The Importance of Flood Insurance

Flood insurance is one of the most effective ways to limit financial damages in the case of flooding and to speed recovery of flood damaged communities. Unfortunately, many home and business owners do not find out until it is too late that levees are not designed to prevent all flooding, and that most standard homeowners’ and business insurance policies do not cover flood damages.

The National Committee on Levee Safety has recommended that every structure in a leveed area be required to have flood insurance, and that the insurance premiums be risk-based. That is, insurance premiums would be designed to reflect the flood risks of living behind a levee and consider the levee’s actual reliability and level of flood protection. For example, an area with a levee built to the 1%-annual-chance standard (sometimes called a 100-year flood) would have a higher premium than an area with a levee built to the 0.2%-annual-chance-standard (“500-year flood”), all other things being equal.

Risk-based flood insurance for all structures in leveed areas would:

1. Increase awareness and understanding of residual risk and provide individuals and communities opportunities for better emergency planning and preparedness.
2. Empower individuals to share the responsibility of reducing their flood risk, thereby lowering their premiums.
3. Incentivize communities to maintain reliable levees with adequate levels of protection and implement other measures, including nonstructural approaches, to mitigate flood risk.
4. Speed recovery of communities and individuals after a flood: insurance payments are both potentially higher and paid faster than federal or state disaster recovery grants or loans, such as the Federal Emergency Management Agency’s Individual Assistance or Public Assistance grants.
5. Reduce the ultimate cost of disaster recovery and overall taxpayer burden by recognizing the responsibility of individuals and communities living in high flood risk areas to pay a portion of that risk.

The National Flood Insurance Program

The National Flood Insurance Program (NFIP) was created in 1968 to make federally backed flood insurance available to those with property in communities that participate in the NFIP. For many, a home or business is a person’s most important financial asset. NFIP insurance policies with up to $250,000 of building coverage are available for single-family residential buildings. Individuals, including renters, can also insure the contents of residential buildings up to $100,000. Commercial structures can be insured to a limit of $500,000 for the building and $500,000 for the contents. NFIP flood insurance is sold through licensed insurance agents or brokers, and is backed by the federal government.

What is Residual Risk?
Residual risk is the amount of risk remaining after the levee or other flood damage reduction efforts are taken into account. There are things that can be done by individuals and communities to reduce residual risk, such as:

- Remodeling or raising buildings to above floodwater levels.
- Purchasing flood insurance.
- Avoiding building structures, planting trees, or leaving debris on a levee.
- Changing zoning ordinances or building codes to limit development in floodplains.
- Relocate existing development to higher ground.
- Developing or refining flood warning systems, emergency evacuation plans, and community flood preparedness.

The National Committee on Levee Safety

Congress created the National Committee on Levee Safety to develop recommendations for a national levee safety program, including a strategic plan for implementation of the program. The NCLS adopted the vision of an involved public and reliable levee systems working as part of an integrated approach to protect people and property from floods, and has been working toward this goal since October 2008. The NCLS recommendations for a National Levee Safety Program are based on three central concepts:

- Leadership via a National Levee Safety Commission that provides for participating state levee programs, national technical standards, risk communication, and coordination of environmental and safety concerns;
- Strong levee safety programs in and within all states that, in turn, provide oversight and critical levee safety processes; and
- A foundation of well-aligned federal agency programs and processes.

For more information on the NCLS and its recommendations for a National Levee Safety Program, please visit: http://www leveesafety.org.
Communities participating in the NFIP adopt and enforce minimum floodplain management regulations to reduce future flood damage. The Federal Emergency Management Agency (FEMA), which runs the NFIP, has estimated that communities implementing NFIP floodplain management requirements have reduced flood damages by nearly $1 billion a year. Additionally, buildings constructed to meet NFIP building standards suffer approximately 80 percent less damage annually than those that do not meet those standards.

Recognizing the importance of flood insurance in high flood risk areas, Congress, in the Flood Disaster Protection Act of 1973 (as amended) and the National Flood Insurance Reform Act of 1994, requires federally regulated lending institutions to make sure that mortgage loans secured by buildings in high flood risk areas are protected by flood insurance. This is often referred to as the “mandatory purchase requirement” for flood insurance for those with property in Special Flood Hazard Areas (SFHAs).

