Drowning in Unintended Consequences

Free markets. Real solutions.

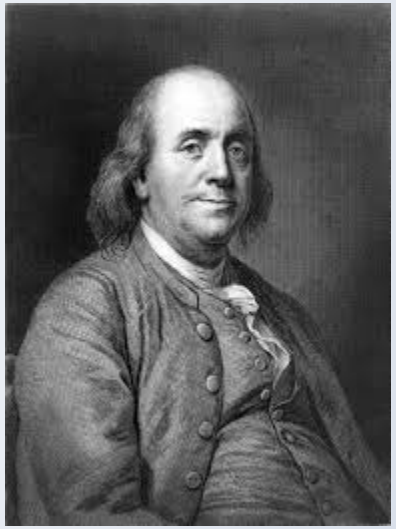
Founded in June 2012

- ❑ Nonprofit, nonpartisan, public policy research organization
- ❑ Believe free markets work better than the alternatives
- ❑ Also recognize that the legislative process calls for practical responses to current problems

R Street differs from other groups in our dedication to building broad coalitions and working with a wide array of groups who share specific policy goals. This makes us uniquely capable of building support for pragmatic, free - market proposals that can earn bipartisan consensus.

Earliest American property insurance

- The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire
- Founded in 1752 by Benjamin Franklin
- Offered “perpetual insurance”



Early firefighting

- Boston starts first paid firefighting company after the Great Fire of 1679
- Most paid firefighters were private/for -profit
- Compensation paid by insurance companies

Insurance shields

State regulated system

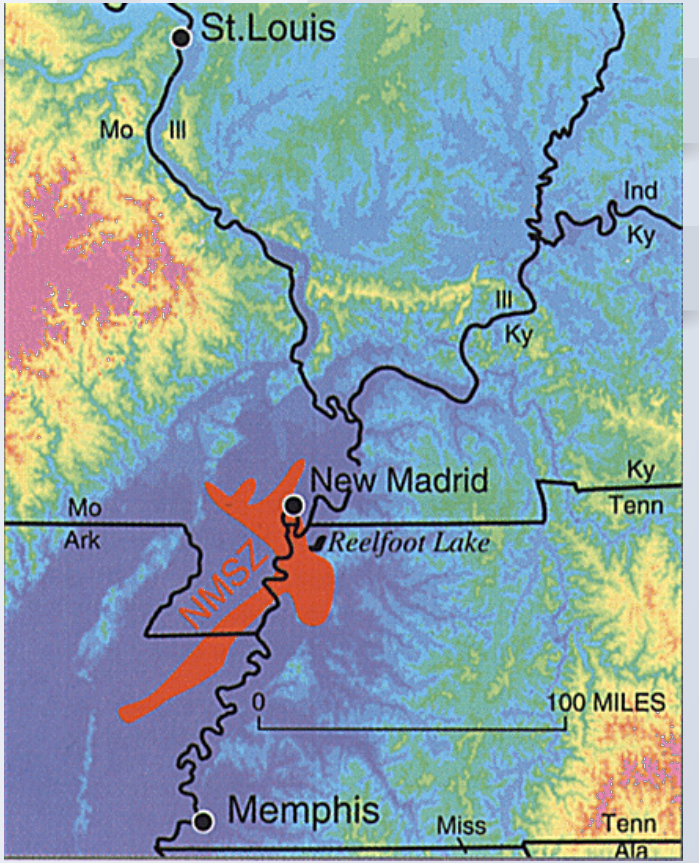
- Regulation of insurance companies dates to Colonial Era
- New Hampshire appoints first insurance commissioner in 1851
- *Paul v Virginia* (1869) rules insurance is not interstate commerce
- Most states only permit single-line insurers

America's changing risk profile in 19 th Century

- Fire was most common risk for early Americans
- Risks changed as population moved into the interior
- First windstorm insurer not formed until 1885 (Michigan Mutual Tornado, Cyclone and Windstorm Company – today known as Hastings Mutual)
- Few insurers of earthquakes or hurricanes

The Great Midwest Earthquake of 1811

- 4 separate quakes, Dec 1811 to Feb 1812.
- Between 7.2 –8.2 magnitude
- Could be felt in NYC
- Mississippi River reversed
- Would be $200B event today



Early flood insurance

- Private flood insurers emerge in the early 20th century
- Most were small, county-based mutuals
- Flooding was defined as rising water, not storm surge
- Johnstown Flood of 1899 was a "flood" Galveston Flood of 1900 was not
- Wiped out by the Great Mississippi River Flood of 1927

Why did private flood insurance fail?

