



Flood Insurance Premium Assistance Task Force-- initial feedback

The recommendations in the report are to address each of the 6 general areas outlined below. Each item is reviewed with input for discussion. Because flood insurance has been a chronic issue, we viewed this exercise more as a much as a brainstorming session than a set of recommendations. Note that there can be overlap between the items due to their interrelation.

1. Potential programs that provide premium discounts.

- a. Benchmarking - Should existing programs providing premium assistance be considered as models? If so, few programs are designed with a premium subsidy. The federal crop insurance program comes to mind. It has been very successful and provides significant assistance to producers (farmers), with subsidies set by Congress.

Interestingly, the subsidies are set regardless of income level, while other USDA farm benefits are not available to producers with incomes that exceed a statutory limit (3-year average adjusted gross income of \$900,000 or more). In studying the impact, GAO found that, of the 460,615 policyholders who participated in the crop insurance program in 2022, 1,341 (0.3 percent) were high-income. These high-income policyholders accounted for about 0.5 percent of total premiums in the program. [Source - GAO: <https://www.gao.gov/products/gao-24-106086>].

It seems counter-productive to provide subsidies that do not take income into account for a program that has been chronically in debt. Simply put, it may not be wise to provide subsidies to homeowners who have bought a mansion by a body of water. Means-testing would, however, significantly complicate the underwriting process (see infra).

Any such subsidy program would also have budgetary considerations for the commonwealth.

- b. Premium assistance options to encourage Flood Insurance adoption:
 - While means-tested subsidies would be most cost-effective by aiding only those who need it most, our members have mentioned that they have serious concerns over the benefits of such an option. As mentioned above:
 - Means-tested subsidies are often cumbersome to implement. Agents have reported difficulties in the health insurance arena with verifying income level and collecting documentation needed for that purpose.
 - There could also be consumer discomfort in sharing sensitive information.

- Agents are concerned that the product would continue to be sold at a loss, an issue that has plagued the NFIP for decades. Subsidies would perpetuate and possibly aggravate this issue.
- Potential alternatives: Could/should the full replacement cost of the home be considered as a substitute/proxy for income? The NFIP does not currently require “insurance-to-value,” but the information might be captured at the point of sale or the use of a replacement cost estimator could be used based on the property’s specifications (square footage, building material, framing, etc.).

Even if the subsidies come from the state on a federal program, we should aim to limit anything that artificially sustains the viability of the insurance product long-term, knowing that the NFIP has been insufficiently funded.

c. Tax Credits for Premium Payments:

As an alternative, introducing tax credits for individuals who purchase and maintain flood insurance might be easier to evidence with proof of insurance

- The tax incentive would be an incentive to secure coverage
- The downside is the delay between the purchase and the tax credit.

d. Any graduated Premium Reductions should reward lesser risk:

While it may be tempting to provide a graduated premium reduction to those homeowners facing the greater risk of flood, the NFIP has long provided subsidies to higher risk properties, and this has resulted in chronic deficits. It encourages insufficiently funded high-risk homes to be insured and low-to-moderate risk homes not to cover themselves while they incur approximately 25% of floods annually. Risk Rating 2.0 was developed to correct the course. Should subsidies incite low-to-moderate risk homes to secure coverage instead?

e. Community-Based Programs:

- Should community-wide premium reduction programs be developed to both foster a sense of collective responsibility for flood risk mitigation and to reward those communities that do invest in mitigation?
- Offer discounts to entire neighborhoods that achieve certain flood resilience criteria, encouraging community engagement. This may also be both difficult to implement and to drive sufficient buy-in. The way the discount is ascertained should be considered.

f. Multi-Year Policy Discounts:

- Could a greater rebate be provided for policyholders who commit to multi-year flood insurance coverage? If so, implementation would have to be considered since flood policies are normally one-year policies.

g. Discounts for Mitigation Measures:

- Offering premium discounts for homeowners who invest in flood mitigation measures (e.g. elevating structures or installing flood-resistant materials) &/or tying premium reductions to

specific, verifiable steps taken to reduce the individual property risk. These are sensible options that are likely already built into the rating mechanisms by both NFIP and the private market.

- Discounts tied back to the community and its investment in mitigation measures may be more feasible (see 4. Community-based programs)

h. Public Education Campaigns:

- Implement comprehensive public education campaigns to inform homeowners about available premium assistance programs.
- Ensure clarity about eligibility criteria, application processes, and the potential cost savings associated with flood insurance.

i. Community Outreach and Assistance Centers:

- Establish local assistance centers that provide personalized guidance on navigating flood insurance options and accessing available premium assistance.
- Enhance accessibility to information and support, especially in vulnerable communities.

j. Community Rating System (CRS) Participation:

- Encourage communities to participate in the CRS, a FEMA program that rewards communities for proactive floodplain management.
- Communities with higher CRS ratings can pass on increased premium discounts to their residents.

A combination of these premium assistance measures could help foster a more inclusive and affordable flood insurance landscape, encouraging broader adoption across all levels of flood exposure.

