“America has a ‘resilience deficit’; Will FEMA’s Risk Rating 2.0 help or hurt?

In October, FEMA is planning to introduce the biggest change to the way the NFIP calculates flood insurance premiums since 1968.

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The U.S. sustained 298 weather and climate disasters since 1980, where overall damages reached or exceeded $1 billion. The total cost of these events exceeds $1.975 trillion.

As of July 9, not including the ongoing western wildfires, there have already been eight weather/climate disaster events in the U.S. this year, with losses exceeding $1 billion each. And we are not even into the height of the Atlantic hurricane season.

Overall, these events resulted in 331 deaths, severe economic losses, and untold human suffering. The rate of billion-dollar disasters in the U.S. has more than doubled in the past 40-years. “Billion Dollar Disaster Events Growing Each Year,” reports NOAA’s National Centers for Environmental Information.

Of these disasters, flooding is the most common and costly. According to the National Flood Insurance Program (NFIP), 90% of all natural disasters in the United States involve flooding.

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Flood risks and damages are a primary and worrisome gap in both personal and community resilience. To add to the historical risks of flooding, the U.S. Global Change Research Program, composed of 13 federal government agencies, found that climate change and global warming are causing heavier and longer downpours (e.g., Hurricane

Harvey), more intense tropical cyclones (e.g., Hurricanes Maria and Irma), and other adverse impacts, such as sea-level rise and higher King Tide flooding in coastal areas.

Insurance is an important component of both personal and community resilience. In the U.S., there is no insurance coverage for flood loss in standard homeowners or renters' policies or in most commercial insurance. Coverage is available in a separate policy from NFIP and from some private insurers. But, as anyone who has experienced a flood loss will tell you, insurance is not a "get out of jail free" card.

Large deductibles, the loss of family heirlooms and meaningful personal effects, and the "brain damage" of rebuilding are not "covered" by insurance.

The vast majority of homeowners and renters do not have any flood insurance. This lack of insurance protection greatly adds to our "resilience deficit" and, it increases the amount of post-disaster federal assistance that taxpayers must provide to the victims of these events.

A study by the Insurance Information Institute in 2018 found that only 15% of American homeowners had a flood insurance policy. A McKinsey & Co. analysis of flood insurance "take up" rates found that as many as 80% of Texas, 60% of Florida and 99% of Puerto Rico homeowners lacked flood insurance in areas most affected by Hurricanes Harvey, Irma, and Maria.

Some of the reasons cited for lack of coverage are:

— flood insurance is too expensive;

— homeowners are not aware they don't have it;

— people underestimate their risk of flooding,

The McKinsey study's results reveal that a central cause of the "resilience deficit" is the "human element" – namely, poor decision-making by homeowners and businesses, compounded by a widespread lack of risk education.

The NFIP is the primary source of flood insurance coverage for residential properties located in Special Flood Hazard Areas (often referred to as the "100 year" floodplain), with more than five million policies in effect.

In October, FEMA is planning to introduce Risk Rating 2.0, the biggest change to the way the NFIP calculates flood insurance premiums since the inception of the NFIP in 1968.

According to the Congressional Research Service: “Risk Rating 2.0 is projected to lead to premium increases for the majority of NFIP policyholders, which could raise questions of affordability. When the Biggert-Waters Flood Insurance Reform Act of 2012 went into effect, constituents from multiple communities expressed concerns…that it created a financial burden on policyholders, risked depressing home values, and could lead to a reduction in the number of NFIP policies purchased.”

As Congress considers Risk Rating 2.0 and long-term reauthorization of the NFIP, central questions are emerging. For example:

— Who should bear the long-term costs of floodplain occupancy?

— How should the Congress address financial and equity/social justice concerns of constituents facing increases in flood insurance premiums?

— How can the federal government make flood insurance a central pillar in personal and community resilience in the US?

According to FEMA, Risk Rating 2.0 would initially provide insurance premium credits for three flood risk mitigation actions:

— installing flood openings according to the criteria in 44 C.F.R. §60.3

— elevating onto posts, piles, and piers

— elevating machinery and equipment above the lowest floor.

Currently the only mitigation activities for which the NFIP gives premium credit are elevating a structure, so its lowest floor is above the flood level and dry flood-proofing of non-residential structures under certain circumstances that keeps floodwater from entering the structure.

To close the “resilience deficit” for flood risks and damages, however, FEMA and other programs should encourage both the insurance industry and individual policyholders to do much more to mitigate residential and commercial building flood risks by providing premium credits and other incentives for a wide range of mitigation activities.

Innovative financing mechanisms and tax incentives need to be promoted to help homeowners and small businesses afford flood risk mitigation investments. Risk mitigation investment must become a core piece of the puzzle to reduce “resilience deficit”. Finally, there must be significantly greater investment by the federal government in flood risk reduction and education.

The new, but true, “climate change” adage is: “Where it rains, it can flood.”

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