

**NATIONAL EMERGENCY MANAGEMENT ASSOCIATION
MITIGATION COMMITTEE
POSITION PAPER**

DATE: March 23, 2017

SUBJECT: National Flood Insurance Program (NFIP) Reform Recommendations

DISCUSSION: The National Flood Insurance Program (NFIP) plays a significant role in the disaster recovery and mitigation cycle across the Nation. The program impacts millions of homeowners and businesses across all 50 states and is responsible for billions of dollars in premiums and payouts each year.

Reforms have been implemented that are designed to stabilize the program to allow it to operate in the most efficient way possible, but more work must be done. Homes and businesses are still grossly underinsured against the threat posed by flooding, our most prevalent hazard. Time after time we watch as our communities flood, only to hear from residents that they did not have the appropriate coverage. In the absence of insurance, they are reliant upon their own fiscal ability, the generosity of the charitable organizations, and federal and state aid that is not designed to make them whole. Such situations delay the recovery of a community and threaten its very existence. We as a nation must redouble our efforts to design a system that helps people evaluate their individual risk and plan accordingly while simultaneously reducing our collective risk.

Without a strong insurance structure, uninsured risk could skyrocket and the impact will reverberate across various industries such as the housing market. Uninsured risk is a burden on communities and stresses local, State, and Federal disaster recovery budgets. Insurance payments are significantly higher than average Individual Assistance payments and can help communities recover much faster. Insurance is a key component of the recovery framework and the role of insurance in bringing down overall disaster costs cannot be overstated.

The NFIP is in jeopardy of not being able to meet the needs of the country in recovering from floods. The program is over \$23 billion in debt with no clear path towards solvency. Additionally, enrollment in

the program has declined by nearly 10% over the last several years as rate changes designed to shore up the program have resulted in policy holders dropping their coverage. This makes debt settlement even more unlikely. The NFIP is up for reauthorization by Congress in 2017 and the program's insolvency must be addressed.

Highlights

- The Administration and Congress should address affordability and financial stability within the NFIP and work to subsidize mitigation and risk-reduction activities, not insurance, to promote safety and affordability.
- FEMA, and other federal partners, must prioritize flood mapping and risk communication.
- Encourage participation of the private market without limiting the success of the NFIP.

RECOMMENDATIONS:

Affordability

- The Administration and Congress should address affordability and financial stability within the NFIP and work to subsidize mitigation and risk-reduction activities, not insurance, to promote safety and affordability.
 - Examine the process by which Congress could forgive the current debt in the NFIP and create an automatic, long-term mechanism within the NFIP that ensures, after a certain threshold of catastrophic events, the debt will be paid by the US Treasury after consideration of the balance of the reserve fund, utilization of reinsurance, and ability of the policy base at that time to repay.
 - Identify limitations on current programs that reduce the impact of cost-saving efforts at the state and local level. For example, the Community Rating System (CRS) allows communities to achieve premium discounts for their policy holders by improving their resilience against flooding. Programs such as this must be reviewed to assure it is operating as efficiently as possible and are not limited by outdated stipulations.
 - The Community Rating System is designed to be cost-neutral, meaning that any discount that one community achieves is merely added to every other policy outside of that community to ensure that the total amount of premiums collected by the NFIP remains the same. This is counter-intuitive; if a community is reducing its risk, the overall risk to the program is reduced and the total amount of premiums should be allowed to decline. The stipulation that the CRS program is cost-neutral must be removed in order to ensure that appropriate premium prices are being charged.
 - Consider some limitation on the maximum number of insurance claims per property. This will help limit taxpayer exposure but any limitations should be tied to mandatory mitigation assistance or otherwise face full actuarial rates.
 - Explore providing low cost mitigation loans under the umbrella of existing mitigation programs in order to spur continued investment in risk reduction efforts. The property owner would repay the loan upon sale of the property.

