



AMERICAN ACADEMY *of* ACTUARIES

February 26, 2014

Re: Amended H.R. 3370, the Homeowner Flood Insurance Affordability Act of 2014

Dear Representative:

As you begin consideration of H.R. 3370, the Homeowner Flood Insurance Affordability Act of 2014, the American Academy of Actuaries'¹ Natural Catastrophe Subcommittee asks that you consider the actuarial perspective of this legislation. The flood insurance premium increases at issue in H.R. 3370, as amended, are among those mandated by the Biggert-Waters Flood Insurance Reform Act of 2012, which modified the National Flood Insurance Program (NFIP). Biggert-Waters was intended to make the NFIP more financially stable by gradually increasing premiums with an ultimate goal of charging actuarially appropriate rates. H.R. 3370, as you consider it on the floor tomorrow, would alter several provisions of Biggert-Waters.

Introduction

The Consolidated Appropriations Act of 2014 (Public Law No: 113-076), which was signed into law on Jan.17, includes a provision (Title III of Division F) that imposes a one-year delay on the implementation of some of the scheduled flood insurance premium increases mandated by Biggert-Waters. Specifically, the new law delays implementation of the premium increases that would have been achieved by requiring the Federal Emergency Management Agency (FEMA) to phase out grandfathered rates for policies covering properties viewed as higher risk based on flood map revisions. The law explicitly prohibits FEMA from using Fiscal Year 2014 funds to implement the remapping-prompted rate increases, which were previously scheduled to be phased in on Oct. 1, 2014. We are concerned that further delay in implementing the Biggert-Waters premium increases, as called for in H.R. 3370, would slow the progress towards putting the NFIP on more solid financial footing.

Overview of Amended H.R. 3370

H.R. 3370 would roll back Biggert-Waters by reinstating the grandfathered coverage rates on buildings based on existing Flood Insurance Rate Maps rather than imposing increased rates based on updated mapping, would reverse the Biggert-Waters provision increasing rates for new owners or new policyholders, and would reimburse policyholders whose rates were increased in accordance with the new owners/policyholders provision of Biggert-Waters.

¹ The American Academy of Actuaries is an 18,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

Recommendation: Transition Program

In addition to the already-enacted delays imposed by the Consolidated Appropriations Act of 2014, there are alternatives that Congress could consider to further address concerns over the impact of NFIP premium increases now being implemented. Instead of delaying the increases, Congress could implement transition rules for the affected policyholders. A transition program, or a “glide path” toward financially sound rates, could promote transparency for stakeholders by allowing the NFIP to compute premiums on both a capped and an uncapped basis. This would allow for an explicit computation of the revenue loss and would also allow the NFIP to show policyholders both the full and the capped premiums. That information would help prepare policyholders for future increases as the transition period phases out.

Secondly, as an alternative to permitting new owners and policies to be permanently grandfathered, these groups could be subject to the same 25 percent increase limit already established for businesses and second homes. This would allow the increases to be phased in over time while continuing the path toward financial stability established by Biggert-Waters. A transition period also would allow more time for the completion of the FEMA expense analysis and affordability study, the results of which may ultimately lead to moderation of the pricing in high-risk areas and thus to a higher insured base.

Conclusion

The American Academy of Actuaries’ Natural Catastrophe Subcommittee hopes that you find these comments helpful and would be pleased to assist you in your continuing efforts to improve the NFIP. If you have any questions, please feel free to contact Lauren Pachman, the Academy’s casualty policy analyst, at pachman@actuary.org. Again, thank you for this opportunity to comment on this legislation.

Sincerely,

Jeffrey McCarty, FCAS, MAAA, CERA
Chairperson, Natural Catastrophe Subcommittee
American Academy of Actuaries