Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

Closing the Flood Insurance Gap

Diane P. Horn
Analyst in Flood Insurance and Emergency Management

Updated October 8, 2019

There is a large flood insurance gap in the United States, where many people that are exposed to flood risk are not covered by flood insurance. The National Flood Insurance Program (NFIP) is the primary source of residential flood insurance. More than 22,000 communities participate in the NFIP, with more than five million policies providing more than $1.3 trillion in coverage.

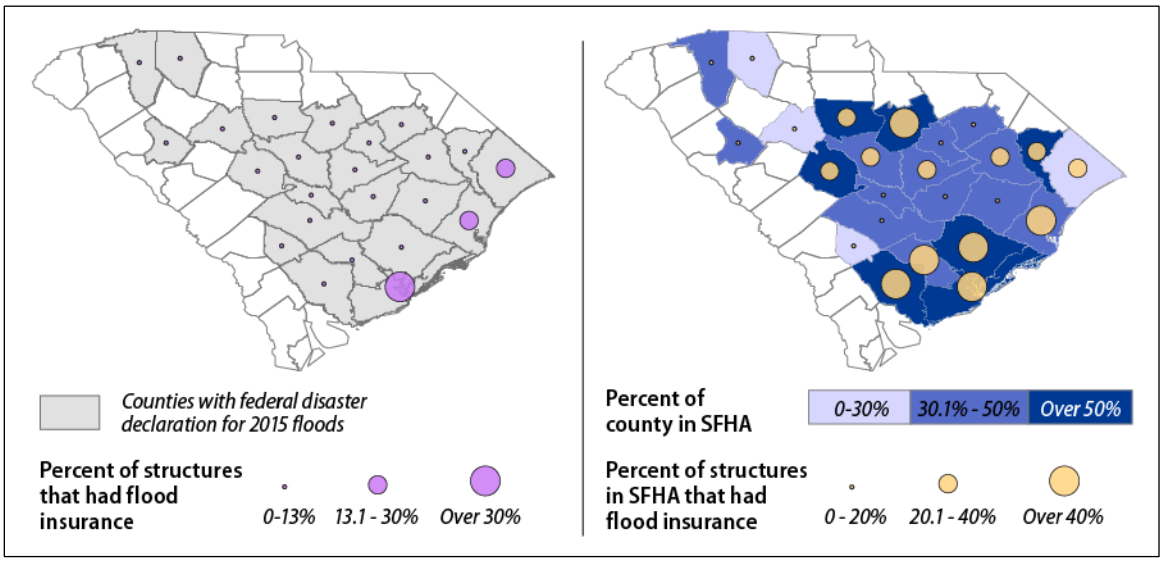
The NFIP identifies areas at high risk of flooding as Special Flood Hazard Areas (SFHAs). Property owners are required to purchase flood insurance only if (1) their properties are in SFHAs, (2) their communities participate in the NFIP, and (3) they have federally backed mortgages. Because the SFHA boundary is central to NFIP mapping, it may create a false belief that flood risk changes abruptly at the boundary and that properties outside the SFHA are safe and do not need flood insurance. However, about 20% of NFIP claims are for properties outside SFHAs, and all 50 states and five territories have experienced floods since May 2018.

Recent floods highlight the issue of high uninsured losses. For example, in the October 2015 South Carolina floods, the average NFIP penetration rate in counties with a federal disaster declaration was 5% (**Table 1**). Nearly 90% of policies in South Carolina were concentrated at the coast, but the flood damage was primarily inland, where few residents were insured (**Figure 1**).

Congressional Research Service
7-....
www.crs.gov
IN10890

Figure 1. Residential Penetration Rates of NFIP Flood Insurance in South Carolina

Counties with FEMA Individual Assistance Declarations for 2015 South Carolina Floods (DR-4241)



Source: Data for all figures provided by FEMA Congressional Affairs staff, November 6, 2017.

Notes for all figures: Left: county-wide penetration rate; right: penetration rate for structures in SFHA.

