

PROPOSED DISSERTATION ABSTRACT

Title: An Evaluation of the National Flood Insurance Program
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The National Flood Insurance Program (NFIP) was created by Congress in 1968 and provides federal flood insurance to policyholders through private insurance sales. The program is intended to be self-funded but it is significantly in debt due to major flooding throughout the last decade. The NFIP has grown to be the largest monoline insurer in the United States and is nearly \$20 billion in debt to the United States Treasury.

The NFIP influences development in coastal areas by providing insurance and requiring changes to building codes for participation. At the same time, there are outstanding problems with its implementation. Economically, the program provides funds for rebuilding local business and putting local employees to work following a flood disaster, in addition to funds for homeowners' recovery. However, the NFIP is a potential financial burden to taxpayers because it provides subsidized policies to some program participants. Disparities in how the subsidy for flood insurance is applied, the sources of funds and its effects can lead to reduced equity among program participants. Finally, the political environment for the NFIP gives policy makers a strong incentive to leave the program unchanged, despite looming prospects that the program will produce large and continuing deficits. While academic research on the NFIP is limited, it is expanding in response to recent catastrophes

and there are a number of governmentally-funded evaluations. None, however are from the perspective of economic efficiency and few inform distributional equity.

The proposed dissertation will examine the NFIP using benefit-cost analysis (BCA) and distributional impacts analysis. BCA asks the question of whether or not the social benefits of a program outweigh the social costs. This gives policymakers a tool for determining whether a program benefits society in aggregate and a measure of its economic efficiency. However, BCA can be subjective in implementation and the proposed dissertation will use two different methods for analyzing the NFIP.

In addition to a pure BCA, the proposed dissertation will include a distributionally-weighted BCA, for understanding how impacts vary among social classes, which can also set the stage for a political analysis. Among the distributional effects likely to be studied are the impacts of the NFIP on certain social classes by income and assets as well as regional effects caused by community adoption of NFIP flood mitigation guidelines. Some of the major challenges likely to be confronted in carrying out a BCA of the NFIP include understanding the willingness to pay for flood protection separate from the transfer element of the insurance program, disaggregating the discount caused by locating in a floodplain in modern housing markets, and any changes in damages due to changed building codes as a result of counties agreeing to be part of the NFIP.

In addition to gaining a better understanding of the NFIP, this dissertation may increase understanding of similar insurance-of-last-resort programs administered through governmental programs. Proposed programs, such as a federal wind insurance program attached to the NFIP, and other existing disaster insurance programs, such as the Federal Crop Insurance Corporation, can be better understood and analyzed with knowledge of how distributional effects impact the BCA of an insurance program.

Because the NFIP is a public program, understanding its impacts, both positive and

negative, is a core public policy question for study. There are political impacts as NFIP policyholders are a broadly diffuse group. The NFIP has economic impacts through its payments to policyholders and the premiums it collects. Finally, the NFIP has social impacts as different social groups are affected differently by the economic and legal impacts of the program.

Subjects: public policy, public management, economics

Keywords: flood insurance, benefit-cost analysis, risk management