American Academy of Actuaries

January 24, 2014

Re: S. 1926, the Homeowner Flood Insurance Affordability Act of 2014

Dear Senator:

As you begin consideration of S. 1926, the Homeowner Flood Insurance Affordability Act of 2014, the American Academy of Actuaries'[1] Natural Catastrophe Subcommittee appreciates the opportunity to share an actuarial perspective on this legislation. The series of planned flood insurance premium increases at issue in S. 1926 are mandated by the Biggert-Waters Flood Insurance Reform Act of 2012, which modified the National Flood Insurance Program (NFIP). As considered and passed by Congress, Biggert-Waters was intended to make the NFIP more financially stable by gradually increasing premiums with a goal of charging actuarially appropriate rates.

The Consolidated Appropriations Act of 2014, which was signed into law last week, includes a provision (contained in Title III of Division F of the legislation) that imposes a one-year delay on the implementation of some of the forthcoming flood insurance premium increases mandated by Biggert-Waters. Specifically, the Consolidated Appropriations Act delays implementation of the premium increases that would have been accomplished by requiring the Federal Emergency Management Agency (FEMA) to phase out grandfathered rates for policies covering properties viewed as higher-risk than they were before, 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.

A more comprehensive Biggert-Waters modification proposal is still pending in the Senate. The bill, S. 1926, would effectively delay implementation of some of the Biggert-Waters flood insurance rate increases by approximately four years. An aggregation of several provisions within the bill combines to create the delay. First, S. 1926 gives FEMA two years to complete the affordability study required under Biggert-Waters and 18 months for the FEMA Administrator to submit to Congress a draft affordability framework based on those study results. It also prohibits the implementation of premium increases for grandfathered and pre-Flood Insurance Rate Map (FIRM) properties until six months after the FEMA Administrator proposes a draft affordability framework or six months after the FEMA Administrator certifies to Congress that FEMA has implemented a flood mapping approach that results in credible data in all areas in which FIRMs are prepared or updated, whichever of those events is later.

Further delay in implementing the Biggert-Waters premium increases, as proposed in S. 1926, would slow the progress towards putting the NFIP on more solid financial footing.

[1] The American Academy of Actuaries is a 17,500-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.

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Should Congress choose to address in greater detail the significant increases now being implemented for new policies or on existing properties because they pose affordability issues, along with possibly decreasing the base of insureds covered by the NFIP, we suggest as an alternative to delaying the increases, implementing transition rules for the affected policyholders. Transition programs can 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.

New owners and policies 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 the risk-focused 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.

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