

Roll Call



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Louisiana Flooding Makes Case for Changes to Insurance Program

Congress mandating 'all natural hazard' policies makes sense

by Joe Coughlin, Jr.

Last month's flooding in Louisiana has once again focused attention on shortcomings with the National Flood Insurance Program (NFIP). As co-designer of the Federal Emergency Management Agency's mandatory purchase guidelines in the 1980s, I believe that recent events show beyond doubt that the program has significant problems and needs to be reformed.

For Congress, there is a bigger issue: Our nation's entire approach to natural disasters, both public and private, needs to be revisited.

There are two issues involved: Is it wise policy to place all natural hazard insurance risk coverage in a single "all hazards" policy? And second, should we require all property owners to purchase this?

Former Louisiana Sen. Mary L. Landrieu is among many who have recently suggested the need for insurance that covers flood, fire, tornadoes and earthquakes. What about wind, other than tornadoes? All forms of wind are already covered in homeowner policies and through wind pools in Eastern and Gulf Coast states. Fire is also already similarly covered in residential and commercial policies.

Mortgage lenders typically require both fire and wind coverage either through a standard homeowner policy for dwellings away from the immediate coasts, or a homeowner policy and a separate wind policy in such coastal areas.

Earthquake coverage is available in California. But it is run by the state and rarely purchased as the coverage amounts, terms and conditions are not attractive. Mortgage lenders under NFIP jurisdiction are mandated to require flood insurance on mortgages for those structures located inside FEMA-identified Special Flood Hazard Areas. So an “all natural hazard” insurance approach would require owners of all mortgaged structures to buy such a policy regardless of location.

The end result would mean that mortgaged properties throughout the United States would be covered for all such risks. The impacted would likely approach the number currently covered by private sector policies covering fire and/or wind only – in the high tens of millions. That would also mean that the same number of structures would be covered by flood insurance, instead of the current 5-6 million, and earthquake insurance, instead of the handful today.

The issues of a broad all natural hazard, single property insurance policy, together with a broad mandate of its purchase, have been raised in the past with discussions between private insurers and federal officials. Although those discussions were helpful, they were inconclusive.

A congressional proposal would likely result in opposition from the property insurance industry, as its members may not want to give up their wind and fire coverage. In recent years, however, there have been limited indications of a possible softening of positions on wind coverage in the Gulf coast and Southeast coastal areas.

Requiring such coverage on all mortgaged property would likely prove difficult because it would result in a significant expansion of the current flood insurance requirement. Opposition may arise from the mortgage, homebuilding and real estate industries out of concerns that it might cost buyers more and increase the overall costs of home ownership.

Yet such an approach could actually reduce the cost of such coverage because it would spread risk and the expanded protection for millions of structures. That could actually reduce the costs of disaster assistance.

Such coverage would require a legislative change to NFIP statutes. But it may now be time to revisit this approach and expand it.

Requiring an “all natural hazard policy” to be purchased by all mortgaged property would be a large improvement over the current situation. It should be fairly easy to administer and could use some of the same concepts used by the NFIP. The federal government would use the existing property insurance companies to sell and service the policies, and the current agency system to interface with insured property owners.

Cost- and risk-sharing details would have to be worked out between the

government and insurers. But if the private insurers would change their views on all of this, I am convinced the details could be worked out.

Finally, any plausible proposal must address mitigation of risk. The natural hazard risk problem cannot be addressed by financial means alone. There must be a corresponding mitigation component. The NFIP employs this joint approach and without it, our flooding problem would be much worse.

Tough natural hazard mitigation requirements would also be a very political issue. To date, whenever the NFIP has proposed strengthening its standards, officials run into the usual opposition which has prevented implementation.

The most recent effort by FEMA to improve such standards for FEMA-funded projects is an encouraging start. Although supportive and optimistic of such attempts, I am guardedly so about a successful outcome, at least in the near future. At some point, all parties may finally bring something to that table, no matter how much they may be reluctant to do so.

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