

November 29, 2012

Dear Member:

In the wake of destruction caused by Hurricane Sandy, the Obama Administration will soon be asking Congress to raise the National Flood Insurance Program's (NFIP) borrowing authority by at least \$4 billion—from \$20.775 billion to \$25 billion—adding to the Program's existing \$18 billion debt. There are reports that NFIP may need up to \$30 billion in borrowing authority to pay claims.

As a coalition of leading taxpayer advocates, environmental groups, insurers and others, SmarterSafer urges Congress and the Administration to take additional measures to ensure that the country is better prepared to handle disasters and to ensure programs like NFIP cease to encourage people to live in harm's way. At a time when taxpayers will be asked to further subsidize flood insurance, Congress and the Federal Emergency Management Agency (FEMA) should reform the program to better protect people who live in flood zones, the environment, and taxpayers.

SmarterSafer supports timely implementation of the flood reforms signed into law this year. Some of these reforms can put the program on sounder financial footing, including charging risk based rates for many properties. For too long, NFIP has provided deep subsidies for flood insurance regardless of the policyholder's need. These subsidies are a tremendous drain on U.S. taxpayers and they mask true risk. Without risk based rates, people do not understand the real risks of where they live or build, and the federal government subsidizes development in high risk and environmentally sensitive areas. FEMA must quickly move to implement this portion of reforms to stabilize the program.

FEMA should also quickly move to implement authority given to it to lay off risk to the private sector. FEMA should carefully consider accessing private sector risk transfer, including reinsurance and catastrophe bonds, which will allow NFIP to lay off risk to the private sector instead of relying exclusively on American taxpayers. Already, U.S. taxpayers have bailed out NFIP to the tune of \$18 billion. To protect the program and taxpayers, NFIP should expeditiously implement these private sector risk management measures, just like private insurance companies. In addition to financial protection, accessing the global natural catastrophe risk private market will provide valuable risk assessment, hazard analysis, and mitigation efficacy views and analysis. The move towards actuarial rates in the program will make accessing the private market more feasible for FEMA.

Though Congress just passed a reform bill, we believe Hurricane Sandy shows that the program needs further changes if it is to continue to provide coverage to Americans in harm's way. We urge Congress to include a requirement that, over time, FEMA charge risk based rates for all flood insurance policies. It

is evident that NFIP can no longer afford to provide deeply subsidized insurance coverage regardless of need. Risk based rates may need to be phased-in over time, and Congress may want to consider a longer glide path or other measures to protect those who are low-income and who truly cannot afford risk based insurance.

Congress should also consider a residual risk purchase requirement—requiring homeowners in areas that are supposed to be protected by flood control measures such as levees and dams to purchase flood insurance as a condition of receiving a federally insured mortgage. Currently, too many Americans incorrectly presume that flood control structures will not fail, when in actuality, their presence far from eliminates an area’s vulnerability to flooding. In fact, 25 percent of NFIP claims currently come from outside of required purchase areas. To ensure more people have needed insurance, Congress should consider adopting a residual risk provision.

In the aftermath of Sandy, a handful of parties have renewed their proposals for a federal natural catastrophe fund. We believe that returning to these consistently rejected proposals would be exactly the wrong lesson from Sandy. Schemes to create a national fund, reinsurance program, or guaranty mechanism would not only saddle taxpayers nationwide with billions of dollars in extra costs, but would further incentivize harmful development, putting more Americans at risk.

Instead of encouraging harmful development, the federal government should encourage areas impacted to build back stronger and safer, investing in resilient infrastructure, cost-effective mitigation, and other sustainable strategies. Too many properties have flooded time and time again, with NFIP picking up the tab—sometimes for many times what the property is worth. Congress and FEMA should work to strengthen mitigation programs to enhance the focus on severe repetitive loss structures and should improve FEMA’s Increased Cost of Compliance (ICC) Coverage Program to better facilitate voluntary relocation and buyout mitigation projects. These efforts will ensure the program can be used to help property owners who want to mitigate risk. Sound mitigation policies will save lives and property; subsidizing moral hazard and high risk development, as these proposals would, put both in greater jeopardy.

We believe that if some of these reforms are made, Americans will be better prepared to handle natural disasters, taxpayers will be protected from the rising cost of programs like the NFIP, and the environment will be further protected. We look forward to working with you to ensure Americans are better prepared for nature’s wrath.

Sincerely,
SmarterSafer.org

MEMBERS

Environmental Organizations

American Rivers
Ceres
Clean Air-Cool Planet
ConservAmerica
Defenders of Wildlife
Environmental Defense Fund
National Wildlife Federation

Consumer and Taxpayer Advocates

American Consumer Institute
National Taxpayers Union
R Street
Taxpayers for Common Sense

Insurer Interests

Allianz of America
Association of Bermuda Insurers and Reinsurers
The Chubb Corporation
Liberty Mutual Group
National Flood Determination Association
Reinsurance Association of America
SwissRe

Housing

National Housing Conference
National Leased Housing Association
National Low Income Housing Coalition

ALLIED ORGANIZATIONS

Friends of the Earth
Institute for Liberty
National Fire Protection Association
Zurich