- Local single -line companies, agglomerations of risk
- Adverse selection – those most at risk of flood are most likely to buy insurance
- Reinsurance was new; most mutuals had none
- There was little loss history; companies didn't understand the risk

What came next?

Fair, slightly cooler tonight. Friday fair. Fresh southwest to west winds.

Temperature, 12 M., Eagle Station: 57
Year ago (parts county)..... 54
Mean average 10 years, same date.. 54

BROOKLYN DAILY EAGLE

And Complete Long Island News

LATE NEWS
WALL STREET 1:15 PRICES ★★

89th YEAR—No. 295. ★ NEW YORK CITY, THURSDAY, OCTOBER 24, 1929. ★ REISSUE 32 PAGES THREE CENTS

WALL ST. IN PANIC AS STOCKS CRASH

Attempt Made to Kill Italy's Crown Prince

ASSASSIN CAUGHT IN BRUSSELS MOB; PRINCE UNHURT

Royal Suitor Was About to Lay Wreath on Unknown Soldiers' Tomb.

Princess, Deeply Moved, Falls Into Fiance's Arms and Kisses Him

Brussels, Oct. 24 (AP)—Crown Prince Humbert, after his return from the Unknown Soldier's Tomb where he escaped assassination, was receiving members of the Italian colony when his fiancee, Princess Marie Jose arrived. She hurriedly ran to him and fell in his arms kissing him passionately. The pale complexion of the Princess indicated how deeply moved she was by the attempt on her lover's life. The Prince said: "All's well that ends well and I have myself informed my mother that nothing happened to her son."

Brussels, Oct. 24 (AP)—A shot was fired at Crown Prince Humbert of Italy at 9:45 a.m. today as he was about to lay a wreath upon the tomb of Belgium's Unknown Soldier. The Prince arrived here yesterday to celebrate his betrothal to Princess Marie Jose

Hollywood Fire Destroys Films Worth Millions

ATTEMPT MADE ON LIFE

Crown Prince Humbert.

Consolidated Studios Are Swept by Flames Fatal to One—Master Pictures Burned Include Many New Talkie Productions.

Hollywood, Oct. 24 (AP)—One man was killed and motion picture films, the value of which probably will run into millions of dollars, were lost in an explosion and fire which destroyed the laboratory of the Consolidated Film Industries here early today.

Fifty persons working in the building at the time of the blast ran to safety after the first explosion. Five minutes later there was a second detonation which shot flames through windows and doors, the laboratory workers escaping by the narrowest of margins.

The body of Albert Lund was removed from its wreckage by firmen. He died on the way to a hospital.

Due to the fact that the master

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FEAR 52 PERISHED IN LAKE MICHIGAN; FERRY IS MISSING

Wreckage Picked Up Indicates Craft Went Down With All Aboard.

Milwaukee, Wis., Oct. 24 (AP)—Hope that the car ferry Milwaukee of the Grand Trunk fleet, with 52 aboard, had weathered the 48-hour storm on Lake Michigan faded today with a report that wreckage from a boat had been picked up 10 miles off Wind Point, which is about 4 miles nor th of Racine.

Capt. C. N. Bedell of the steamer Colonel told Grand Trunk officials here that he sighted empty lifeboats, mattresses and the upper parts of a white cabin, boating in the lake off Wind Point. The upper part of the Milwaukee was painted white.

Some of the wreckage was picked up by the Colonel, but not of it carried any markings to make identification certain, Captain Bedell said.

Freighter Donaldson Safe.

Superior, Wis., Oct. 24 (AP)—The freighter Donaldson, overdue here since Tuesday night, arrived this morning from Apostle Islands, where it had put in to await abatement of the storm which swept the Great Lakes. The Donaldson was loaded with coal.

23 Rescued on Lake Huron.

Sault Ste. Marie, Mich., Oct. 24 (AP)—Twenty-three seamen and officers of the stranded steamer Maple Court of the Canada Steamship Lines were rescued by a Coast Guard

PIECE OF PLANE LIKE DITEMAN'S IS FOUND AT SEA

Black and Orange Wreckage Indicates Daring Flier Went to Death.

St. John's, N. F., Oct. 24 (by the Canadian Press)—The report from Harbor Grace that the S.S. Kyle had picked up a message from an unidentified ship concerning the finding of airplane wreckage was stated by the Newfoundland management to be without foundation, the management has had no message from the Kyle.