- Review the necessity of the policy surcharge imposed by the HFIAA 2014 legislation.
- After a Presidentially Declared Major Disaster for Individual Assistance, FEMA purchases a Group Flood Insurance Policy (GFIP) for any individual receiving federal funds and residing in a special flood hazard area who did not have insurance before the incident triggering the disaster. This policy costs \$600 and provides up to the maximum amount allowed for IA (currently approximately \$33,000) for 36 months, after which the insured is required to purchase a regular NFIP policy. The state is responsible for paying \$150 of the \$600 cost. This program has not been updated in over 20 years and provides inadequate and insufficient coverage. Now that a private market for flood insurance exists, states should be able to receive bids from the private market to determine whether better coverage for the same cost, or a lower price can be obtained for the same or better coverage. In addition to provide a better service for citizens, this will assist in growing and diversifying the private market.
- NFIP policies are capped at \$250,000 for the structure and \$100,000 for contents. These limits have been in place for a number of years and do not reflect the current market value in parts of the country. Congress should double the amount of coverage available in order to allow the NFIP to offer a more appropriate policy.
- In order to help pay off its debt, the NFIP now charges a \$250 for covering a second home. This penalty has nothing to do with the actual risk that home has of flooding and is actuarially unsound. It results in less coverage and shifts the burden to the homeowner and the community and should be reexamined. This fee should be reviewed and alternative options should be explored to insure these at-risk properties.
- Consider other ways to reduce premium costs, including higher deductibles and/ or mortgage-balance coverage that could provide options to homeowners.

Risk Reduction and Mapping

- FEMA, and other federal partners, must prioritize flood mapping, risk reduction, and risk communication.
 - Flood insurance mapping is woefully underfunded, untimely, and inaccurate. The funding, methodology, terminology, and technology for flood mapping must be reconsidered and revitalized in order to ensure success. FEMA must incorporate best available data and look at future conditions to ensure maps truly inform sustainable infrastructure and development.
 - Over the past few years, the nation has experienced a significant number of “1,000 year” floods, or floods with 1-in-1,000 chance of happening in any given year. This is evidence that we are not truly evaluating our risk through the flood mapping program, and that we must do a better job of understanding the frequency and severity of the events that will cause this flood. Appropriate investments must be made in the National Weather Service, the US Geological Survey, FEMA, and other responsible agencies to ensure that we are better to understand and communicate risk to citizens.
 - Create new flood zones to better reflect risk (such as those for residual risk areas), and prioritize high quality topography and future data to accurately depict flood hazard areas.
 - Incentivize State and local officials to collaborate across government agencies to invest in mapping technology that benefits a variety of disciplines and leverages limited funding.
 - Require FEMA to reevaluate the FMA grant funding priorities. Many states do not have repetitive or severe repetitive loss properties but there is still an interest from

homeowners who participate in the NFIP to conduct mitigation activities. Allow for acquisition/elevation of any structure so long as they participate in the NFIP regardless of their status.

- Require FEMA to develop and execute a comprehensive repetitive loss strategy including a requirement to go to full actuarial rates unless mitigation occurs after a certain number of claims.

Private Sector Involvement in NFIP

- Encourage participation of the private market without limiting the success of the NFIP
 - Ensure parity between private sector flood insurance and the NFIP to protect homeowners and continue critical investments in various priorities. Require an equivalency fee (equal to the current federal policy fee) on any private flood insurance policies to help pay for critical data for flood maps and activities related to floodplain management.
 - FEMA's regulatory relationship with Write-Your-Own insurance companies participating in the NFIP is governed by a number of specific rules and contractual obligations. These rules are often out of date and do not reflect the flexibility inherent in the realities of the private market and may hinder or discourage participation in the program by critical private sector partners. These requirements must be reviewed regularly to achieve maximum results.
 - FEMA currently pays Write-Your-Own insurance companies a specific percentage of the premiums collected in order to administer the program. This figure must be routinely evaluated in order to ensure that it is appropriate and is not discouraging private insurers who are bearing their own risk from entering the market.
 - Ensure that consumers know limits, exclusions, and other differences between private flood insurance policies and NFIP policies. Consumer-centric focus should be paramount as major changes to the program will be followed by a transition period where confusion could create challenges for many homeowners.
 - In order to allow the private insurance market to accurately price flood policies, they must have access to previous claims information. Americans have spent tens of billions of dollars subsidizing this program and deserve a fiscally-solvent road ahead.
 - Ensure federal lenders and GSEs have flexibility to make their own risk management determinations, and are not forced to accept any policy approved by state insurance regulations

Moved: OH

Second: PA

DISPOSITION: PASSED UNANIMOUSLY



Authenticated: _____

NEMA Secretary