Rethinking the NFIP: Straw Man Policy Options

Community-Based Insurance Policy Options

Description of Policy Theme:

Who pays the cost for development at the beach?

Establishing a direct link between the land use and construction decisions of a community and the full cost of flood would require communities to balance development decisions with the potential for increased risk, and the cost of that risk.

This policy option seeks to broaden the participation of various entities in weighing the economic benefits and costs of floodplain development. The current National Flood Insurance Program (NFIP) structure disperses roles and responsibilities among a variety of actors, and municipal land-use decisions do not account for the full cost of flood. Coupling of private construction decisions and the cost of insurance exists to a limited degree, but inherent program subsidies and industry practices constrain the effectiveness of this link.

Straw Man Policy Options:

- **Municipal-level Insurance Model:** The Federal Government would identify flood risk, provide guidance to manage that risk, and offer insurance against flooding across a municipality.
- **Cap and Trade Model:** The Federal Government would identify the flood risk and loss caps per State, and provide flood disaster aid to States that comply with Federal flood risk caps. States manage their flood risk individually.
- **Watershed-based Insurance Model:** Every property is actuarially rated across the watershed and all communities within the watershed receive an annual insurance bill reflecting their shared risk.
- **State-based Regulatory Insurance Model:** States would design their own flood programs. The design could be left entirely to the State, with the Federal Government only setting minimum standards for benefits paid to property owners after a loss, or the Federal Government dictating one or more frameworks for delivery.