

NCOIL Summer Meeting: The National Flood Insurance Program After Biggert-Waters

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Agenda

1. Significant Changes to Rate Setting on the Horizon
2. Movement Toward Actuarial Soundness, Although Not There Yet
3. Overall Solvency of NFIP—Debt and Cost of Repayment



Changes to Rate Setting

- Subsidized rates phased out for:
 - Non-primary residences
 - Businesses
 - Severe repetitive loss properties
- Subsidized rates no longer available for:
 - Newly purchased properties
 - Lapsed policies
 - New policies issued after enactment of Biggert-Waters (July 6, 2012)
- Remapping post Biggert-Waters may cause affected properties to be placed on premium increase schedule toward full risk rates
 - E.g., decertification of levees
 - Could cause large premium increases, but FEMA has not decided how to administer those rate changes, and Congress is considering rolling back that section of Biggert-Waters



Movement Toward Actuarial Soundness

- Biggert-Waters moves the NFIP towards more adequate rates
- But, even if all properties were given “full-risk” rates (also known as “actuarial rates”), those rates have not historically had provisions for the cost of capital
 - However, assessment for reserve fund will be levied beginning later this year and may gradually begin to move the program closer to actuarially adequate rates
 - Accumulated goal of reserve fund will be one percent of total exposure (as measured by total in-force amount of insurance, currently \$1.2 trillion)
 - Assessment phased in gradually over years
- Many “full-risk” rates are being implemented gradually, so there is time for Congress to slow the increases



Overall Solvency of the NFIP

- The current debt is approximately \$24 billion
- After Katrina, we believed that paying off the debt would take decades, at the current rates and level of market penetration
 - Program takes in about \$3.5B in premiums
 - After paying for losses, expenses and interest on the debt, there is little left to pay down the debt
 - Any additional significant loss events would make it more difficult
 - Current interest rate is unusually low (borrowing cost of 50 basis points); any increase in interest rate would exacerbate the problem
- Then, Sandy added another \$8.5-9B or so, making repayment even more difficult
- Hard to imagine the program's financial viability being secure before debt issue is resolved



Additional Resources

- 2011 Academy monograph on the history and future of the NFIP: http://actuary.org/files/publications/AcademyFloodInsurance_Monograph_110715.pdf
- NFIP website: <http://www.floodsmart.gov/floodsmart/>
- FEMA on Biggert-Waters: <http://www.fema.gov/flood-insurance-reform-act-2012>
- FEMA on the Severe Repetitive Loss Program: <http://www.fema.gov/severe-repetitive-loss-program>





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