Table 1. Average Residential Penetration Rates for Recent Flood Events

Counties with FEMA Individual Assistance Declarations

Flood Event	Location	Average County Penetration Rate	Average SFHA Penetration Rate	Counties with Highest SFHA Penetration Rate	County-wide Penetration Rate	Percentage of County in SFHA
October 2015 (DR-4241)	South Carolina	5%	30%	Berkeley 93% Charleston 83%	Berkeley 10% Charleston 44%	Berkeley 64% Charleston 73%
August 2016 (DR-4277)	Louisiana	17%	31%	St. Tammany 73% Livingstone 54%	St. Tammany 53% Livingstone 38%	St. Tammany 27% Livingstone 62%
Hurricane Harvey (DR-4332)	Texas	10%	21%	Aransas 72% Galveston 64%	Aransas 43% Galveston 47%	Aransas 32% Galveston 35%
Hurricane Irma (DR-4337)	Florida	12%	31%	St. Johns 73% Monroe 54%	St. Johns 35% Monroe 51%	St. Johns 52% Monroe 88%
Hurricane Irma (DR-4335), Hurricane Maria (DR-4340)	U.S. Virgin Islands	2.5%	n/a	n/a	n/a	n/a

Flood Event	Location	Average County Penetration Rate	Average SFHA Penetration Rate	Counties with Highest SFHA Penetration Rate	County-wide Penetration Rate	Percentage of County in SFHA
Hurricane Irma (DR-4336), Hurricane Maria (DR-4339)	Puerto Rico	0.2%	1.9%	Carolina 3.1% Cataño 0.6%	n/a n/a	Carolina 14% Cataño 40%

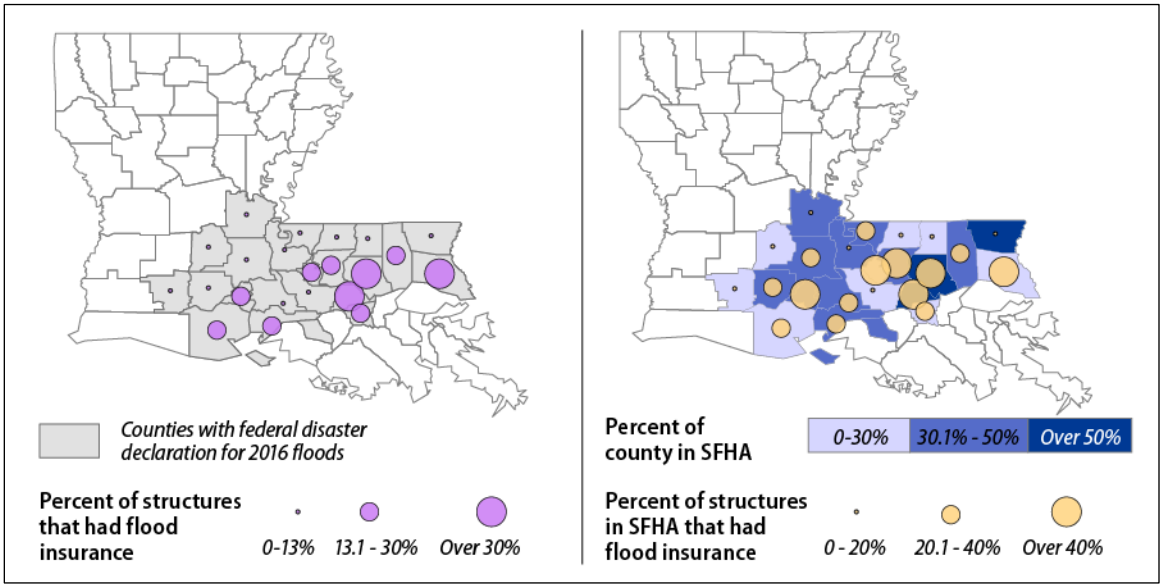
Source: Data provided by FEMA Congressional Affairs staff, November 6, 2017.

