



May 31, 2024

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Federal Insurance Directorate, Resilience
Federal Emergency Management Agency

Re: National Flood Insurance Program: Standard Flood Insurance Policy, Homeowner Flood Form (Docket ID FEMA-2024-0004)

Environmental Defense Fund (“EDF”) respectfully submits the following comments and attached materials to the Federal Emergency Management Agency (“FEMA”) regarding the Notice of Proposed Rulemaking titled National Flood Insurance Program: Standard Flood Insurance Policy, Homeowner Flood Form.¹ One of the world’s leading international nonprofit organizations, EDF creates transformational solutions to the most serious problems. To do so, EDF links science, economics, law, and innovative private-sector partnerships.

As detailed below, EDF supports the proposed rulemaking, and additionally offers some recommendations for FEMA’s consideration. As climate-driven disasters increase in severity and frequency, insurance serves as a critical tool for households’ economic stability. Research shows that increasing household flood insurance coverage also benefits community-wide disaster recovery.² We believe that improving standard policy language and coverage can increase the inclusivity of the flood insurance market.³ The proposed reforms of the Standard Flood Insurance Policy (SFIP) Dwelling Form take important steps to: 1) increase transparency and clarity for policyholders; 2) build resilience through investment in flood mitigation; 3) expand coverage options; and 4) address existing confusion around actual cash value versus replacement cost coverage.

EDF supports the proposed changes to the SFIP. Overall, greater choice, transparency, and simplification are improvements. Under the current structure of the NFIP many consumers lack clarity around what items are covered within their policy and the costs

¹ FEMA, National Flood Insurance Program: Standard Flood Insurance Policy, Homeowner Flood Form, 89 Fed. Reg. 8282 (Feb. 6, 2024).

² You, X., & Kousky, C. (2024). Improving household and community disaster recovery: Evidence on the role of insurance. *Journal of Risk and Insurance*, jori.12466. <https://doi.org/10.1111/jori.12466>

³ Kousky, C., & French, K. (2023). Inclusive Insurance for Climate-Related Disasters: A Roadmap for the United States. Ceres. <https://blogs.edf.org/markets/wp-content/blogs.dir/32/files/2023/01/Inclusive-Insurance-Report.pdf>

associated with their coverage.⁴ This can be particularly detrimental following a flood, when a policyholder may come to realize only during the claims process that they did not have the coverage they had believed was included in their policy. We believe simplifying FEMA’s SFIP Dwelling Form will better help policyholders and agents obtain the coverage required to meet their needs. Additionally, FEMA’s changes to ease readability and simplify the policy contract language should make it easier for insurance agents to explain policy coverages to clients, further limiting confusion.

Simplification and flexibility around coverage selected through the SFIP is an important step to increasing transparency of the NFIP. Significant confusion, however, remains for some policyholders around NFIP pricing. With the advent of Risk Rating 2.0, policyholders now experience more accurate risk pricing, but the risk information used in determining prices is not reflected in any externally-facing products, such as FEMA flood maps – effectively weakening the risk signal that RR2.0 could provide.⁵ Given that the proposed changes and additional coverage options may further impact individual policy costs, FEMA should continue to identify ways to further build transparency around NFIP pricing and to provide more detailed flood risk information to ensure consumers understand not only their coverage but what is driving their costs.

EDF supports the proposal to enable policyholders to reduce flood risk through repairs and rebuilding. As flood risk escalates around the country, it is imperative that risk reduction is incorporated into flood repairs and rebuilding. FEMA states that 1 inch of flood waters can cause as much as \$25,000 in damages. The proposed change would allow homeowners to receive additional financial support from FEMA for the installation of flood damage resistant materials and/or the elevation of equipment. Prior research shows that investments in mitigation, or integrating resilient retrofits when rebuilding, provides long-term cost savings to homeowners.⁶ These changes would support homeowners in reducing the impacts of future flood damages and increasing flood resilience.

Adding new endorsements and new coverage options for additional basements is a positive improvement. As noted in FEMA’s documentation, we find in our work that many policyholders remain uninformed about the limitations in basement coverage under the NFIP. The creation of a new endorsement page will help to inform consumers of these limitations at the outset of a purchasing a policy. Additionally, the proposed additions for expanding coverage for basements create an important choice for policyholders who can afford additional coverage and where existing limitations may have impacted uptake of coverage.