2. Potential programs that create incentives for local governments to undertake or continue flood mitigation efforts.

- a. Risk Assessment and Mapping: Enhance accuracy in flood risk mapping. Improve awareness so that homeowners have a clear understanding of their vulnerability. See Risk Factor https://riskfactor.com/?utm_source=floodfactor
- b. Utilize advanced technologies to provide real-time risk assessments and personalized insurance recommendations. FEMA has incorporated more data to have more accurate mapping and rating in Risk Rating 2.0. The public still seems unaware of their risks and the changing environment affecting their risks (weather + infrastructure).
- c. This individualized risk assessment should also be relayed in the Education and Communication section.
- d. Local governments could receive grants for investing in:
 - Strengthening their water-runoff infrastructure

- Encouraging construction outside of certain areas prone to water retention and using those for that purpose
- e. Note that some municipalities already have added a “tax” based on impervious surfaces on a property including roofs and driveways so that people contribute based on their footprint. The money collected is presumably used for infrastructure investment. Should such communities be rewarded for their efforts and further assisted with subsidies?
- f. Grants or tax incentives for property owners to implement stormwater/floodwater management, administered by a local/county agency or non-profit entity
 - See the Whole Home Repair Program, which incentivizes home repairs for blighted properties, and has seen very high demand, for an example of how such a program may be administered: <https://dced.pa.gov/programs/covid-19-arpa-whole-home-repairs-program/>
 - Other states have used grant programs to incentivize homeowners to reduce their risk of certain natural disasters. Oregon and other northwestern states have implemented grant programs for homeowners up to \$4,000 for improvements that protect their property from wildfires: https://www.kezi.com/news/local/lane-county-announces-wildfire-prevention-funds-for-rural-homeowners/article_670c6bb0-9b8a-11e1-8f29-6fbd9653bf5.html

3. The implementation of necessary changes in statutes or practices relating to the administration of flood insurance.

- a. Mandatory vs. Voluntary Participation: The optional nature of flood insurance results in lower participation rates. Mechanisms to incentivize coverage could be explored.
- b. Evaluating whether expanding the zones where flood insurance is mandated would be pertinent, due to the combined effects of weather-pattern changes and increased impervious surfaces in urban/suburban areas where existing infrastructure cannot accommodate water runoff. Should a mandate be considered for expanded zones, it may need to be limited in scope to account for affordability, particularly in low-to-moderate-risk areas. Note: This may be beyond the purview of the Pennsylvania Legislature, since the NFIP maps are administered by FEMA.
- c. While the homeowners’ policies are generally required to carry “insurance to value,” meaning at least 80% of the replacement cost at the time of loss, the NFIP allows the insured to pick a lower limit. People who suffer water infiltration in their basement, damaging their furnace, electrical box, hot-water heater, washer/dryer, all often located in a basement, not to mention the building foundation itself, could find coverage for \$50K-\$100K. However, low limits of coverage lead to high policy management costs, and less of the premium is available to pay for losses. Ideally, this setup would be better suited as a flood endorsement to a homeowners’ policy to limit the management costs.
- d. To that point, it seems a few companies have been selling flood insurance as an endorsement to the HO policy. If this option is available, it may be better suited for low limits of coverage. To the best of our knowledge, these carriers are bearing the risk. Should the NFIP consider providing its policy as an *endorsement* to Homeowners’ policies? Similar programs exist for “service lines coverage” that is traditionally covered by a different insurer (Hartford Steam Boiler comes to mind). Flood could be covered by the NFIP (or a private insurer) but written with the HO. This

would be beneficial in terms of managing costs and may make the sales process easier, particularly for low-to-moderate risk homeowners seeking low limits of coverage. Note that there would also be downsides to consider, to the extent that the policies have significant differences, including in the definition of certain policy terms. Eligibility for the endorsement may also vary based on the property's location.

e. Should municipality group policies be considered with either an annual enrollment period or the 30-day waiting period assigned individually to group participants?

- Upside: management costs would be lessened so that more of the premium goes to paying losses, and subsidies might be assigned based on the size of the group.
- Downside: current low take-up rate and public awareness may equally affect the ability to get buy-in from the public

4. How to educate residents about the risk of flooding and ways to mitigate flood occurrences.

a. Inadequate Coverage: Some homeowners believe standard insurance policies cover flood-related damages adequately. Clarifying the limitations of standard policies can help in emphasizing the need for specialized flood insurance. However, this type of disclosure is already provided by insurers and has yielded little results.

b. Lack of Awareness: Many homeowners are unaware of the risks and benefits associated with flood insurance. Insufficient education and outreach programs contribute to low awareness levels.

c. Affordability Concerns: High premiums deter homeowners, especially those in low to moderate-income brackets. Not understanding the potential long-term cost savings exacerbates affordability challenges.

d. Flood is perceived as low risk: Homeowners in low-risk flood zones often underestimate the possibility of flooding, and communication should focus on the fact that about a quarter of all floods occur in low-to-moderate risk areas, and that exposure is overall increasing. Also see item g).

e. Improved Education and Outreach: Implement comprehensive awareness campaigns to educate homeowners about flood risks and insurance benefits. Utilize community workshops, online platforms, and collaboration with local authorities to disseminate information. Outreach through schools and children may also yield good results.

f. Communication should focus on misconceptions about what a flood is, how it is defined from an insurance standpoint. The public projects images of Katrina and people on the roofs of their homes, when a "flood" is defined differently, and the likelihood of suffering one is therefore greater. Water that infiltrates a basement foundation is generally excluded from the homeowners' policy and subject to flood insurance.

g. Provide specific and compelling facts for people to understand Pennsylvania's vulnerability to flood: Ninety percent of natural disasters within the United States involve flooding. Consequently, floods inflict more economic damage and loss of life and property than any other

natural hazard. Provide Pennsylvania’s rank for flood damage among the states (people tend to focus on coastal exposure and underestimate both riverine and more recent “urban” flooding).