Notes: Penetration rates are given in all cases for the two counties with the highest penetration rates in the SFHA. For comparison, the penetration rate for the whole county is also given. FEMA describes NFIP penetration rates as the proportion of all properties with NFIP flood insurance. See, for example, U.S. Government Accountability Office, *Flood Insurance*, GAO-14-297R, April 9, 2014, p. 6.

In the 2016 Louisiana floods, about 17% of the flooded properties were insured. The 2016 floods were due to intense rainfall rather than coastal flooding, but NFIP policies were concentrated in a band relatively close to the coast (**Figure 2**).

Figure 2. Residential Penetration Rates of NFIP Flood Insurance in Louisiana

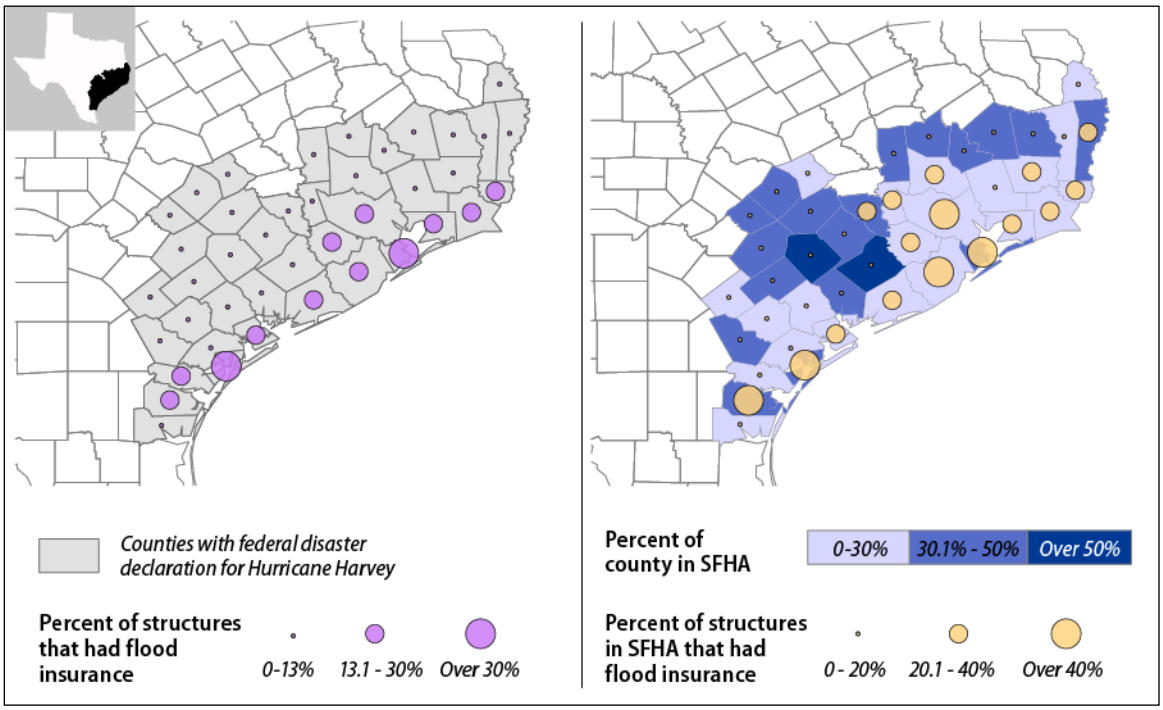
Counties with FEMA Individual Assistance Declarations for 2016 Louisiana floods (DR-4277)



The flooding caused by the 2017 hurricanes further highlighted the issue of low numbers of insured flood victims, with particularly low penetration rates in Puerto Rico and the U.S. Virgin Islands. On average, 10% of flooded structures had NFIP insurance in the 41 counties in Texas with FEMA Individual Assistance (IA) declarations for Hurricane Harvey. In the 48 Florida counties with IA declarations for Hurricane Irma, 12% of the flooded buildings had flood insurance. In both Texas and Florida, penetration rates were highest at the coast (see **Figure 3** and **Figure 4**, respectively). In contrast, many inland counties with a significant proportion of their area within the SFHA had low penetration rates despite the known flood risk.

