

National Flood Insurance Program Reform Priorities January 2016

The National Flood Insurance Program (NFIP) is up for reauthorization in 2017, and the SmarterSafer coalition believes the program should be reauthorized and reformed to ensure it is sustainable, to better protect taxpayers who have backstopped the program, and to ensure there are sufficient incentives to resiliency. The NFIP provides critical and much needed insurance coverage for those at risk of flooding; however, the increasing scale of flood events and the resulting damages have made clear that the current NFIP program is unsustainable. The program was not designed to accommodate major catastrophic events; NFIP fails to adequately deter new development in areas vulnerable to flooding which leads to further environmental degradation; and it does not do enough to encourage states, communities, and individuals to reduce their vulnerability to current and future flood risk.

NFIP must be reformed to better protect people in harm's way, better protect taxpayers and better protect the environment.

Vision: It is important that Congress lay out an updated vision for NFIP that includes managing the nation's escalating flood risks, reducing those risks over the long-term, promoting environmental stewardship, and easing the financial burden for flood risk now borne by the federal government. As part of this vision, we believe Congress should acknowledge that NFIP is likely to be on a path towards becoming a market of last resort for those who cannot get flood insurance in the private sector, while ensuring the program continues to play a vital role in floodplain management standards, mitigation and mapping to increase community resilience to flooding. To these ends, any reauthorization of NFIP should include the following:

- Accurate, up-to-date, and accessible mapping that takes into account the growing frequency and severity of floods as well as more detailed and granular risk analysis models to determine risks and rates.
- A closer linkage of NFIP and hazard mitigation programs under the Stafford Act so that mitigation funds are used for those properties in NFIP most at risk to help reduce risk and lower NFIP premiums and losses.
- A move toward risk-based rates for all properties over time, with means-tested assistance for those who cannot afford actuarial rates, with an emphasis put on risk reduction instead of premium subsidies.
- Incentives to identify, protect, and restore natural resources that reduce risk and for communities to adopt floodplain management standards that go beyond NFIP's minimum requirements to reduce risk.

A Growing Role for Private Insurers--As rates increase and the private market starts to write more flood policies, lower-risk properties will likely be the first to migrate to the private sector. Congress should acknowledge this and establish parameters for this transition to ensure that NFIP remains a viable option for those who cannot get flood insurance in the private market and to maintain the program's important floodplain management, mapping, and mitigation roles.

The move to a system where both the private sector and NFIP write flood insurance will provide consumer choice and ensure competition and innovation, while maximizing the number of properties covered by flood insurance. Under this public-private system, NFIP could eventually transition, over a period of a decade or more, to serve as a residual insurance provider for those properties the private market is unable to insure cost-effectively. FEMA would continue to have a clear mandate to provide maps for mandatory purchase, establish minimum floodplain standards, and focus efforts on mitigation and resiliency assistance to reduce risk at the household and community levels in cost-effective ways. As more properties move to the private sector, NFIP would be able to focus its mitigation efforts on the most at-risk properties. It is critical that mitigation and resiliency be elevated as part of NFIP's mission, as well as through disaster assistance reforms.

This system would maintain (and even expand) mandatory purchase requirements for those at risk, but would not force consumers to purchase flood insurance from any specific insurer (including NFIP) and would not force any insurer to provide flood coverage.

Private companies are poised to write flood risk, and some already have started to write flood risk in the United States. To ensure there is a level playing field, Congress must clarify that private flood insurance counts for purposes of mandatory purchase—no property owner should be forced to purchase from NFIP or any particular insurer. Consumers should have choice. To better protect taxpayers, FEMA also should continue to examine transferring risk to the private sector, including through reinsurance. FEMA should also be required to study and report on the feasibility of carrying out pilot programs on mechanisms for public-private partnerships, such as reducing the risk in NFIP by allowing private companies to bid on and take out NFIP policies.

Risk Based Rates-- SmarterSafer continues to believe that rates for flood insurance should accurately reflect risk. Rates for all subsidized and grandfathered properties should either begin or continue to increase in 2017. Rate increases should be capped on an annual basis, like they were in 2012, to some percentage of current premiums to make the increases predictable. In addition, it is critical that property owners are informed what their risk-based rate would be so they understand their risk. FEMA should be required to provide clear notice to all properties in the program what the risk-based rate is, the degree of subsidy the property currently receives, and how many years it will take for the rate to climb to risk-based.

Affordability-- SmarterSafer believes that FEMA should make assistance available for property owners of modest means. This could be in the form of continued, but means-tested and time-limited, subsidies; however, the subsidy should be clear and outside of the rate structure. However, premium subsidies should not be the only option. Where a cost-benefit analysis shows that resiliency measures would reduce risk and lower rates, the agency should offer to policyholders with the riskiest properties the ability to access a number of years of subsidies as a lump sum (coupled with other mitigation dollars and low-interest FHA loans if possible) to mitigate risk to a property. This would ensure that policyholders can use subsidies to reduce risk instead of reducing premiums. FEMA would have to establish policies to

ensure that approved mitigation measures will result in premiums remaining stable for some set period of time and policyholders would be required to maintain NFIP coverage for as long as they live in the home, and would have to pay back the lump sum if mitigation is not completed.

