

The banner features a blue background with a pattern of white stars. On the left, there is a vertical strip showing the dome of the U.S. Capitol building. The text is centered in white, and the year '2016' is written in large, light blue numbers on the right side.

AMERICAN ACADEMY *of* ACTUARIES
Annual Meeting and Public Policy Forum

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AMERICAN ACADEMY *of* ACTUARIES
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How Congress Could Reshape the NFIP: A Dialogue



Speakers

- Shawna Ackerman (moderator)
 - Vice President of Academy's Casualty Practice Council
- David Maurstad
 - Assistant Administrator for Federal Insurance at FEMA
- Carolyn Kousky
 - Fellow at Resources for the Future

David Maurstad

Assistant Administrator, Federal Insurance, FEMA

State of the National Flood Insurance Program (NFIP)

- Flood policies in Force: 5,068,292
- Insurance in Force: \$1,244,989,052,100
- Part. Communities: 22,210
- Available to borrow: \$7.425 Billion
- Outstanding borrowing: \$23 Billion

Enhancing the NFIP Customer Experience

Why?
What?
How?
Who?
When?



What We Learned

- Overall, flood insurance performs poorly across multiple measures:
 - Fewer than 40% of policyholders surveyed are satisfied with their flood insurance experience.
 - More consumers wouldn't recommend flood insurance than those who would.
 - There is a disconnect between price & risk perceived value.
 - Product is seen as complex with no/limited options.
 - Service is burdensome and non-transparent.
 - The NFIP brand is unclear.
 - There is limited stakeholders coordination, a lack of critical data systems, and underdeveloped customer-centered culture.

Simplicity

"What"



**Clear,
understandable
risk and
coverage**

Ease

"How"



**Intuitive and
easy to use**

Value

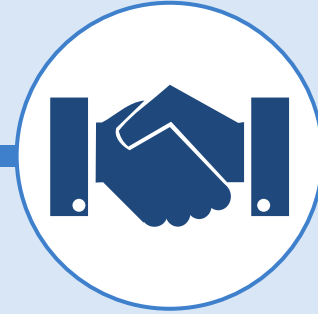
"Worth"



**Accessible and
tailored to your
needs**

Trust

"Why"



**Consistently
compassionate,
fair, and
respectful**

Bettering the NFIP Customer Experience

- CX for Communities
- **Risk Rating Redesign**
- Program & Map Change Communications
- **Product Redesign & Simplification**
- Friendly Proof of Loss
- Contact center strategy
- Stakeholder performance management
- Claims, appeals & litigation process redesign
- DSA turnaround
- Stakeholder alignment and collaboration
- Event-based Awareness & Marketing
- Integrated Disaster Operations & Assistance
- Internal alignment
- FIMA Next linked to CX
- Build / buy capabilities
- Insurance Data Sharing
- CX monitoring mechanism
- Real-time reporting

Risk Rating Redesign

Design an easy-to-understand, structure-based risk rating system that allows customers to clearly understand their risk.

- Establish policyholder structure-specific risk rating.
- Aggregate risk rating into individual “flood score” (e.g., 1 – 100) taking into account other risk factors.
- Conducted Risk Rating Redesign Sprint to identify range of options and present for decisions.
- Presented option paper for decision-making and presentation that included the “What & How” of the project.
- Drafted Modern (the “Why”) Risk Rating Policy Statement.
- Developed Catastrophic Risk Model testing and evaluation plan.

Risk Rating Redesign – Next Steps

- Mapped out Risk Rating 2.0 vision and translated into a final policy document for approval.
- Assist in identifying and securing funding for risk rating redesign Catastrophic Risk Model work.
- Continue acquisitions process to purchase, test, and evaluate Catastrophic Risk Models.
- Develop new risk rating framework project plan & resourcing model.
- Initiate R&D for stakeholder alternatives to risk approach.
- Explore “Rate Score” NOT a “Risk Score” interim solution.
- Rank existing policies’ order with:
 - Same pricing—rate with score OR rate as normal—score group
 - Use Catastrophic Risk Models (similar to wind or earthquake) to evaluate the flood risk cost appropriateness.

