Usually I steer clear of questions about NFIP flood insurance, especially in these times of rising premium costs. But recently, three questions about different aspects of the NFIP came to mind that I think should interest floodplain managers: (1) why are so many flood insurance claims not paid, (2) how many buildings are insured by the NFIP, and (3) does the argument that flood insurance is good financial protection still hold up?

### Why are so many flood insurance claims not paid?

Several times in the past 15 years I’ve written about NFIP claims data accessible online at [http://www.fema.gov/business/nfip/statistics/pcstat.shtml](http://www.fema.gov/business/nfip/statistics/pcstat.shtml). For each state and territory, the NFIP reports the total number of claims filed, the number that have been closed (i.e., paid), the number that are open (in process), and the really interesting number – the number of claims “closed without payment” (CWOP). Claims are CWOP for a number of reasons, such as if a loss was less than the deductible, if a loss was for items not covered (such as basement contents), or if an event did not qualify under the insurance definition of a flood (see sidebar). I expect there are many other reasons for nonpayment.

At the end of April 2015, the NFIP reported nearly 2.09 million claims had been filed since Jan. 1, 1978. Of that total, 77.7 percent were paid, 0.3 percent are being processed, and 22 percent were CWOP. Interestingly, on a nationwide basis the proportion of all claims that are CWOP has stayed about the same for at least 15 years.

Even more interesting is how the percent of claims CWOP varies considerably from state to state. As of the end of April this year, it ranges from a high of nearly 45 percent in Wyoming to a low of about 14.5 percent in Missouri and Mississippi. The last time I reported this data in 2011, Colorado topped the list CWOP at 47 percent, with New Mexico, U.S. Virgin Islands, Washington DC, and Wyoming all having more than 40 percent (and 12 had more than 30 percent CWOP). If you’re interested in how your community fares, the data show breakdowns for each community (at link above, click your state).

We can all speculate why the variation in CWOP is so large. I know I’d be double curious if I was in a state with a much higher than average percentage of closed claims. Are those states dominated by Write Your Own companies with overly conservative adjusters who more aggressively close claims without payments?

Let’s look at the data another way. It might be reasonable to assume states with a lot of claims activity, say more than 100,000 claims since 1978, should fall somewhere close to the national average of CWOPs. After all, don’t the WYO companies and FEMA pull adjusters from all across the county when big floods result in thousands of claims to adjust in a short period of time? Doing that might smooth out regional differences between companies. Well, looking at the data, that assumption seems reasonable, except for Florida (table below). Four of the states with the most claims have CWOP rates lower than the national average, while Florida is about 24 points higher than the average, at nearly 36 percent.

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**“Flood” defined for NFIP Insurance.**

Some floodplain managers may be surprised to discover a qualifying flood isn’t the same as “the water rose above normal levels.” To qualify, a flood must be a “general and temporary condition of partial or complete inundation of 2 or more acres of normally dry land area or of two or more properties (at least 1 of which is the policyholder’s property)” from specified sources.
NFIP Claims from 1978 to April 30, 2015 for the Five States with the Most Total Losses

<table>
<thead>
<tr>
<th>State</th>
<th>Total Losses</th>
<th>Closed</th>
<th>Open</th>
<th>CWOP</th>
<th>% CWOP</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. TOTAL</td>
<td>2,086,709</td>
<td>1,621,980</td>
<td>6,556</td>
<td>458,173</td>
<td>22.0%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>412,709</td>
<td>331,316</td>
<td>386</td>
<td>81,007</td>
<td>19.6%</td>
</tr>
<tr>
<td>Florida</td>
<td>245,089</td>
<td>156,893</td>
<td>141</td>
<td>88,055</td>
<td>35.9%</td>
</tr>
<tr>
<td>Texas</td>
<td>242,849</td>
<td>194,155</td>
<td>487</td>
<td>48,207</td>
<td>19.9%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>188,375</td>
<td>155,596</td>
<td>3,350</td>
<td>29,429</td>
<td>15.6%</td>
</tr>
<tr>
<td>New York</td>
<td>164,735</td>
<td>136,988</td>
<td>718</td>
<td>27,029</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

How many buildings are insured by the NFIP?

