

National Flood Insurance Program (NFIP), USA

Summary

A United States insurance scheme illustrates the challenge of insurance for a changing climate. The National Flood Insurance Program (NFIP) was set up in 1968 to provide government-subsidised flood insurance for businesses and residences in the USA. It applies to both freshwater and marine flooding. The scheme is only available to communities that adopt and enforce floodplain management strategies. In recent decades, the scheme has suffered from a number of problems including low levels of participation and high levels of debt. Debt levels in the program have been exacerbated by recent catastrophic hurricane-related floods.

The US National Flood Insurance Program (NFIP) illustrates the challenge of providing insurance cover for properties in at-risk zones and the tension between policy goals of establishing risk-based premiums in a changing climate and affordability for households.

The NFIP was set up in the United States in 1968, following a period in the 1960s when flood insurance became completely unprofitable and private companies no longer offered cover for flood damage. Its role was to provide government-subsidised flood insurance for businesses and residences.



Figure 1: New Orleans under floodwater.
Source: © Pixabay.

Keywords

Insurance, flood, risk, USA

The NFIP was set up to spread financial responsibility for flooding among those communities at risk of floods, in response to rising costs of floods at the federal level. It seeks to encourage less risky use of floodplains and to lower the costs of taxpayer-funded disaster relief. The program is only available to communities that voluntarily adopt and enforce floodplain management strategies, and individual property owners can only join the scheme as part of such a community.

Flood insurance under the NFIP is purchased through private insurance agents. Rates are set nationally and depend on factors such as the date and type of construction of the property and its level of risk. The community is provided with a Flood Insurance Rate Map (FIRM), on which are delineated special hazard areas and the risk premium zones applicable to the community. The FIRM determines the rate paid by, and the cover available to, the individual homeowner.

Criticisms of the scheme over its history include:

- **Financial instability:** the scheme has significant levels of debt and requires government on an on-going basis.
- **Low levels of participation:** it is estimated that less than half of properties with greater than 1% risk of being flooded each year are participating in the scheme.

While the NFIP was initially financially self-supporting it now has high levels of debt attributed to the costs of recent catastrophic hurricane-related floods and below market insurance rates accompanied by high levels of under-insurance.



Figure 2: Flood damage to infrastructure in Tennessee.
Source: © Pixabay.

Further reading

Both links accessed 15 June 2017:

National Flood Insurance Program Website:
www.floodsmart.gov/floodsmart.

Thomas, A., and R. Leichenko, 2011: Adaptation through insurance: Lessons from the NFIP. *International Journal of Climate Change Strategies and Management*, 3(3), 250-263: www.researchgate.net/publication/242019980_Adaptation_Through_Insurance_Lessons_from_The_NFIP.

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