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U.S. DEPARTMENT OF HOMELAND SECURITY

Disasters - Preparedness, Response, and Recovery

S&T Supports FEMA with Comprehensive Flood Insurance Report

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Insurance is a valuable recovery tool for individuals and communities impacted by disaster. While it doesn't prevent the unexpected from happening, it does provide financial peace of mind, a safety net when disaster occurs. Insurance offers critical financial protection and resources that Federal Emergency Management Agency (FEMA) assistance programs do not provide. For example, in Texas after Hurricane Harvey in 2017, average FEMA payouts for individual assistance were \$4,000, while average FEMA payouts for flood insurance were \$110,000. FEMA recommends all homeowners with properties in flood prone areas purchase flood insurance. Despite the known financial benefits of flood insurance, there is a large and persistence flood insurance gap in the nation.



Recognizing the benefits of widespread purchase of flood insurance, FEMA has adopted a goal of doubling the number of properties with flood insurance by 2023. Many people who own properties in flood prone areas find the flood insurance buying process to be complicated with only a few options. FEMA's National Flood Insurance Program (NFIP) underwrites the majority of residential flood insurance policies in the U.S. However, over the past several years, a small private market for residential flood insurance has emerged. Policymakers in the U.S. have expressed interest in having more data on this small community of residential insurance providers to understand if this market could help meet the policy goals of increasing the number of homeowners with flood insurance or offering more affordable coverage. The question is whether private insurance is covering the flood insurance gap and increasing the number of insured.

The Department of Homeland Security (DHS) [Science and Technology Directorate's \(S&T\) Flood Apex Program](#) funded a project with the Risk Management and Decision Processes Center of the Wharton School at the University of Pennsylvania to:

- document the current state of the private, residential flood insurance market across the U.S.;
- ascertain the main factors influencing the number and form of flood insurance policies offered by the private market; and
- identify policy options for closing the flood insurance gap.

“One of the main goals of the Flood Apex Program is to assist FEMA in applying new innovation to address flood risk across the nation,” said Dr. David Alexander, the S&T Flood Apex Program Director. “To achieve this goal, DHS S&T, along with FEMA, needed to better understand the emerging private flood insurance market and how it might contribute toward national flood risk reduction.”

“Partnering with the Wharton School afforded us an opportunity to fill this knowledge gap. Having this type of data and insight helps not only FEMA in achieving their moonshot goals for flood insurance and mitigation, but also S&T in making smart investments in research and development that would benefit FEMA and the larger flood risk community,” he continued.

One of the key outputs for this project was [“The Emerging Private Residential Flood Insurance Market in the United States”](#) [PDF, 53 pgs., 2.73 MB] report. Funded by S&T and supported by FEMA, the report provides key findings to stakeholders on the status of the private residential flood insurance market and its relationship to the NFIP.

“This study is the most comprehensive report yet on the status of the private flood market in the United States. The report illustrates the significant role private flood insurance could play along with the National Flood Insurance Program in the national goal to increase residential and small business coverage against the peril of flood. As past years have proven, insurance is a crucial tool in personal resiliency and enables insured survivors and communities to recover quicker and more fully after floods and reduce unneeded disaster suffering,” said NFIP chief executive David Maurstad.

The report findings also support further discussion on how to close the flood insurance gap and increase the number of residents with flood insurance. According to one of the main authors of the report, this study is important to get a clear understanding of the current state of the market and how it is evolving.



“Our next step in the project is to evaluate policy options for closing the flood insurance gap in the United States and to consider how the private sector could play a role in achieving that goal,” Dr. Carolyn Kousky, Wharton School of the University of Pennsylvania said.

The report’s findings are based on in-depth, semi-structured interviews with market participants. Among the report’s most interesting and relevant findings are:

Flood is insurable: Historically, residents were told by the insurance industry that flood damage was uninsurable. As many companies invest in the technology and infrastructure to support flood products, this perception is changing. More insurance companies are willing to underwrite flood insurance.

Continuing role for the NFIP: The private market will not be able to underwrite all risks, especially for severe repetitive loss properties or high-risk areas. These areas will remain under NFIP policies.

Need for aggressive flood risk reduction: In order to expand private insurance, there is a need for more aggressive public commitments to risk reduction. These types of risk reduction investments will play a complementary role to insurance.

Easier access to flood insurance: Many participants also agree flood coverage should be included in homeowners' insurance policies to avoid confusion, ensure coverage and to be easier to administer.

Expanded education on flood insurance: There is a need for expanded insurance agent education about flood risk and flood insurance products, both for the NFIP and private policies.

Commitment to flood resilience: Flood insurance is only one component of flood resilience. Flood resilient communities will require commitments by both the private and the public sectors to a range of mutually beneficial activities.

"Achieving greater community flood resilience for the nation is going to require more innovation and continual participation from all stakeholders – all levels of government, individual citizens and the private sector," echoed Alexander.

To read the full report, listen to a podcast from one of the lead authors or read more outputs from the project, visit the Wharton [website](#).

Further information on this project and on the S&T Flood Apex Program can be found on the [S&T Flood Apex Program pages](#) or by emailing flood.apex@hq.dhs.gov.

CAPTIONS

Photo A – Homes and businesses in high-risk flood areas with loans, including mortgages, from federally regulated lenders are required to have flood insurance. This is called a "mandatory purchase requirement" under the National Flood Insurance Program. (FEMA photo)

Photo B – Just one inch of water can cost more than \$20,000 in damages to your home. Having flood insurance reduces the impact of flooding by providing affordable insurance to property owners, renters and businesses. (FEMA photo)

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