Any resident of a community participating in the NFIP may purchase flood insurance through the program, whether or not they are subject to the mandatory purchase requirements or shown on the flood insurance rate maps as being located in a floodplain. (Note that those living in a Coastal Barrier Resource Act (COBRA) area are not eligible to buy a policy through the NFIP if they built after the designation of the area by Congress.)

The 1%-Annual-Chance Standard is Not a Safety Standard

The NFIP uses the 1%-annual-chance flood standard to determine which areas are in the SFHA and which are not. The 1%-annual-chance flood standard means that the area has a one in 100 chance of flooding in any given year. The NFIP uses the SFHA to determine where the “mandatory purchase requirement” for flood insurance applies to properties secured by federally regulated mortgage lenders in NFIP-participating communities. Currently, homeowners living behind levees designed, built, and maintained to meet or exceed that 1%-annual-chance flood standard often are exempt from the mandatory purchase requirement.

While never intended to be a safety standard, the 1%-annual-chance flood standard has become a design criterion for many communities, with many local building codes following it. The National Committee on Levee Safety believes that the inappropriate use of the 1%-annual-chance flood standard as a safety standard has allowed an increase in the numbers of people and amount of property at risk from flooding in leveed areas. The exemption from flood insurance requirements also led many individuals and communities in leveed areas to mistakenly believe that they do not need flood insurance, and that they are protected from all flooding by that levee.

However, no levee provides full protection from flooding – even the best flood control system or structure cannot completely eliminate the risk of flooding. Levees are designed to provide a specific level of protection, and larger flood events can cause them to be overtopped or fail. Levees also decay and deteriorate over time. Regular maintenance and periodic upgrades are needed to ensure that they retain their designed level of protection. Maintenance can become a serious challenge as a levee system gets older. When levees do fail, they often fail catastrophically – the damage may even be more sudden and significant than if the levee was not present.
The bottom line is that being behind a levee does not eliminate the risk of flooding for homes or businesses, and flood insurance is one of the best means available for limiting individual financial damages and speeding recovery for flood damaged communities.

**The National Committee on Levee Safety’s Recommendations**

The National Committee on Levee Safety has adopted the vision of an involved public and reliable levee systems working as part of an integrated approach to protect people and property from floods. An involved public is one that is aware of their flood risks, is aware of both the risks and benefits posed by the levees in their communities, and takes action to reduce those risks. Among the recommendations for the creation of a National Levee Safety Program, the National Committee on Levee Safety has recommended (*Recommendations for a National Levee Safety Program*, January 2009, Recommendations 18, 19, and 20) that:

- Flood insurance be required for all structures in all leveed areas, and flood insurance premiums accurately reflect the residual risk for structures in the leveed area.

- FEMA’s flood hazard mapping program identify levee systems, including structures along canals, and associated levee system failure consequence zones to better identify and communicate risk in leveed areas. This effort should be married with the National Levee Database and its data on the location and condition of levees nationwide (Recommendation 2).

- On Digital Flood Insurance Rate Maps (DFIRMs) used by the NFIP, FEMA should re-designate existing Zones A/AE or Zone X areas impacted by levees as either AL or XL, respectively, to better communicate the greater flood risks in leveed areas.

- FEMA modify the Community Rating System (CRS) Program to provide credit to a community based on its state levee safety program (encouraging the establishment of effective state levee safety programs, Recommendation 14) and modify allocation of credit under its “Levee Safety” category to better reflect the overall risk. The CRS Program is a voluntary incentive program that recognizes and encourages community floodplain management activities that exceed the minimum NFIP requirements by discounting NFIP flood insurance premium rates in participating communities by up to 45 percent.

The NFIP Reform process currently underway at FEMA provides an opportunity to address many of these recommendations, and the National Committee on Levee Safety plans to be engaged throughout the process. Depending on the outcomes of the NFIP Reform process, additional mechanisms may be necessary to implement the recommendation for required flood insurance for all structures in leveed areas.

Without either significant legislative changes by Congress or regulatory changes by FEMA, the NFIP’s mandatory flood insurance purchase requirements alone would not achieve the Committee’s goal of risk-based flood insurance for all structures in leveed areas. The National Committee on Levee Safety has not explored other federal, nonfederal, or private sector approaches to promote or require flood insurance in leveed areas, but believes there are opportunities for increased insurance coverage beyond the current design of the NFIP.