



Flood Insurance

The National Flood Insurance Program (NFIP) is currently financially unsustainable, and requires significant reforms in order to continue providing flood protection to homeowners and businesses alike.

NAMIC supported The *Biggert-Waters Flood Insurance Reform Act of 2012* a comprehensive flood reform package that became law in September 2012 and extended the NFIP for five years and made significant changes to reduce subsidies, phase in risk based rates and update floodplain maps.

NAMIC opposed The *Homeowner Flood Insurance Affordability Act of 2014*, efforts that delayed and repealed reforms made in the Biggert-Waters Act last Congress.

Background

Congress created the NFIP in 1968 to address the increasing costs of taxpayer-funded disaster relief for flood victims and the increasing amount of damage caused by floods. With private insurers unable to underwrite the risk of massive floods, it became clear that a federal program's creation was essential. The program was designed so that the premium dollars taken in every year would be used to pay out any flood losses incurred by policyholders. While the program was designed so that the premium dollars collected are used to pay flood losses incurred by policyholders, the flood losses have been so great in recent years that the program is currently in debt because the NFIP does not account for catastrophic loss years. In the aftermath of Hurricane Katrina and other storms in 2005, the NFIP incurred over \$20 billion in debt to the Treasury. As it currently is constituted, the program will never be able to repay the debt. If Congress does not reform and reauthorize the program, its long-term solvency is at risk.

In response The *Biggert-Waters Flood Insurance Reform Act of 2012* was signed into law. This bill extended the NFIP for five years and made significant changes to reduce subsidies, phase in appropriate risk based rates and update floodplain maps. The National Flood Insurance Program offers insurance to homeowners, renters and business owners in some 20,000 communities that meet the program's standards for flood plain management. There are approximately 5.6 million flood insurance policies currently in place. At the end of fiscal 2011, the NFIP was \$17.5 billion in the red. Flood claims from Super Storm Sandy have reached as high as \$12 billion putting further pressure on the program. In early January 2013, Congress had to pass legislation providing additional borrowing authority for the NFIP to pay out claims. The measure increased the program's borrowing authority from \$20.7 billion to \$30.4 billion and until the program is able to get back on sound footing, another extension of borrowing authority might need to be passed.



Efforts to Roll Back Flood Reform

In 2014, efforts to delay the reforms codified in the *Biggert-Waters Flood Insurance Reform Act of 2012* gained steam, particularly with members of Congress in coastal areas. The affordability of flood insurance had become a major issue for lawmakers whose constituents faced actuarially risk based rate increases in the near future.

Members of Congress were getting inundated by phone calls from constituents worried about rate increases and it led them to band together to create a coalition to delay or repeal the rate increases set to take place. Much of the attention came from media reports about purported new rates, which led to confusion and misinformation being spread to the public. FEMA had also done a poor job of disseminating information to the public in terms of implementation of new rates under Biggert-Waters.

Homeowner Flood Insurance Affordability Act of 2014

Efforts to delay and repeal the reforms of Biggert-Waters came to fruition on March 21, 2014, when the *Homeowner Flood Insurance Affordability Act of 2014* was signed into law. The new law amended many of the provisions meant to bring financial stability to the NFIP, primarily implementation of actuarial rates for some 1.1 million policies that were previously paying subsidized rates for the risk they face. Key among those changes was a provision to allow new home purchasers to assume the existing rates of the previous homeowner. Under Biggert-Waters, all new home purchases would have had to pay full actuarial risk based rates. Another key provision was to restore grandfathered rates for policies prior to the passage of Biggert-Waters. Under Biggert-Waters all grandfathered properties would have moved to actuarial risk based rates within 5 years.

In order to pay for the changes made under the Homeowner Flood Insurance Affordability Act of 2014, a \$25 premium surcharge is made on all NFIP policies, with a \$250 charge to be made on all policies covering a non-residential property or property that is not the primary residence of an individual. Other notable changes to the law is a section that would allow policyholders to make monthly payments on their premiums, take an optional higher deductible to lower premiums, and designate a flood insurance advocate.

NAMIC called on lawmakers to take a more balanced approach to address cases where the reforms have unintentionally created hardship for homeowners while still allowing the NFIP to move to a fiscally viable path. NAMIC remains opposed to the continuation of subsidization of policies that mask the true risk associated with flooding and will only continue the program on a fiscally irresponsible path. NAMIC suggested the following to members of Congress to address affordability concerns when the *Homeowner Flood Insurance Affordability Act of 2014* was being debated : http://www.namic.org/pdf/federal/14IB_nfip_targetedsolutions.pdf

Federal and Political Affairs Department

Jimi Grande
Senior Vice President –
Federal & Political Affairs
jgrande@namic.org

Irica Solomon
Vice President –
Federal & Political Affairs
isolomon@namic.org

Jon Bergner
Federal Affairs Director
jbergner@namic.org

John Hair
Federal Affairs Director
jhair@namic.org

Caitlin Lucchino
Federal Affairs Director
clucchino@namic.org

Matt Brady
Director – Federal Public Affairs
mbrady@namic.org

Kristin Eichhorn
Congressional Contact
Program Director
keichhorn@namic.org

122 C Street, N.W.
Suite 540
Washington, D.C.
(202) 628-1558

www.namic.org

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