

INFORMED DECISIONS ON CATASTROPHE RISK

Strengthening Resilience:

NFIP Community Rating System (CRS) Analysis for New York State

The NFIP's Community Rating System (CRS) is a voluntary incentive program that encourages community floodplain management activities that exceed the minimum NFIP requirements.

Policyholders in communities that participate in the CRS benefit from better communication about their risk, higher protection, and flood insurance premium discounts.

- Residential flood insurance is primarily provided through the federally run National Flood Insurance Program (NFIP). Today, the NFIP covers more than \$1.3 trillion in assets and has more than 5.5 million policyholders, a large majority residing in communities located in coastal states.
- Community participation in the NFIP is voluntary; however, flood insurance and many kinds of federal disaster assistance are **not** available in communities not participating in the program.
- Communities that participate in the NFIP are required to adopt and enforce a set of minimum floodplain management ordinances to reduce future flood damage.
- Only 1,210 of the 21,000 communities in the United States that participate in the NFIP are active in the CRS (two-thirds of all NFIP policies are sold in these active CRS communities).
- Across the nation, flood policyholders in active CRS communities receive about \$300 million in premium discounts annually.

Today, only 28 of the 1,466 NFIP communities in New York State participate in the CRS.

This 1.9% participation rate is three times *lower* than the national average.

- In the New York City metropolitan area, five communities are active in the CRS program: East Rockaway, Freeport, Great Neck Estates, Long Beach and Scarsdale.
- New York City does not participate in the CRS. This is surprising given its exposure to storm-surge flood hazard as evidenced by damage to property it suffered from Hurricane Sandy in 2012.

The Wharton Risk Center has for several years conducted applied research on the flood insurance market and discussed our findings with key stakeholders. Since January 2013 we have interacted closely with the New York City Mayor's Office that has completed a chapter dedicated to insurance issues in the Special Initiative for Rebuilding and Resiliency (SIRR) report, released by the New York City Mayor's Office on June 11, 2013. This Wharton Risk Center Issue brief and another, "Analysis of Flood Protection in the Rockaway Peninsula in New York City" are published as a complement to the SIRR report.

CRS Classification and Community Participation

The goals of the Community Rating System (CRS) program of the U.S. Federal Emergency Management Agency (FEMA) are to reduce flood damage to insurable property, encourage communities to adopt a more comprehensive and coordinated approach to floodplain management, and strengthen and support the role that flood insurance can play in this regard.

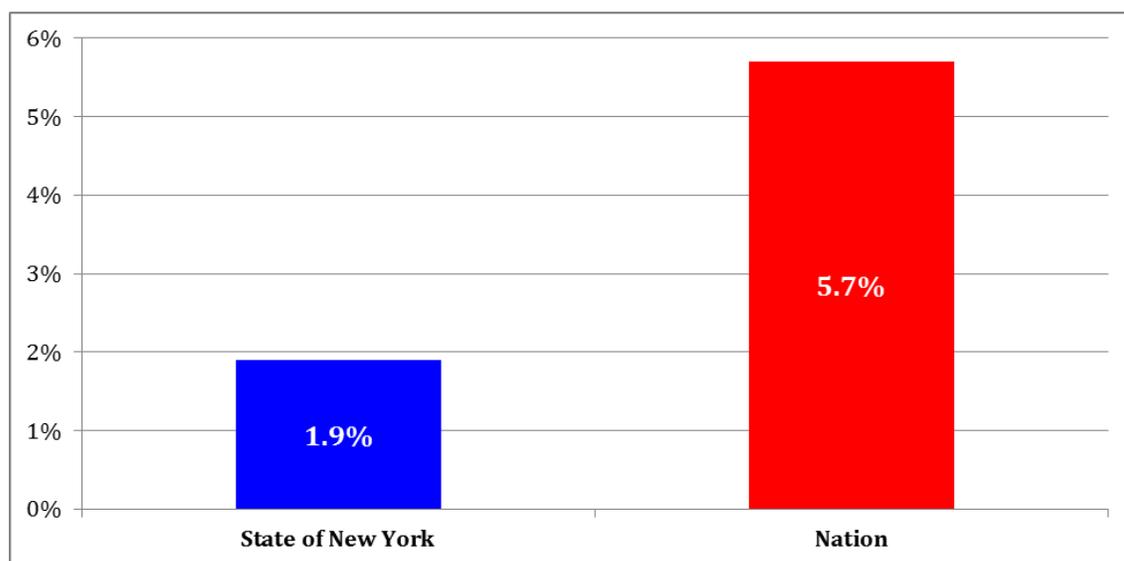
The program provides economic incentives in the form of premium discounts for communities that develop measures to provide residents protection from flooding beyond the minimum floodplain management requirements for joining the NFIP. These include enforcing building codes that incorporate flood-resistant standards, such as construction at or above expected flood heights within the floodplain.

