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August 23, 2017

The Honorable Michael Crapo Chairperson Committee on Banking, Housing, and Urban Affairs United States Senate Washington, DC 20510	The Honorable Sherrod Brown Ranking Member Committee on Banking, Housing, and Urban Affairs United States Senate Washington, DC 20510

Via Email

Dear Sens. Crapo and Brown:

On behalf of the Casualty Practice Council of the American Academy of Actuaries,[1] I am writing to share our perspectives on flood insurance legislation that may soon be considered by the Senate Committee on Banking, Housing, and Urban Affairs. Our comments are based on your co-authored draft bill (committee draft) that we understand will serve as the basis for the committee's deliberations.

Statutory authority for the National Flood Insurance Program (NFIP) is due to expire at the end of September. As the committee prepares to vote on legislation to reauthorize and revise the NFIP, we urge you to consider the following:

- **Renew the Program—**Timely renewal of the NFIP's authorization is important in order to avoid disruption to the real estate, mortgage lending, and insurance markets. Reauthorization for a period of at least five years is needed in order to assure stability and implement proposed changes. We note the committee draft authorizes a six-year extension.

- **Encourage Growth of the Private Market—**Private insurance companies can and should play a larger role in the flood insurance market. More consumer choice and a

[1] The American Academy of Actuaries is a 19,000-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.

variety of marketing channels should lead to an increase in the total number of flood insurance policies in force. Making it clear that coverage from qualified private insurers satisfies federal mortgage requirements eliminates an obstacle to the use of private insurance coverage. The committee draft does not address this, but legislation to this effect passed the House unanimously in 2016 and nearly identical legislation (H.R. 1422) recently cleared the House Financial Services Committee.

- **Avoid Pricing Disparity and Funding Problems—**Currently, surcharges are imposed on NFIP policies to help pay for the flood mapping program and the repayment of the NFIP's debt to the U.S. Treasury. If similar surcharges are not imposed on privately issued insurance policies, there will be an artificial pricing disparity between private insurance coverage and that offered by the NFIP. In addition, any net migration of policies from the NFIP to the private market will result in a reduction in funds for flood mapping and debt retirement. Your committee draft does not address this, and the House Financial Services Committee also did not address these concerns.

- **Resolve the Debt Question—**The NFIP's current debt to the U.S. Treasury of $24.6 billion (plus annual interest charges of $400 million) is due almost entirely to claims paid out after mega-storms like Hurricane Katrina and Superstorm Sandy. The Congressional Budget Office, the Government Accountability Office, Federal Emergency Management Agency (FEMA), and the American Academy of Actuaries all have noted that the NFIP's premium income by itself is not sufficient to cover "normal" year losses, purchase reinsurance or other risk transfer tools, and repay debt from mega-storms. A realistic limit should be set on what the NFIP can be expected to pay through cash flow and risk transfer, with some form of public absorption of losses beyond that. We note the committee draft does not address this issue.

- **Make Data Available—**The NFIP has accumulated a great deal of historical flood loss data that would be helpful to private insurers as they contemplate entering this market. Making historical loss data accessible to insurers and analysts should facilitate growth of the private market and help to make NFIP operations more transparent. Legislation (H.R. 2874) approved by the House Financial Services Committee makes helpful changes in this regard; your committee draft does not address this point.

- **Modernize Flood Mapping—**The NFIP's flood mapping and risk assessment standards were established in the 1970s and have not kept pace with changes in technology and methods used in the insurance industry. Updating the NFIP's flood mapping technology and assessments would help to modernize the program, better align it with current insurance industry practices, and improve the accuracy of ratings. We observe your committee draft helps by directing the NFIP to modernize its practices.

- **Change the Mitigation Program—**Taking steps to reduce future losses is an important way to help policyholders and protect taxpayers. The NFIP currently spends most of its mitigation funds on upgrades to properties that have already suffered losses while providing very little help to homeowners who want to act proactively to avoid future losses. We note the committee draft helps to refocus the NFIP's attention on pre-flood mitigation efforts, and it provides needed supplemental funding ($200 million per year) for this cost-effective way to minimize the damage in future flooding.

- **Recognize That Multifamily Buildings Are Different—**Apartment buildings and other multifamily dwellings in urban areas present unusual challenges and opportunities for mitigation. They also may require a different underwriting approach. We observe the committee draft requires the NFIP to take these special conditions into account; this should result in more accurate risk assessments.

- **Address Repetitive Loss Properties—**A relatively small number of NFIP-insured properties have suffered repeated flood damage and are responsible for a disproportionately large share of claims payments. Focusing more attention on these repetitive loss properties should help to reduce overall losses in the program. We note the committee draft focuses attention on the need for community-specific plans to mitigate losses in frequently flooded areas.

- **Align Coverages—**NFIP policies differ from private insurance policies in several ways, including replacement costs, living expenses, business interruption, and adjustments to limits on coverage. Making these benefits available to NFIP policyholders at appropriate prices would improve their protection and help to better align the program with other coverages that are available in the private market. We observe the committee draft directs the NFIP to study the feasibility of offering business interruption coverage, but does not address the similar issue of living expenses for displaced homeowners.

- **Consider Rising Sea Level—**Rising sea level is an observed fact, with non-storm coastal flooding now occurring regularly in some areas of the United States. This presents challenges both in the number of properties that are at risk and in the expected increase in the severity of damage from future storms. The long-term financial solidity of the NFIP may be at risk if local building codes are not revised with regard to the potential for future events that exceed current assumptions. Neither FEMA nor the committee draft addresses concerns about expected changes in sea level.

For more information, please read our April 2017 monograph, *The National Flood Insurance Program: Challenges and Solutions*, or contact Marc Rosenberg, senior casualty policy analyst, at 202-785-7865 or rosenberg@actuary.org.

Sincerely,

Rade Musulin, MAAA, ACAS
Vice President, Casualty Practice Council

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