Figure 3. Residential Penetration Rates of NFIP Flood Insurance in Texas

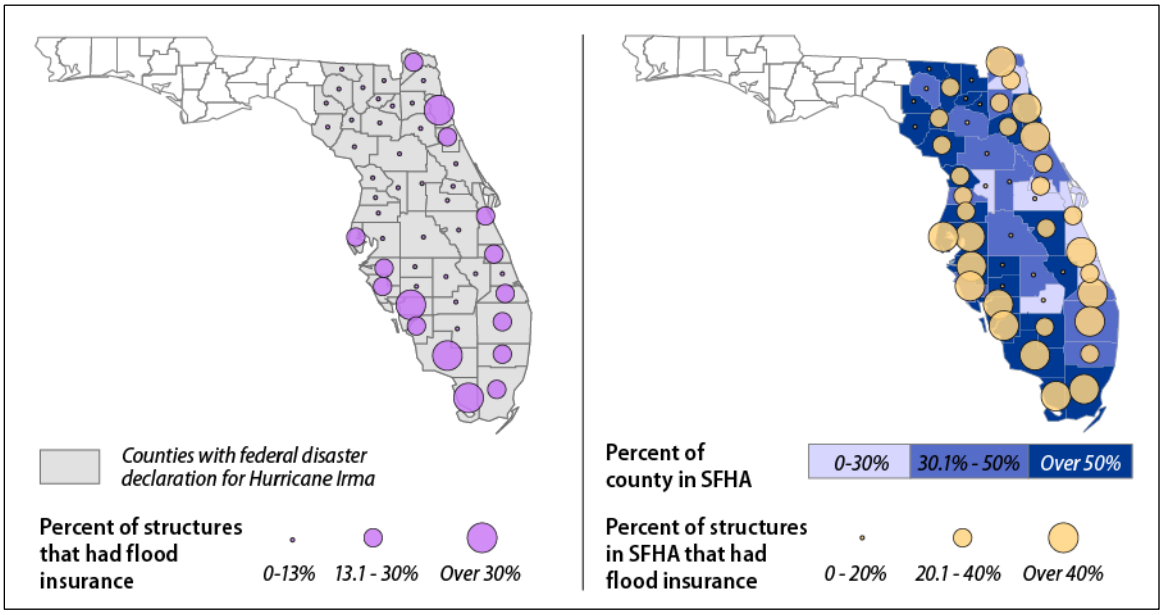
Counties with FEMA Individual Assistance Declarations for Hurricane Harvey (DR-4332)



In the floods shown here, less than a third of the structures in SFHAs were insured. Although these structures may not have been covered by the mandatory purchase requirement, the extent of recent flooding suggests that residents in SFHAs might benefit from purchasing flood insurance voluntarily.

Figure 4. Residential Penetration Rates of NFIP Flood Insurance in Florida

Counties with FEMA Individual Assistance Declarations for Hurricane Irma (DR-4337)



An insured flood victim is likely to recover more quickly and will generally receive more from NFIP insurance than from IA. Homeowners can get up to $350,000 for buildings and contents together, and renters are able to get up to $100,000 from an NFIP policy, compared to $34,900 per household for housing assistance from IA. In addition, most disaster victims do not receive the maximum amount available under FEMA disaster assistance. For example, after the 2016 Louisiana floods, the average NFIP claim was $91,507, whereas the average IA payment was about $9,312. The average NFIP claim for Hurricane Harvey was $116,823, whereas the average IA payment was about $4,426.

The NFIP could achieve greater financial stability with a wider policy base and, in particular, through finding ways to increase coverage outside the SFHA. FEMA has identified the need to increase flood insurance coverage across the nation as a major priority for NFIP reauthorization, and this also forms a key element of FEMA's 2018-2022 strategic plan. FEMA's "moonshot" has set a goal of doubling flood insurance coverage by 2023 through the increased sale of both NFIP and private policies. FEMA's view is that both the NFIP and an expanded private market will be needed in order to increase flood insurance coverage for the nation and reduce uninsured losses after the next flood.