Accurate Mapping and Risk Analysis--To ensure proper risk-based rates in NFIP, maps must be up-to-date and accurate, and property elevations (or proxies) must be known. Private companies are doing risk assessment that assesses individual property risk--something that is not done through FEMA maps. FEMA must be required to update its maps, include the best science on known conditions and risks, but also to conduct (or purchase) risk assessments. While the government must continue to map for purposes of the Special Flood Hazard Area designation (mandatory purchase), and FEMA does so by contracting with private companies, we believe FEMA should look at whether they can access elevation or more granular risk analysis. SmarterSafer believes FEMA should be required to within a year gather information from as many private companies as possible on their ability to assess risk, gather elevation or proxies, and map, and report back to Congress on whether it is cost-effective to contract with a company to provide additional elevation/risk analysis for some areas. If it is cost-effective, FEMA should be authorized at least on a pilot basis to get bids to provide this risk analysis/elevation. The agency should be authorized to tag on a minimal fee per property in NFIP to pay for these new tools after they conduct an analysis.

FEMA currently charges a fee on each policy to pay for mapping and mitigation. To allow these important activities to continue even as properties move to the private sector, all policies whether private or public should include that fee--- it should be disclosed in exactly the same language on all flood policies whether public or private and should be clearly marked as a fee on top of the premium.

FEMA's Technical Mapping Advisory Council (TMAC) should be required to continue its work and make a more detailed set of recommendations about incorporating land use information, including the type of land cover and identification of important natural resources and habitats that contribute to flood risk reduction and community resiliency. This would help communities assess their flood risks and develop strategies for reducing and managing those risks. TMAC should also be required to look at riverine erosion and how to best incorporate these zones into flood risk products. FEMA should be required to create advisory maps that show future flood risks and residual flood risks. As part of TMAC's role of assisting FEMA in identifying how to best incorporate future conditions into FEMA NFIP maps and flood risk assessment tools, TMAC should consider and make recommendations on establishing future zones reflecting likely changing conditions of coastal barrier resources, and where FEMA and Congress could or should consider restricting or removing availability of federal flood insurance, due to the likely risks and impacts on resources reaching unacceptable levels for providing public insurance. Based on this kind of information, FEMA should then be required to create advisory maps that show future flood risks and residual flood risks.

TMAC and FEMA should consider formulating and establishing a meaningful outreach effort to states, tribes, communities and the private sector to identify the range and types of information that are needed and desired for planning and for managing current and future flood risks. The need for updated map and elevation data is not unique to FEMA, but is also critically needed by other Federal agencies and State governments. FEMA should pursue joint mapping initiatives with Federal agencies that share needs for updated geospatial and elevation data. This ensures that FEMA is not left paying the bill for

acquiring data that other agencies also depend on, and promotes unified utilization of best science and mapping techniques among Federal agencies.

Mandatory Purchase--SmarterSafer believes properties that would be designated as located within a flood plain but for a flood protection system like dams and levees should be subject to the mandatory purchase requirement. Rates for these properties should clearly reflect the decreased risk the properties face as a result of the dam or levee. As we have seen time and time again, these residual risk areas flood. Since homeowners' insurance policies do not include flood, homeowners are often surprised to learn they have no insurance coverage and will have to take out loans to cover any damages. Requiring purchase of flood coverage would protect these property owners at a reasonable cost.

Resiliency-- FEMA's focus should be on mitigation and protecting those in harm's way. SmarterSafer has recommended a sliding scale for disaster assistance as a way to incentivize communities to become more resilient. This should be coupled with changes to NFIP to build resiliency.

FEMA should look at mechanisms that encourage high risk policy holders to consider relocating, or that provide incentives for taking mitigation actions that will protect their property from flood damage over the long term. It is also essential that means be developed to allow such relocations to take place on a much more timely basis. Currently, many distressed homeowners can be held up for years waiting for the necessary assistance. Congress should consider allowing some of the fee that is used to fund NFIP reserves to be used for mitigation of the most at-risk properties, particularly those of low-income policyholders. In addition, ICC funding (which is paid for within the program) should be increased from the current \$30,000 cap when used for relocation or demolition, and should be raised somewhat for elevation. This would allow individuals in the program to mitigate their risk and reduce costs to taxpayers. To ensure mitigation activities can occur, FEMA should be required to further change their cost-benefit analysis on mitigation to take into account a number of additional benefits including ecosystem restoration and environmental benefits.

Communities should be encouraged to undertake resiliency measures. Congress should encourage enrollment and participation in the voluntary Community Rating System and should strengthen the program's requirements to focus on non-structural mitigation and simplify administrative burdens. In addition, SmarterSafer has recommended a series of changes in disaster assistance to only provide maximum federal disaster assistance if states and communities are planning for and mitigating for known risks.

SmarterSafer is a broad-based, diverse coalition of taxpayer advocates, environmental groups, insurance industry representatives, housing groups and mitigation interests that supports environmentally responsible, fiscally sound approaches to natural catastrophe policy that promotes public safety and encourages resiliency. A list of members and further information can be found at SmarterSafer.org.