Before a community is eligible to join the CRS program, FEMA must determine if it meets the minimum NFIP requirements by completing an onsite Community Assistance Visit (CAV). As part of the CAV, FEMA/NFIP staff evaluate the rigor of the community's enforcement of floodplain construction requirements. The community then works with FEMA to develop a plan for strengthening its floodplain management program and addressing any local violations.

FEMA has developed a 10-level CRS classification system based on eighteen activities, organized under four categories: 1) Public Information; 2) Mapping and Regulations; 3) Flood Damage Reduction; and 4) Flood Preparedness. Based on community activities, flood insurance policyholders in special flood hazard areas can benefit from insurance premium discounts in 5% increments. *Class 10*: does not participate in the CRS and receives no discount; *Class 9*: policyholders receive a 5% premium discount; *Class 8*: policyholders receive a 10% premium discount; ...; *Class 1*: policyholders receive a 45% premium discount.

Our analysis reveals that nationwide, only 1,210 communities in the NFIP participate in the CRS, out of a total of nearly 21,000 — a **5.7% participation rate** across the nation. These CRS communities account for two-thirds of all NFIP insurance policies. In the State of New York, 1,466 communities participate in the NFIP but only 28 are active in the CRS — a low **1.9% participation rate** (Figure 1). New York City does not participate in the CRS, however, other large cities do, including Houston (Class 5; 25% discount), Los Angeles (Class 7; 15% discount), and Miami-Dade (Class 5; 25% discount).

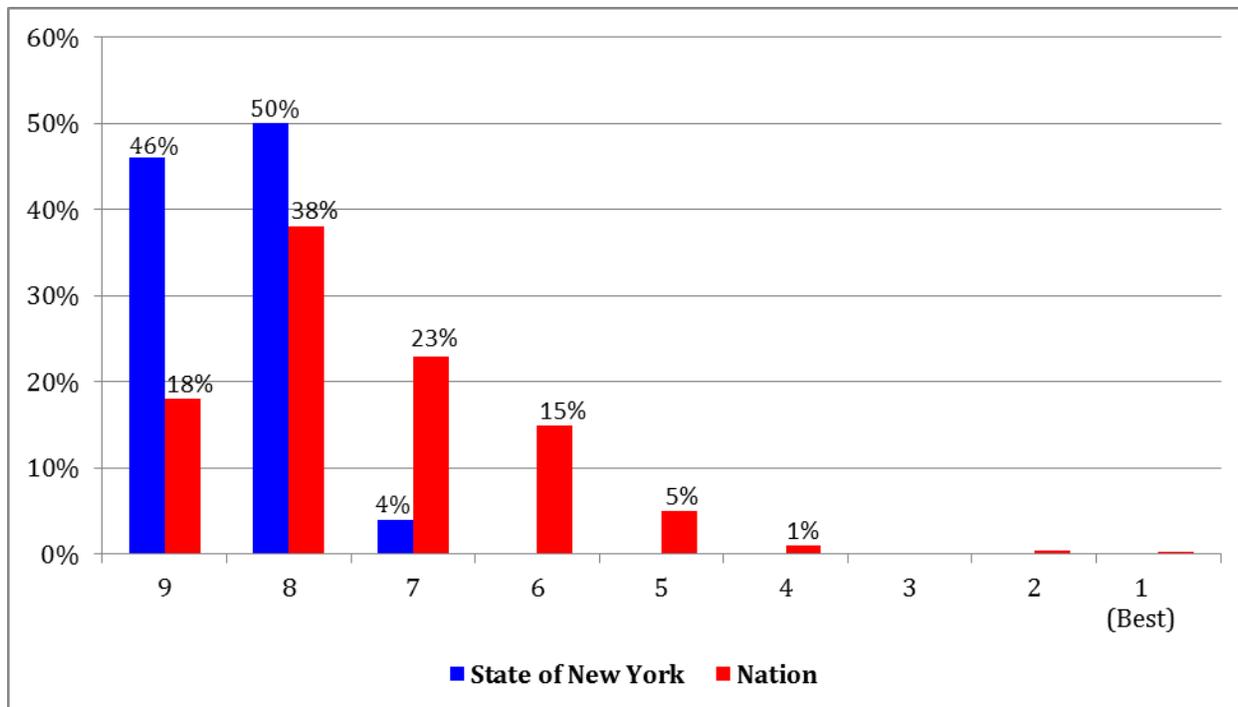
FIGURE 1. PERCENTAGE OF NFIP COMMUNITIES PARTICIPATING IN THE COMMUNITY RATING SYSTEM