Product Redesign and Simplification

Consider potential product options, from bare basic to fully comprehensive products and offerings including:

- Contents Coverage as a Percent of Building Coverage
- Building & Contents Single Deductible
- Standard Default Deductible
- Building & Contents Basements Coverage
- Decks Coverage
- Additional Structures Coverage
- Loss of Use Coverage
- Effective Waiting Period
- Maximum Program Limits
- Publish SFIP Statutory Requirements in Federal Register
- Adopt Industry Standard Forms

Product Redesign and Simplification – Next Steps

- Move toward a decision point to discuss product redesign reauthorization options (i.e., industry standard forms).
- Move on other rule-making and regulation decision if rejected in reauthorization.
- Develop package to bring policy forms out of regulation, giving program flexibility to make Customer Experience changes to existing products.
- Finalize report on Product Redesign Sprint: “Improving the Flood Insurance Policy Report.”

Reauthorization 2017

- Working closely with our partners including Congress
- FEMA's goal is stability
- Congress must continue to examine difficult public policy issues:
 - Affordability
 - Privatization
 - Solvency and sound financials
- Changes to coverages that require Congressional action

Privatization

- More companies are showing interest in flood and dipping their toes in the water.
- FEMA's stance is:
 - Plenty of room in market.
 - Coverage to protect policyholder needs to be as comprehensive as NFIP.
 - Good public policy means more people protecting themselves.
- Continued Congressional interest in private flood product and wider acceptance to satisfy Mandatory Purchase.

Affordability

- Framework due to Congress in 2017
- Two National Academies' studies complete laying out work needed to accomplish Framework:
 - Report 1: Discusses the underlying definitions and methods for an affordability framework and the affordability concept and applications. Gives an overview of the demand for insurance and the history of the NFIP premium setting. Describes alternatives for determining when the premium increases resulting would make flood insurance unaffordable.
 - Report 2: Proposes alternative approaches for a national evaluation of affordability program policy options and includes lessons for the design of a national study from a proof-of-concept pilot study.
- Hiring Rand Corp

Sound Financial Management

- Currently \$23 billion in debt to Treasury
- Significant claims year
 - Louisiana flooding 4th biggest NFIP claims event (average claim ~\$70,000)
 - Hurricane Matthew flooding impacting five (5) states
- Using Reserve Fund
- Reinsurance pilot this fall, expecting full implementation in 2017

The NFIP: Where we've been and where we're going

Carolyn Kousky
Resources for the Future

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Outline

- Overview of NFIP pricing challenges
- History of NFIP claims
- Alternative models

NFIP Premiums

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Rate-setting overview

- Roughly 80% paying NFIP full risk rates
- Two groups paying less than NFIP risk-based rates
 - Pre-FIRM
 - Grandfathered
- Rates higher for first \$60,000 of coverage



2014 Premiums for Single Family Homes

	V zones	A zones	non-SFHA
1 st percentile	\$320	\$150	\$110
Median	\$3,530	\$560	\$390
Mean	\$3,880	\$860	\$420
99 th percentile	\$10,710	\$3,420	\$1,610

