actions now to address the emerging impacts of climate change, thereby increasing the cost of borrowing money for those municipalities.

Richard J. Sobota, CPCU, Senior Insurance Specialist from FEMA Region III

Richard Sobota provided some additional history of the NFIP and how the program was meant to fill a gap in insurance coverage not being provided by private insurance. Prior to 1968, families and individuals whose property was subject to flooding either used their own resources or some form of government disaster assistance to help recover. Thus, one goal of the NFIP was to reduce government disaster assistance expenditures. Mr. Sobota also described some of FEMA's positions on reform and reauthorization. Finally, he touched on some future goals of the program, including doubling participation and quadrupling the amount spent on mitigation measures.

Questions and Answers

Chris Linn facilitated a round of questions and answers, including some that he posed as well as some solicited from the audience.