Harbor Grace, N. F., Oct. 24 (AP)—A radio message from "Operator Serrick" of the S. S. Kyle today advised that he had picked up a Marconi message from the S. S. Scotia that another ship, name unknown, had discovered a piece of airplane wreckage at 2 p.m. yesterday. The wreckage was black and orange. The message did not give the ship's position.

The S.S. Kyle is presumably the Newfoundland Government ship of that name.

[The little plane in which Urban F. Diteman essayed to cross the Atlantic from Harbor Grace to London had a black fuselage and its wings were painted orange.]

No Diteman Gas in Greenland.

Copenhagen, Oct. 24 (AP)—Daniel Jensen, Governor of Greenland, today informed the Associated

High Duty Group Gave $700,000 to Coolidge Drive

Grundy Agrees Rates Went Up Due to His Activities as Propagandist. Favors More Lobbying to 'Carry Out Voters' Wish.'

Eagle Bureau, Capitol Bld'g.

By HENRY SUYDAM.

Washington, Oct. 24.—Joseph R. Grundy, Bristol, Pa., manufacturer who admittedly has been lobbying in the capital for several decades in the interest of a protective tariff, testified before the Senate Lobby Committee today that he raised $700,000 for President Coolidge's campaign in 1924 and that most of the money came from interests seeking higher tariffs.

He intimated that he was in favor of more lobbying for higher du

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FOR MORE LOBBYISTS

STOCKS CRASH IN RUSH TO SELL; BILLIONS LOST

Morgan, Mitchell Buying Stocks in Effort to Check Rush to Unload.

Wall Street was in a panic today, with no one to guide it out. Stocks crashed 10 to 50 points to outrageous levels. Wheat broke 10 cents a bushel in Chicago on distress selling. Bankers were offering some support, but admitted the situation had gotten beyond them.

Charles E. Mitchell, chairman of the National City Bank, was conferring in the office of J. P. Morgan & Co., it was understood, and other leading bankers were there.

It was also understood the Morgan partners had been talking by telephone with J. P. Morgan in London all morning.

By noonday the best information was that they had been buying stocks, but that the situation had gotten beyond them.

Panic reigned on the Stock Exchange today. Stocks broke terrifically, without any support whatever. Declines of 10 and 20 points were widespread. Selling was at a

CARNEGIE CHARGE OF PAID ATHLETES BOUSES COLLEGES

HOOVER'S TRAIN HALTED BY AUTO PLACED ON RAILS

WARDER SOUGHT TO KEEP SEA TRIP

SOMERS NAMED AS HEAD OF NEW

1933 Long Beach earthquake

- 6.4 magnitude, widespread damage across Southern California
- In response, Congress enacts legislation to provide direct assistance to citizens who suffered damage by issuing federal loans through the Reconstruction Finance Corporation
- This hadn’t happened in 1906 San Francisco earthquake

Post - War changes in insurance

- United States v. South -Eastern Underwriters Association (1944)
- McCarran -Ferguson Act (1945)
- First homeowners insurance policy (1950)
- But still, no flood insurance

Suburbanization and floods

- Servicemen's Readjustment Act of 1944 (G.I. Bill)
- American Housing Act of 1949 created Federal Housing Administration and Fannie Mae
- Federal -Aid Highway Act of 1956 created the Interstate Highway System
- In 1945, Robert Sherman invented the portable, in - window air conditioner


Greetings from
FLORIDA
TALLAHASSEE
JACKSONVILLE
ST. AUGUSTINE
MARINELAND
GAINESVILLE
OCALA
DAYTONA BEACH
DELAND
DUNNELLON
SILVER SPRINGS
WINTER PARK
ORLANDO
U.S. AIR FORCE MISSILE TEST CENTER
CAPE CANAVERAL
COCOA BEACH
MOON LAUNCH SITE
WEEKI WACHEE SPRING
CYPRESS GARDENS
HAINES CITY
WINTER HAVEN
TARPON SPRINGS
CLEARWATER
LAKELAND
LAKE WALES
BUSCH GARDENS
TAMPA
ST. PETERSBURG
BRADENTON
SARASOTA
OKEECHOBEE
VERO BEACH
FT. PIERCE
RIVIERA BEACH
PALM BEACH
LAKE WORTH
DELRAY BEACH
POMPANO BEACH
GULF OF MEXICO
PUNTA GORDA
CLEWISTON
FORT MYERS
NAPLES
SEMINOLE RESERVATION
EVERGLADES
FT. LAUDERDALE
HOLLYWOOD
MIAMI BEACH
HIALEAH
MIAMI
CORAL GABLES
SEAQUARIUM
EVERGLADES NAT. PARK
PARROT JUNGLE
MONKEY JUNGLE
KEY LARGO
ATLANTIC OCEAN
FLORIDA KEYS
KEY WEST
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Population of Florida

- 1900: 530,000
- 1940: 1.9 million (smallest state in the South)
- 1950: 2.8 million
- 1960: 5 million
- 1970: 6.8 million
- Today: 21.5 million (third -largest state in the country)

Disaster Relief Act of 1950

- (PL 81-875) provides “an orderly and continuing means of assistance by the Federal Government to States and local governments in carrying out their responsibilities to alleviate suffering and damage resulting from major disasters.”
- Precursor to FEMA.