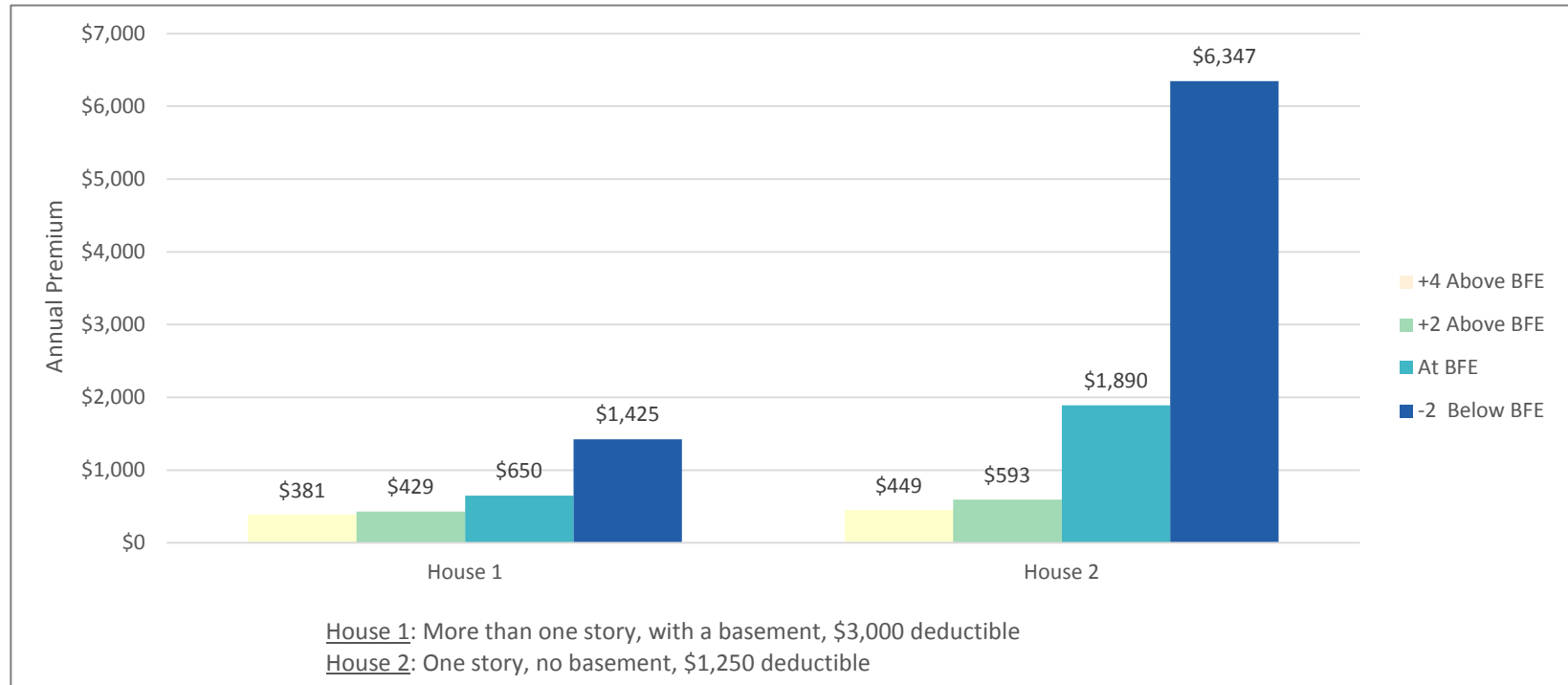
Determinants of Full Risk Rates

A zone	V zone	Outside SFHA
<ul style="list-style-type: none">• Type of property• Number of floors• Basement• Elevation relative to BFE	<ul style="list-style-type: none">• Type of property• Obstructions• Replacement cost ratio• Elevation relative to BFE• (75-81: floors, basement)	<ul style="list-style-type: none">• Type of property• Basement type• Loss history (for PRP qualification)

