



1050 17th Street, N.W.
Suite 1150
Washington, DC 20036
202.525.5717

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July 13, 2017

Chairman Mike Crapo
Ranking Member Sherrod Brown
U.S. Senate Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

RE: Reform and Reauthorization of the National Flood Insurance Program

Chairman Crapo, Ranking Member Brown, and members of the committee,

I write to you on behalf of the R Street Institute, a nonprofit, nonpartisan, public policy research organization whose mission is to engage in policy research and outreach to promote free markets and limited, effective government. Since our founding five years ago, catastrophe policy and, in particular, reforms to the unsustainable National Flood Insurance Program have been a core part of our issue portfolio.

As the committee takes up legislation to reauthorize the NFIP ahead of its Sept. 30 expiration, we strongly encourage members to include language promoting the availability of private flood insurance alternatives, as proposed in S. 563, the Flood Insurance Market Parity and Modernization Act, sponsored by Sen. Jon Tester and Insurance Subcommittee Chairman Dean Heller. By beginning the process of shrinking the NFIP, this legislation would ease the burden on taxpayers of a program that is \$24.6 billion in debt to the U.S. Treasury and that, on an actuarial basis, is projected to lose an additional \$1.1 billion every year.

For many years, private insurance companies eschewed writing coverage for flood risks, citing concerns about excessive risk concentrations, lack of good mapping and underwriting data and, of course, the difficulty of competing with the taxpayer-subsidized coverage on offer the NFIP. But thanks to reforms passed by Congress in 2012 and updated in 2014 that move many more policies in the direction of risk-based rates, a growing market for private flood alternatives has emerged, which regulators in states like Florida and Connecticut now oversee under new statutory treatment.

Moreover, analysis issued just this week by the independent actuarial and consulting firm Milliman finds that these private alternatives could be priced competitively, even in the NFIP's highest-risk VE Zone.¹ According to Milliman, 62 percent of Florida homes, 85 percent of Louisiana homes and 88 percent of Texas homes in a VE Zone could see lower premiums in the private market. For homes in the relatively lower-risk A, AE and AH zones, between 42 and 95 percent of homes across the three states could see lower premiums, compared to the NFIP.

In order to allow current policyholders to access to these affordable alternatives, Congress needs to provide the statutory and regulatory clarity proposed in the Heller-Tester legislation. The bill would clarify that individuals who switch to private market plans are considered to have continuous coverage, should they later decide to rejoin the NFIP. The measure also would defer to the judgment of state insurance regulators to determine which policies count as qualifying coverage, including those written in the nonadmitted market, for the purposes of mortgage-lending requirements.

Some critics charge that encouraging private insurance would result in private insurers “cherry-picking” only the lowest-risk properties and leaving the NFIP as a high-risk pool. In fact, the NFIP is already an undiversified high-risk cohort, given that only about 5 percent of U.S. households currently carry flood insurance. But as the Milliman study and the experience with the depopulation of Florida's Citizens Property Insurance Corp. both show, private insurance companies are very interested in higher-risk properties, which offer the opportunity for larger returns. Moreover, shrinking an already broken and unsustainable program can only benefit taxpayers.

The Heller-Tester legislation offers significant benefits both for consumers and for taxpayers. An earlier version passed the U.S. House 419-0 last Congress and yet another version passed the House Financial Services Committee 58 to 0 last month. It absolutely should be incorporated into any legislation taken up by this committee to reauthorize the National Flood Insurance Program.

Sincerely,

R.J. Lehmann
Senior Fellow
R Street Institute

¹ Nancy Watkins, "Could private flood insurance be cheaper than the NFIP?," Milliman, July 2017. <http://www.milliman.com/uploadedFiles/insight/2017/private-flood-insurance-cheaper-nfip.pdf>