Truman proposes national flood insurance

- In response to 1951 floods in Kansas and Missouri
- “The lack of a national system of flood disaster insurance is now a major gap in the means by which a man can make his home, his farm, or his business secure against events beyond his control.”
- Measure does not pass

President Eisenhower proposes national flood insurance

- Federal Flood Insurance Act of 1956 passes
- Up to $10,000 of flood insurance available to all Americans. Everyone would pay the same premium.
- In 1957, Congress refuses to appropriate any funds to Federal Flood Indemnity Administration
- FFIA ceases to exist

A spate of deadly hurricanes

- Hazel, 1954, Carolinas, $3.7B
- Diane, 1955, Carolinas to New England, $8.0B
- Donna, 1960, Florida, $8.7B
- Carla, 1961, Texas, $3.5B
- Betsy, 1965, Florida and Louisiana, $11.7B

Aftermath of Betsy

- Southeast Hurricane Disaster Relief Act of 1965
- Recommended ““undertake an immediate study of alternative programs which could be established to help provide financial assistance to those suffering property losses in floods and other natural disasters, including alternative methods of Federal disaster insurance….”

Task Force on Federal Flood Control Policy

- Established in 1966
- Recommends creation of what would become the National Flood Insurance Program
- Estimates subsidies for high -risk properties will be needed for approximately 25 years
- Task Force Chairman Gilbert White offers a warning

Gilbert White, 1966

“A flood insurance program is a tool that should be used expertly or not at all. Correctly applied, it could promote wise use of flood plains. Incorrectly applied, it could exacerbate the whole problem of flood losses. For the Federal Government to subsidize low premium disaster insurance or provide insurance in which premiums are not proportionate to risk would be to invite economic waste of great magnitude.”

National Flood Insurance Act of 1968

Goals of the Program:

- Provide financial protection for properties at risk of flood
- Prefund disaster losses
- Incentivize local communities to do floodplain management

Revisions of 1973

- Creation of Flood Insurance Rate Maps
- Special Flood Hazard Areas
  - Zone V, high -risk exposed to storm surge
  - Zone A, high -risk not exposed to storm surge
  - Zones B is moderate risk, Zone C is minimal risk, Zone X is moderate or minimal risk, Zone D is unknown risk

Mandatory purchase requirement

- FDIC-insured mortgages
- Fannie and Freddie
- Any federally secured or guaranteed mortgages, such as FHA or VA
- Not state-regulated mortgages or homes with no mortgage

How to join the NFIP

To qualify for the program, a community must:

- Require permits for all proposed development
- Survey potentially flood-prone areas
- Ensure that any new construction or substantial improvements to existing structures be “reasonably safe from flooding.”

Once you join

- All properties eligible for standard NFIP policies that offer up to $250,000 of building coverage and $100,000 of contents coverage for residential properties
- Up to $500,000 each of both building coverage and contents coverage for business properties
- NFIP cannot decline or nonrenew properties in participating communities; “take all comers”

Subsidized properties

- Structures located in Zone A or Zone V that were built before the community joined the NFIP.
- To encourage participation from flood -prone communities, such policies assessed “preferred risk” rates that are only 45 percent of their true actuarial liability
- About 1 -in -5 policies are subsidized

Grandfathered policies

- Properties built after a community joined the program can retain whatever insurance rates were associated with the designated zone at the time the structure was built.
- E.g., when an updated FIRM shows an X Zone property is now A Zone, property continues to pay X Zone rate

FEMA doesn’t know how many properties are grandfathered

2017 CBO survey of Zone V properties found:

- 69 percent were grandfathered
- 29 percent were subsidized
- 13 percent were both grandfathered and subsidized

Repetitive loss properties

- Insured structures that have been paid two or more NFIP claims of more than $1,000 within any 10 -year period. 1% of properties, but 30% of NFIP losses.
- Severe Repetitive Loss properties have four or more claims of more than $5,000 or at least two claims that cumulatively exceed the building’s value. 0.6% of properties, but 10% of NFIP losses

