Implementing Incentivization to Achieve Pre-Disaster Resilience

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Incentivization

Disaster resilience has a greater possibility of implementation with a new approach consisting of an integrated set of private, public and hybrid procedures and programs based on capturing opportunities through an integrated set of incentives via:

- Mortgages and loans
- Insurance
- Finance
- Tax incentives and credits
- Grants,
- Regulations
- Enhanced building codes
Implementing Incentivization

The National Institute of Building Sciences’ Multihazard Mitigation Council with the Council for Finance, Insurance and Real Estate proposes to:

• Conduct a Phase 1 study to develop an incentivization model that can be proposed nationwide to support resilience.

• Conduct a Phase 2 hands-on pilot study in a selected state and community.
Objectives

• Development of a cost effective incentives-based model for achieving resilience strategies with input from stakeholder organizations.

• Potentially make model procedures part of each stakeholder’s approach to asset management, and conducting business and community operations.

• Provide a level of confidence to stakeholders that implementing model procedures will justify participation in incentivization programs.
Objectives

• Incorporate expanded benefits and co-benefits of resilience:
  ❖ Supporting emergency response.
  ❖ Reducing negative supply-chain reactions.
  ❖ Reducing uncertainty to promote economic growth and stability.
  ❖ Enhancing a brand.
  ❖ Protecting the most vulnerable elements of the population.

• Move beyond the current metrics and indices to create stakeholder tools and guidance to assist in using incentives to support resilience.
Study Participants

- **Oversight Committee**: MMC, CFIRE and stakeholder representatives to develop the study structure and schedule, review progress and effective strategies, and draft reports.

- **Offerers**: Entities, such as insurance or mortgage companies, that with a high degree of certainty offset the offerers’ potential liability if a resilience measure is undertaken, or reduces the uncertainty associated with the benefit of the resilience measure to the offerers.

- **Decision-makers**: Homeowners, businesses, utilities or communities, that undertake a resilience measure that enhances the benefit to these decision makers, or else reduces the uncertainty associated with the benefit of the resilience measure.
Study Participants - Offerers

Companies and representative organizations in:

- **Insurance** - Premiums concomitant with insurable risk based on achieved resilience.
- **Banking and other lending** - Support mortgage and business loans, and loan servicing.
- **Bond rating** - Assign ratings to appropriately reflect asset resiliency and the ability of bond issuers to support payment of interest following a disaster.
- **Investment** - Long term fiduciary duty to their members to safeguard capital and investments in companies, states and municipalities.
Study Participants - Offerers

• *Private foundations* - Support focused mitigation efforts.

• *Communities*, (cities, counties and representative organizations), as providers of incentives - Alleviate regional social and economic losses.

• *Federal and state agencies, state organizations and state governor’s offices, and Congressional staff* - Stretch grant and emergency fund resources for mitigation before and after disasters.
Study Participants – Decision-makers

• Finance and disaster mitigation organizations representing *Home-owners* - Protect families, homes, as their most significant asset, and possessions.

• *Businesses and utilities* and their organizational representatives - Attenuate interruptions that cut into operating resources, profits, and the trust of their customers and of the public.

• *Communities* (cities, counties and representative organizations), as recipients of incentives - Maximize preparation for disasters, minimize disaster recovery, and preserve their economies.
Phase 1 – Step 1

Identify a set of the most promising incentivization strategies that represent key intervention points and are positioned to either capture or provide value. Sources:


- 2016 Symposium “Realizing Resilience Through Incentives”.

- Strategies from energy incentives programs, e.g., PACE and SBA.

- Additional strategies in discussions with key stakeholders.
Phase 1 – Step 2

Develop the procedures for modifying the private and public processes that support implementing the incentives-based strategies.

- Private sector practices
  - Mortgage lending
  - Insurance underwriting
  - Bond rating

- Public sector practices
  - Regulations supporting private sector practices
  - Adopting enhanced building codes
  - Tax incentives and credits
  - Grants
  - Zoning and transfer development
Phase 1 – Step 3A

Ensure procedures provide for:

- **Optimal Resilience Measures**: Those **not** currently required by law or custom.

- **Flexibility**: Tailor according to hazard, risk, locality, business size and the value of resilience strategies.

- **Coordination**: Individual strategies will not work - incentives and mandates should be an integrated set of solutions.

- **Facilitation**: Defined entry points and streamlined processes that can be easily understood and applied to ensure widespread usage and effectiveness.
Phase 1 – Step 3B

Incorporate existing technical tools or identify the need for new or enhanced tools to support incentives-based procedures:

- **Valuations** for assessing the dollar value of loss reductions based on implementing resilience strategies for property assessments, insurance underwriting, loans, investments, and bond valuations.

- **Data** for identifying localities with the highest risk and where resilience strategies and incentives would be most effective.

- **Software tools** for property appraisers, underwriters, and financial institutions to readily utilize valuations and data.

- **Information flows** for supporting stakeholder implementation of incentives.
Phase 1 – Step 4

A team of MMC, CFIRE and stakeholder representatives will:

• Integrate the procedures into a national model.

• Maintain a document library of incentivization examples, best practices and lessons learned.

• Prepare a publication and outreach that describe the incentivization model.
Phase 2- Pilot Study

- Identify a state and a community that will adopt and tailor the incentives-based model.
- Enlist the participation of local private sector stakeholder organizations.
- Oversight Committee to provide an advisory role.
- Further enhance the national model.