



The American Enterprise Institute for Public Policy Research



C O U N C I L F O R



May 9, 2017

**Taxpayer Advocates to Members of Congress: Reform NFIP to Support Private Flood Insurance**

Dear Members of Congress,

On behalf of the undersigned free-market organizations and taxpayer advocates, we write to encourage you strongly to support efforts to promote the availability of private flood insurance as an alternative to the National Flood Insurance Program. As you well know, our nation’s flood insurance program places an increasingly large burden on the taxpayer, subsidizing risky development while racking up more than \$24.6 billion in debt to the U.S. Treasury. With NFIP up for reauthorization this year, we encourage you to take this opportunity to improve outcomes for both policyholders and taxpayers by allowing for private market competition.

When Congress created NFIP in 1968, they indicated it was in part to address a perceived lack of affordable flood insurance. However, improved modeling and mapping technologies have led private insurers to get in the game, providing a valuable alternative for those at risk of flood damage. As a result, private insurers in many areas now offer policies that can serve as an alternative to putting taxpayer dollars on the line.

However, restrictions in federal lending regulations and existing NFIP still serve to discourage private market protection, hindering the development of this nascent industry. For example, individuals who switch to private market plans are not considered to have continuous coverage, and thus would face substantially higher rates should they later decide to re-enroll in the NFIP. Moreover, the law is unclear whether policies written by nonadmitted carriers count as qualifying coverage under mortgage lending rules. In addition, the Federal Emergency Management Agency has extensive data on claims experience that it does not make public – data that would be vital to insurers seeking to enter the business.

Despite critics’ claims, allowing private companies to compete with the NFIP will not destroy the program. The NFIP already has a problem with adverse selection, and disproportionately insures the riskiest properties, those facing at least a 1-in-100-year risk of loss. Taking some of those policies out to private insurers would reduce dangerous taxpayer exposure. Any and every property removed from NFIP for a well-designed private policy is a win for policyholders and taxpayers.

This scenario has, in fact, been born out in Florida, where private companies have begun to enter the market and are writing in highly hazard-prone areas. In fact, when Florida’s Citizens Property Insurance Corp.—which is very similar in structure to the NFIP—moved to allow takeouts by private companies, the program’s policy load dropped 66 percent and it moved to much more solid fiscal footing. Taxpayers in every state deserve the same reduction in exposure that Florida taxpayers were able to achieve by allowing private market competition.

U.S. flood exposure continues to rise and, with it, the cost of recovery from flood events. While this has led some in Congress to consider expanding NFIP coverage options, this would only serve to exacerbate the program’s problems when the private market can and should handle additional coverage. Forcing policyholders to insure through the federal government only increases the risk and response time for those living in flood-prone areas, all while keeping taxpayers on the hook. The time has come to allow private competition in the market, for the sake of policyholders and taxpayers.

In the last Congress, the House of Representatives unanimously passed the Flood Insurance Market Parity and Modernization Act (H.R. 2901) 419-0, which would address some of the key issues surrounding private flood insurance. That measure has been reintroduced this year in both the House and Senate. We encourage you to support this effort, as well as to include this language in any reauthorization of NFIP.

Sincerely,

Eli Lehrer  
R Street Institute

Steve Ellis  
Taxpayers for Common Sense

Steve Pociask  
American Consumer Institute

Justin Sykes  
Americans for Tax Reform

Jonathan Bydlak  
Coalition to Reduce Spending

Iain Murray  
Competitive Enterprise Institute

Tom Schatz  
Council for Citizens Against Government Waste

Wayne Brough  
FreedomWorks

Pete Sepp  
National Taxpayers Union

David Williams  
Taxpayers Protection Alliance