Every few years this question comes up – how many buildings are in the nation’s special flood hazard areas and how many are insured for flood damage? I admit to not searching for the latest estimate of the total number. With respect to how many are insured, I think we all agree the answer is “not enough.” But that doesn’t answer the question – it takes a bit of work to get an answer, keeping in mind many policies are written on buildings in Zone X, outside of the mapped SFHA.

I recently learned the difference between “policies-in-force” and “contracts-in-force.” The NFIP reports these numbers at the end of every month: [http://bsa.nfipstat.fema.gov/reports/reports.html](http://bsa.nfipstat.fema.gov/reports/reports.html)

Policies-in-force is a count of each policy, including policies on individual units in condominiums. Contracts-in-force is the “number of declaration pages issued,” which means a Residential Condo Building Association Policy on a building is counted as one contract, regardless of the number of units in the building. Based on the numbers reported the end of April I come up with the answer (keep in mind these numbers include Zone X policies):

- 5,239,584 Policies-in-force (down 184,491 since the end of March)
- 4,234,246 Contracts-in-force (down 186,584 since the end of March)
- 1,005,338 approximate number of condo units (subtract number of contracts from number of policies-in-force; FYI it looks like more than three-quarters of all the condos are in Florida!)
- 4,234,246 approximate number of insured buildings (subtract number of condo units from policies-in-force)

Is flood insurance still a good financial deal for property owners at risk?

While you and I might agree on the answer to this question, how any given property owner perceives the risk compared to the financial investment in flood insurance varies depending on myriad factors. Perception of risk is a significant one, so let’s take a look at that first.
I expect many of us have had conversations with folks who experienced a flood and think they’ve got another 100 years before the next one. Explaining what the “1 percent-annual-chance flood” means isn’t easy. By now, flood-plain managers should be familiar with the characterization that the “100-year” flood has a 26 percent chance of occurring over a 30-year period (see graphic below). I’ve also heard it put this way: if your building is in a mapped SFHA, it is five times more likely to sustain flood damage than to experience a major fire. Of course, actual damage depends on where a building is located (near the water or towards higher ground) and how it was constructed, largely whether it’s elevated.

Let’s assume we’re able to help property owners understand risk. The next step is figuring out what information can help them understand the value of paying flood insurance premiums year after year. Let’s look at two factors that, combined, should do the trick.

The first factor is the average claim paid by the NFIP. We know flood insurance policies don’t cover all costs, for example the owner must cover the deductible and pay for damage not covered (e.g., most contents in basements). For 2014, the NFIP reports the average claim paid on homes was about $23,000 ($46,000 on nonresidential properties). Going without insurance, sometimes called “going bare,” means an owner assumes the risk and will be responsible for all costs of repairing damage. That’s a pretty costly bet, given the 26 percent probability of flooding during a 30 year period.

The second factor is the average annual repayment on a Small Business Administration disaster loan. Many people qualify for these loans, especially if they have losses not covered by insurance. For at least a decade I’ve used a pie chart graphic to illustrate the annual cost of the average flood insurance premium compared to the average annual repayment amount on SBA loans. For most of those years, those average amounts stayed pretty steady, with the annual premium about $500 per year and the loan repayment about $3,600 per year.

Given the increases in premiums in the last few years, I decided to update the numbers (see graphic right). In 2014, the average premium rose to just over $780 per year, while the SBA reports the average annual home loan repayment amount for 2013 and 2014 is $3,200 (average business loan repayment is nearly $8,500 per year).

While the answer to the question might not be as clear as it used to be, especially for properties subject to very steep increases in flood insurance costs, I think the answer is “yes,” it’s better to invest in flood insurance as financial protection. And the answer is even clearer for properties likely to sustain substantial damage caused by flooding, in which case NFIP flood insurance coverage for Increased Cost of Compliance offers up to $30,000 towards the cost of bringing a building into compliance with current requirements.

Submit your own items or suggestions for future topics to column editor Rebecca Quinn, CFM, at rcquinn@earthlink.net. Comments welcomed!