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May 25, 2016

The Honorable Richard Shelby
Chairman
Senate Committee on Banking,
Housing and Urban Affairs
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Senate Committee on Banking,
Housing and Urban Affairs
Washington, D.C. 20510

Via Email

Dear Senators Shelby and Brown:

On behalf of the Casualty Practice Council of the American Academy of Actuaries,¹ and the council's Extreme Events Committee, we wish to bring to your attention our views on private flood insurance coverage generally, and specifically on HR 2901, The Flood Insurance Market Parity and Modernization Act, which was approved unanimously by the House of Representatives last month and has been referred to the Senate Banking, Housing and Urban Affairs Committee. We support the purpose of the legislation—to make it easier for private insurers to provide coverage to consumers who are seeking alternatives to the National Flood Insurance Program (NFIP).

The vast majority of flood insurance coverage in the United States is provided through the NFIP. However, there is a small but growing private market. Privately issued insurance policies can provide higher coverage limits than what is available through the NFIP, and private coverage can also enable consumers to purchase fully integrated policies for multiple risks.

As the NFIP program is currently constructed, we would not expect private flood insurance policies to compete directly with the NFIP policies in most cases. The program does not build up reserves in a traditional sense, and it has a line of credit to the Treasury rather than needing to purchase reinsurance. Thus, NFIP policies generally have a price advantage compared to conventional insurance. However, the NFIP offers coverage at affordable rates to certain consumers who could not afford coverage in the private market (even if it were available). Changes to the NFIP—such as HR 2901's provision that private coverage from recognized

¹ The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

insurers meets federal requirements for flood insurance—would encourage more private participation in the flood insurance marketplace. Keep in mind, though, that private and public programs have different drivers and economic structures.

Privately issued flood insurance should appropriately expand available coverage, both to serve parts of the residential market that are not being satisfied by the NFIP (federal coverage has been capped at \$250,000 for many years) and to provide multiple risk and other commercial coverage that is not available through the NFIP. The private coverage would be in addition to the NFIP, not in place of it.

The stated purpose of HR 2901—to make clear to lenders and regulators that requirements for flood insurance can be satisfied with coverage provided by qualified insurance companies—will help expand the private marketplace and thereby offer greater protection to consumers. This is clearly in the public interest.

The National Flood Insurance Program is up for reauthorization in 2017, and a variety of changes to the program have already been proposed. The Casualty Practice Council of the American Academy of Actuaries looks forward to working with members of Congress as they weigh the various options for providing flood insurance protection to the American public. If you have any questions regarding our comments on HR 2901 or on other issues pertaining to flood insurance in the private market or the NFIP, please contact Marc Rosenberg, senior casualty policy analyst, at 202-223-8196 or Rosenberg@actuary.org.

Sincerely,

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CC: Members, Senate Committee on Banking, Housing and Urban Affairs