Sources: Wharton Risk Center - Data from FEMA

Virtually all 28 communities in the State of New York that participate in the CRS do so at a fairly low level (Class 9 or Class 8). Two communities are Class 7 (Amherst and Freeport). Figure 2 shows a distribution by CRS class of all participating communities across the nation and for the State of New York.

FIGURE 2. CLASSIFICATION DISTRIBUTION AMONG CRS ACTIVE COMMUNITIES, NEW YORK STATE AND THE NATION



Sources: Wharton Risk Center - Data from FEMA

Among the communities in the State of New York that participated in the CRS as of May 2013, five are located in the New York City metropolitan area: East Rockaway (Class 9; 5% premium discount), Freeport (Class 7; 15% premium discount), Great Neck Estates (Class 8; 10% discount), Long Beach (Class 8; 10% discount) and Scarsdale (Class 8; 10% discount). Residents with NFIP flood insurance in Freeport and Long Beach saved \$735,000 and \$815,000, respectively, in 2012, due to premium discounts. There is certainly much more that communities could do to better prepare for future floods. We hope Sandy will be a wake-up call for those that do not participate in the CRS to join and for those that are already active to learn from more active communities in other states, such as Florida where half of the NFIP communities are active in the CRS program.

New York City Mayor Michael Bloomberg’s recently-released *Special Initiative for Rebuilding and Resiliency* report, “A Stronger, More Resilient New York,” recommends much more robust and well-enforced flood hazard management standards and regulations for New York City regions that are exposed to high flood risk given their location and geography. The CRS program can provide guidelines for the city and other communities in New York and elsewhere to become more resilient with respect to flood hazard, and allow residents and small businesses to benefit from premium reductions on their flood insurance policies.

Residents in flood-prone areas should indicate to their local officials the importance of making their community more resilient to future flood damage and highlight the role that the CRS program can play in this regard.

Issue Brief: Strengthening Resilience: NFIP Community Rating System (CRS) Analysis for New York State

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About the Wharton Risk Center

Established in 1984, the **Wharton Risk Management and Decision Processes Center** develops and promotes effective corporate and public policies for dealing with catastrophic events including natural disasters, technological hazards, terrorism, pandemics and other crises. The Risk Center research team – over 70 faculty, fellows and doctoral students – investigate how individuals and organizations make choices under conditions of risk and uncertainty under various regulatory and market conditions, and the effectiveness of strategies such as alternative risk financing, incentive systems, insurance, regulation, and public-private collaborations at a national and international scale. The Center actively engages multiple viewpoints, including top representatives from industry, government, international organizations, interest groups and academia. More information is available at <http://www.wharton.upenn.edu/riskcenter>.

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