

Politics Stalls Plan to Bolster Flood Insurance



Lee Celano for The New York Times

Hazel Castanel, 86, and her daughter Joy Fortune had a \$73,000 flood policy on their New Orleans home. But after it sat in six feet of water for two weeks, an adjuster estimated the damage at \$124,000.

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By [CHRISTOPHER DREW](#) and [JOSEPH B. TREASTER](#)

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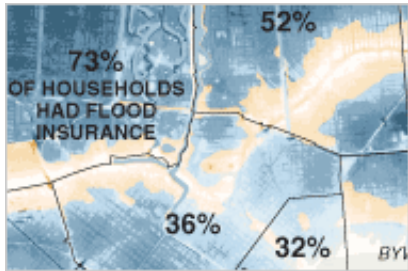
If ever there was a moment for the obscure federal flood insurance program to ride to the rescue, it would seem to have been in the aftermath of Hurricane Katrina.

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Hurricane Katrina

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Graphic: Flood Insurance in New Orleans

Its premiums were supposed to insure homeowners in flood-prone areas and also protect taxpayers from spending billions to bail out flood victims. But with Hurricane Katrina, the program failed on both counts.

Nearly half the victims did not even have flood insurance. Claims from homeowners who were insured, \$25 billion worth, bankrupted the program. And the government has had to commit \$15 billion in additional taxpayer money for rebuilding in Louisiana and Mississippi.

Now, an effort to rescue the insurance program that grew in Hurricane Katrina's wake is faltering, too. Though experts foresee a generation of fiercer and more frequent storms, Congress seems unlikely to make more than modest changes when it takes up the program in the coming weeks.

The drive to restructure the perennially underfinanced program has been blocked by real estate interests, who worry that requiring millions more people to buy flood insurance would stifle development, and by lawmakers from areas that rarely flood who see their constituents as supporting those who are frequently flooded, particularly in the South.

"You've got people living in dry areas paying for people who want to keep living in wet ones," said Representative Candice S. Miller, Republican of Michigan. "They're sticking it to us, and I don't like to be stuck."

The inability over decades to work out who pays the bill for flooding is at the heart of the weaknesses in the insurance program so blatantly laid bare by Hurricane Katrina.

A close examination of the program shows how those same lobbying pressures and regional rivalries have helped create an insurance plan that has consistently defied the central rule of how to succeed in the insurance trade: have enough policyholders paying enough in premiums to spread out the risk and build a financial cushion against disaster.

Since its beginning in the late 1960's, the flood program has struggled against a basic handicap: Most people, except those in the clearest path of danger, believe they do not need it.

So, in an effort to make the insurance affordable and attractive to reluctant homeowners, the government has kept premiums artificially low — typically \$300 to \$400 a year for coverage up to \$250,000. At the same time, though, it has limited the size of the program's flood zones — the only areas in which many people are required to buy the policies.

A result, in the aftermath of Hurricane Katrina, is an insurance plan in serious danger, groping for a politically palatable way to grow.

Testifying before Congress this year, the flood program's acting director, David I. Maurstad, acknowledged that it faced "numerous challenges on a variety of fronts." But insurance officials also say the program, which takes in only \$2.2 billion in fees each year, was never meant to handle a devastating storm like Hurricane Katrina.

Even so, many of the program's critics in Congress and elsewhere argue that it can and should be rebuilt as a stronger hedge against a less-catastrophic run of storms.

"It hasn't come close to its promise of insuring everyone who's in danger of being flooded, reducing the cost of disasters for the federal government or making sure the program ultimately pays its own way," said J. Robert Hunter, who once ran the program and is director of insurance for the Consumer Federation of America.

"It's like a trip through the looking glass," he added. "Everything is backwards."

Asking Beneficiaries to Pay

The idea of federal flood insurance began in the early 1950's with [President Harry S. Truman](#), after big floods in his home state, Missouri. Private insurers would not provide the coverage, arguing that only those most likely to be flooded would buy it, and that an avalanche of claims would bring big financial losses.

But what finally brought the idea to fruition nearly two decades later was a desire to do something about the rising cost of federal disaster relief. In particular, Congress felt it was important that the beneficiaries helped pay the bill.



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