AN EVALUATION OF THE NATIONAL FLOOD INSURANCE PROGRAM (NFIP) IN GEORGIA

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Abstract. Both capital and people have been moving into flood plains and other high-risk areas and there are serious issues about whether they are aware of the risk, and whether they are adequately covered and remain so over time. This paper promises to advance our understanding of how homeowners behave vis-à-vis flood risk, and ultimately, it aims to evaluate the performance of the National flood Insurance Program (NFIP) in Georgia regarding reducing vulnerability. This is done (i) by identifying participation rates in risk areas (which will determine its effectiveness) and (ii) by identifying the distribution of NFIP across income groups (which will determine its equity implications). With more than 40 years of history behind NFIP and the results well documented, the distributional implication of NFIP can be measured quantitatively using a Lorenz curve measure of inequality. The progressivity of the NFIP is measured as the departure of total county premium and program payout from per capita county income proportionality. In addition, the effectiveness of the NFIP will be measured by determining its participation rate i.e. by determining the percent of NFIP policies-in-force in a county divided by the percent of county in the flood risk zone. It is expected that the premium will be proportional since there are no income based discount in NFIP rates. However, the fact that over a third of policy holders live outside the floodplain suggests that the premium could be progressive assuming that the voluntary participation comes from the wealthiest income groups. Since both lower and higher income people live in flood hazard areas, it is expected that the payments could be progressive or regressive depending on whether the riskier area is lower income or higher income.