⁴ Kousky, C., & Netusil, N. R. (2023). Flood insurance literacy and flood risk knowledge: Evidence from Portland, Oregon. *Risk Management and Insurance Review*, 26(2), 175–201. <https://doi.org/10.1111/rmir.12242>

⁵ Mulder, P., & Kousky, C. (2023). Risk Rating without Information Provision. *AEA Papers and Proceedings*, 113, 299–303. <https://doi.org/10.1257/pandp.20231102>

⁶ Montgomery, M., & Kunreuther, H. (2018). Pricing Storm Surge Risks in Florida: Implications for Determining Flood Insurance Premiums and Evaluating Mitigation Measures. *Risk Analysis*, 38(11), 2275–2299. <https://doi.org/10.1111/risa.13127>

The proposed inclusion of a new Temporary Living Expense endorsement is an important step to address the financial impacts that impact displaced households after a flood. Currently, there are limited resources – particularly if there is not a presidential disaster declaration – to support households whose homes are uninhabitable following a flood. And many households are either unaware that coverage for temporary lodging is not included in their existing insurance policies or must navigate complex application processes to receive the necessary financial support. By incorporating temporary living expenses into a new endorsement, FEMA would give households the opportunity to secure this additional coverage and would streamline existing processes.

The proposal to make replacement cost coverage a default is an important improvement. In our work, we have found that having replacement cost coverage is necessary for households to have sufficient funds to rebuild. Many with actual cash value coverage do not have enough savings to cover the gap when not awarded a full replacement cost claim. Research by EDF economists, however, finds that many policyholders do not understand these terms or their implications.⁷ Building on findings from behavioral economics regarding default choices,⁸ we support the proposed change to make replacement cost coverage the default in NFIP policies.

While these changes are critical, EDF offers the following **recommendations** to further bolster accessibility of the NFIP and ensure coverage:

SFIP improvements should be accompanied by consumer education and outreach.

As FEMA notes, the last substantive updates to the SFIP occurred in 2000, and the proposed changes could have important effects on policy coverage moving forward. The manner in which coverage is communicated and selected has significant impacts for policyholders.⁹ The Office of the Flood Insurance Advocate has also indicated in recent annual reports that ongoing consumer outreach and education is critical to ensure that policyholders understand their pricing and coverage under the NFIP.¹⁰ As a result, FEMA should accompany any updates with outreach to ensure policyholders and insurers have adequate understanding of these changes.

FEMA should undertake user testing with these new approaches. The proposed changes to the SFIP would be important steps to improve transparency of NFIP coverage for policyholders. Even with these improvements, the NFIP remains a complex program and all changes should

⁷ Kousky, C., & Netusil, N. R. (2023). Flood insurance literacy and flood risk knowledge: Evidence from Portland, Oregon. *Risk Management and Insurance Review*, 26(2), 175–201.
<https://doi.org/10.1111/rmir.12242>

⁸ Robinson, P. J., Botzen, W. J. W., Kunreuther, H., & Chaudhry, S. J. (2021). Default options and insurance demand. *Journal of Economic Behavior & Organization*, 183, 39–56.
<https://doi.org/10.1016/j.jebo.2020.12.017>

⁹ Schwarcz, D. (2014). Transparently Opaque: Understanding the Lack of Transparency in Insurance Consumer Protection. *UCLA Law Review*, 61, 394.

¹⁰ Office of the Flood Insurance Advocate Office, Fiscal Year 2022 Report.
https://www.fema.gov/sites/default/files/documents/fema_ofia-fiscal-year-2022_report_2023.pdf

consider impacts on its navigability for current and future policyholders. We encourage FEMA to conduct user-testing with both policyholders and non-policyholders to ensure the changes are clear, limit confusion, and address existing ambiguity. Clear understanding on how to make these changes most beneficial to policyholders may also minimize the need for significant changes in the future.

Congress and FEMA should adopt a means-tested assistance program to complement these proposed changes. While flexibility and transparency in coverage selection is critical, FEMA acknowledges that many of the additional coverage options will raise costs. NFIP is already cost-prohibitive for many low- and moderate-income households, and as a result many of the most vulnerable households will be unable to afford the additional coverage options being proposed. To address these affordability impacts, Congress should adopt a means-tested assistance program to help lower-income households with the cost of flood insurance, as previously designed and proposed by FEMA¹¹ and the Government Accountability Office.¹² A means-tested affordability program will ensure that those with limited access to savings can afford critical NFIP coverage to support flood damages, as well as access to the new coverages that may help to support their financial resilience.

Overall, we commend FEMA on these proposed changes and look forward to working with the agency on continued improvements to the NFIP. FEMA's proposed SFIP changes are a crucial step towards making flood insurance more accessible for U.S. households. EDF appreciates FEMA's attention to these issues and its consideration of these comments.

Respectfully submitted,

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Attachments (2)

Kousky, C., & French, K. (2023). *Inclusive Insurance for Climate-Related Disasters: A Roadmap for the United States*. Ceres.

Kousky, C., & Netusil, N. R. (2023). Flood insurance literacy and flood risk knowledge: Evidence from Portland, Oregon. *Risk Management and Insurance Review*, 26(2), 175–201.

¹¹ FEMA. (2018). *An Affordability Framework for the National Flood Insurance Program*.

¹² GAO. (2016). *National Flood Insurance Program: Options for Providing Affordability Assistance*.