

School of Earth and Environmental Sciences Spring 2024 Colloquium Series

Wednesday, September 11, 2024

Zoom ID: 865 5163 5654

12:15 PM -1:30 PM

Passcode: 684900

Science Building C-207

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Improving Financial Resilience to Flood Risk

The National Flood Insurance Program (NFIP), established in 1968, is the main policy instrument for managing flood risk in the U.S. While it aims to be financially self-sustaining through premium collection, it faces low participation rates and significant debt, currently totaling \$20 billion (Horn 2023). We present a theory of the demand for flood insurance and empirically analyze the effects of the latest NFIP reform using individual insurance histories for the universe of all policies. The reform increased exit, both in the flood zone and its periphery, particularly among policyholders paying the highest premiums. The reform also reduced new entry, had highly heterogeneous effects on insurance costs, and triggered adjustments in deductibles, generally shifting flood risk toward policyholders in exchange for lower premiums. While the reform may have improved the solvency of the NFIP, it has exacerbated the decades-long decline in enrollment.