- h. Communication could provide projected costs from "less sensational floods" and focus on broad audiences and the type of flooding more likely to happen to them. Work with municipalities to provide targeted communication based on that municipality's exposure:
 - FEMA publications show cost levels based on every inch of water in a home.
 - Misconceptions about the frequency and severity of floods contribute to a sense of complacency.

5. Steps that should be taken to inform residents about options available when purchasing flood insurance.

- a. At this time, only two core options, NFIP and private flood, where available. Sometimes, both can be quoted, sometimes only one.
- b. NFIP also hinges on community participation.

6. How to increase the number of people that purchase flood insurance.

- a. While increasing, the low take-up rate has been an issue for a long time. Communication alone may not be sufficient. Even when given information and facts, there is a financial hurdle to clear, as well as the consumers’ perception that “it won’t happen to them.” Incentives and possibly mandates in certain expanded areas may be necessary to broaden the pool of insureds until it becomes more mainstream. Broader coverage would make communities more resilient. See comments above.
- b. It may be useful to arm the task force with numbers.
 - Number of residences
 - Number of insured residences through a homeowner’s policy

2020 HO report

	DF - House- yrs	DF %	Owner- occupied HO	Owner- occ. HO %	HO tenant or condo	HO tenant condo %	Total	Total %
PA	25,232.6	0.6%	3,087,887.3	76.9%	903,449.9	22.5%	4,016,569.8	100%

While everyone should consider the purchase of a flood policy, efforts may be most effective on the owner-occupied HO, being both numerous and generally more receptive to their exposure (a fair number of tenants and condo owners living in high-rise lodgings feel immune to flood risk and do not account for the risk to the building’s foundations).

- Number of flood insurance policies in the state
- Cost of insured losses (over 1 year and over 5 years)
- Cost of uninsured losses (over 1 year and over 5 years)

Dividing the uninsured losses by the number of uninsured homeowners' policies would yield the annual average loss gap, particularly in the context of any mandate.

- c. Much of the previous discussion would have a bearing on increasing the number of people purchasing flood insurance.

OTHER ITEMS LINKED TO RELATED MITIGATION STRATEGIES OUTSIDE FLOOD INSURANCE

Multi-pronged efforts should be combined for a holistic approach to water runoff mitigation: through a mix of regulatory measures, investments in green infrastructure, and community engagement initiatives to create more sustainable and resilient urban environments. Examples include:

STATE LEVEL

1. Comprehensive Watershed Management

- Continue work on statewide watershed management plans to coordinate water runoff strategies across regions.
<https://www.dep.pa.gov/Business/Land/Mining/BureauofDistrictMining/Moshannon/Watershed/Pages/default.aspx>
- Develop/enforce regulations that address impervious surface limits and runoff controls.

2. Investment in Green Infrastructure

- Allocate state funds for the creation of green spaces, permeable pavements, and green roofs to enhance water absorption.
- Encourage sustainable urban planning practices that prioritize green infrastructure.

REGIONAL LEVEL

1. Integrated Stormwater Management

- Establish regional stormwater management authorities to coordinate efforts across multiple municipalities.
- Collaborate on large-scale projects such as retention basins and regional detention systems to manage water runoff efficiently.

2. Interconnected Green Corridors

- Plan and develop interconnected green corridors that traverse urban regions, promoting natural water absorption and reducing runoff.
- Implement regional tree planting initiatives to enhance green coverage and mitigate surface runoff.

LOCAL LEVEL

1. Permeable Surfaces and Green Streets

- Adopt permeable pavements and green streets in local urban planning to increase ground absorption.
- Encourage property owners to use permeable materials for driveways and walkways.

2. Community Rain Gardens

- Promote community-based rain gardens to capture and filter runoff.
- Provide educational programs to encourage residents to create rain gardens on their properties.

3. Retention and Detention Basins

- Integrate retention basins and detention ponds into local infrastructure to manage stormwater runoff.
- Ensure proper maintenance and landscaping of these basins for maximum effectiveness.

4. Stormwater Fee Programs

- Implement stormwater fee programs based on impervious surface coverage to incentivize property owners to adopt water runoff mitigation measures.
- Utilize generated funds for local stormwater infrastructure improvements.

5. Zoning and Building Codes

- Enforce zoning and building codes that limit impervious surface coverage and mandate the incorporation of green infrastructure.
- Regularly update codes to reflect evolving best practices in stormwater management.