FEMA buyouts for SRL properties

- Hazard Mitigation Grant Program and the Flood Mitigation Assistance Program
- Between 1989 and 2019, FEMA purchased and demolished more than 43,000 flood -prone properties
- 2004 legislation would have required buyouts or mitigationfor SRL properties, but never adequately funded

Biggert - Waters Act of 2012

- Subsidized second homes, business properties or properties that have suffered several repetitive losses would see rates increase 25% every year until actuarial rates are achieved.
- Grandfathered properties/all other subsidized properties would go up 20% per year.
- Immediate increase on sale or lapse

Grimm - Waters Act of 2014

- Sale and lapse provisions were repealed
- Cap on increases for other subsidized properties was lowered to 15%.
- Existing grandfathered properties would remain the same rate
- Assessments placed on every policy to pay for changes

Private flood insurance

- Biggert -Waters clarified that private insurance satisfies mandatory purchase requirements
- In 2014, Florida became the first state to create regulatory regime for private flood
- Can be standalone or a rider or endorsement on homeowners

Why private flood has returned

- Better mapping and modeling
- Much deeper global reinsurance markets
- Greater regulatory certainty
- NFIP rates are rising, easier to compete

Problems of the NFIP

- Borrowed nearly $40 billion from the U.S. Treasury over the past decade and a half
- Disaster spending continues to grow, with more than 90 percent of all federally declared disasters involving floods
- Availability of cheap flood insurance has played a role encouraging people to build in flood -prone regions

Coastal construction

- In the 40 years after the program's creation, from 1970 to 2010, the population of U.S. coastal counties grew by 50.9 million, a 45 percent increase
- In 2010, coastal counties represented 52 percent of the nation's total population

More development in floodplains than outside them

- 15 million Americans were living in 100 -year floodplains as of 2016, a 14 percent increase from population estimates of those same U.S. Census tracts in 2000.
- In contrast, population growth in all other zones over that same period was just 13 percent.

Sea-level rise is making the problem worse

- 8 coastal states had faster development since 2010 in areas projected to be 10 -year floodplains by 2050 than in all other zones combined.
- In DE, MI, NJ and RI, development was twice as fast in 10-year floodplain. In CT, three times as fast.

100- year storms to annual storms

- 2019 Princeton University study finds, by end of the century, what historically were 100 -year floods are expected every 1 to 30 years in the Southeast and Gulf Coast regions and every single year in New England and the mid -Atlantic

Building in zones of annual flooding

- $137.13 billion of existing development is expected to face annual coastal flooding by 2050, including $9.34 billion of development built since 2010.
- In Pinellas, 85 homes built since 2010 will face annual flooding by 2050. 586 homes built since 2010 will be 2100.

Rates still too low

- Over the dozen years from 2002 to 2013, the nonpartisan Government Accountability Office estimates the program collected $11 billion to $17 billion less in premiums than was actuarially prudent
- CBO estimates the NFIP's average expected annual costs exceed its expected revenues by $1.4 billion

Unsustainable debt

- The NFIP has borrowed $40 billion from taxpayers since 2005
- In 2017, $16 billion of that was erased by Congress
- It still owes $20.5 billion
- It will never repay that sum

Updating maps

- Maps need to be redrawn periodically to reflect changes in flood risk
- Drainage system capacity changes
- Ground cover changes
- Underlying risk changes, more and worse rain events, sea level rise

FEMA is way way behind

- Required to review all its maps every five years
- As of year -end 2016, only 42% of the program's maps were up -to -date
- Out of the 166 counties that produce annual average flood claims of more than $2 million, full half — representing a combined 55% of the program's risk — use maps that are more than 5 years old

More claims outside the SFHA

- Growing proportion of claims for new construction — properties less than 10 years old at the time of the loss — are being filed in the ostensibly lower -risk B, C, D and X zones.
- While those zones accounted for 31% of claims by new construction in the 1990s, by the 2010s, it was more than 40%.

Ending NFIP for new construction

- If such a policy were in place for structures built in 1980 or later, the NFIP's total $126 billion of inflation-adjusted claims between 1990 and 2019 would have been 13% lower.
- Would serve to discourage building in flood-prone regions and do so without laying any new burden on any existing policyholder.

Ending grandfathering for new construction

- Going forward, any new property they build will be required immediately to pay higher rates any time a map change shows it faces higher risk.
- Removing incentives to new construction would help preserve wetlands and barrier islands that serve as storm buffers

THANKS!

Any questions?

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