Coverage

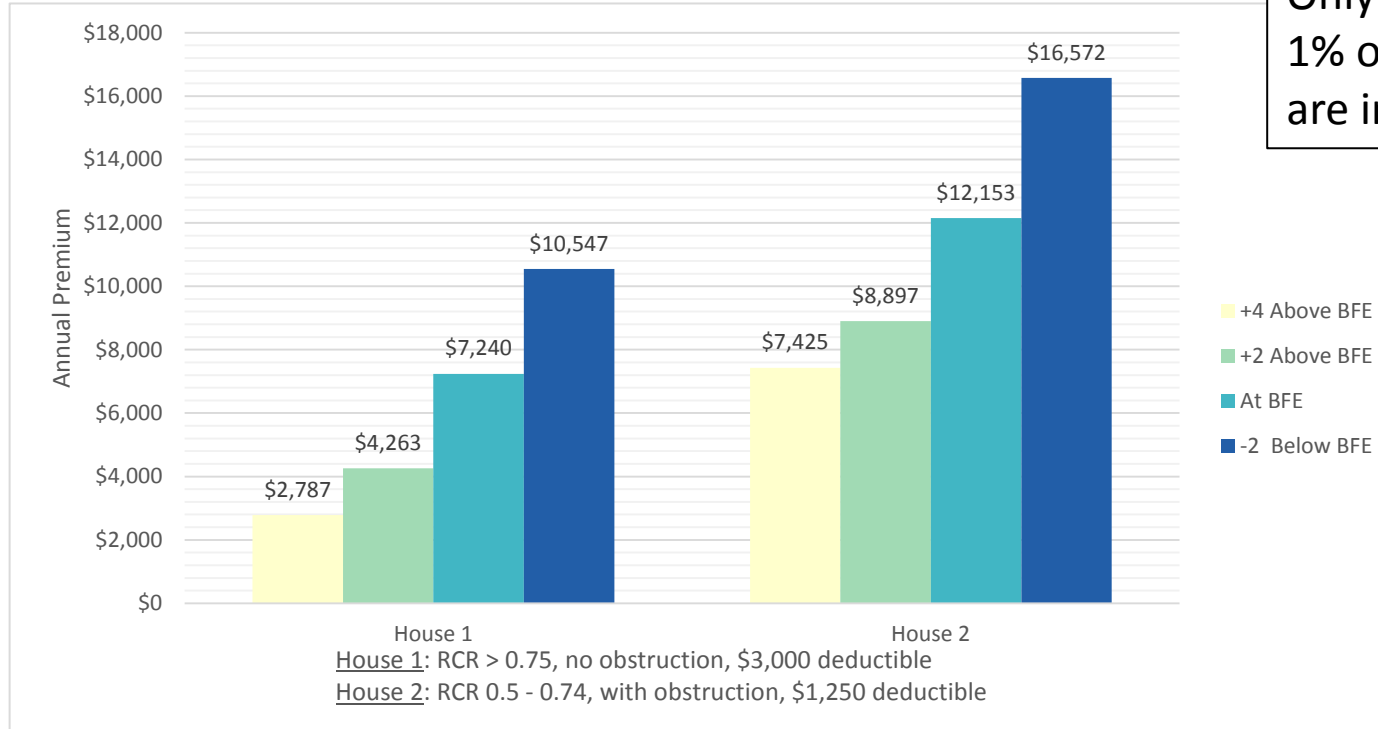
- Homeowners subject to mandatory purchase requirement must insure lesser of outstanding mortgage, NFIP coverage cap, or insurable value of property
- Concern about underinsuring; loading for this

Elevation is critical



Annual Premiums for \$250,000 of Building Coverage for Single-Family Homes AE Zone; Post-FIRM

Elevation is critical – wave action



Only roughly 1% of policies are in a V zone

Annual Premiums for \$250,000 of Building Coverage for Single-Family Homes VE Zone; Post-FIRM

Rates outside the SFHA

- Not elevation rated
- Like other policies, subject to 15% reserve fund assessment and HFIAA surcharge

ANNUAL PREMIUM FOR A POST-FIRM HOUSE IN AN X ZONE

Deductible	Property	\$100,000 coverage	\$250,000 coverage
Minimum* deductible	No basement or enclosure	\$939	\$1,417
	With basement	\$1,084	\$1,764
\$5,000 deductible	No basement or enclosure	\$755	\$1,146
	With basement	\$869	\$1,422

ANNUAL PREMIUM FOR A PRP QUALIFYING PROPERTY

	\$50,000 building, \$20,000 contents	\$100,000 building, \$40,000 contents	\$250,000 building, \$100,000 contents
Basement	\$302	\$385	\$499
No basement	\$272	\$349	\$450

NFIP goals

NFIP is a three-pronged approach to:

1. Identify areas at risk of flooding
2. Reduce flood impacts through mitigation and floodplain management
3. Make flood insurance available to help recovery

“The objective of the NFIP’s premium structure is to promote the Program’s financial soundness, support floodplain management, and encourage the widespread purchase of flood insurance.”

(Hayes and Neal 2011)

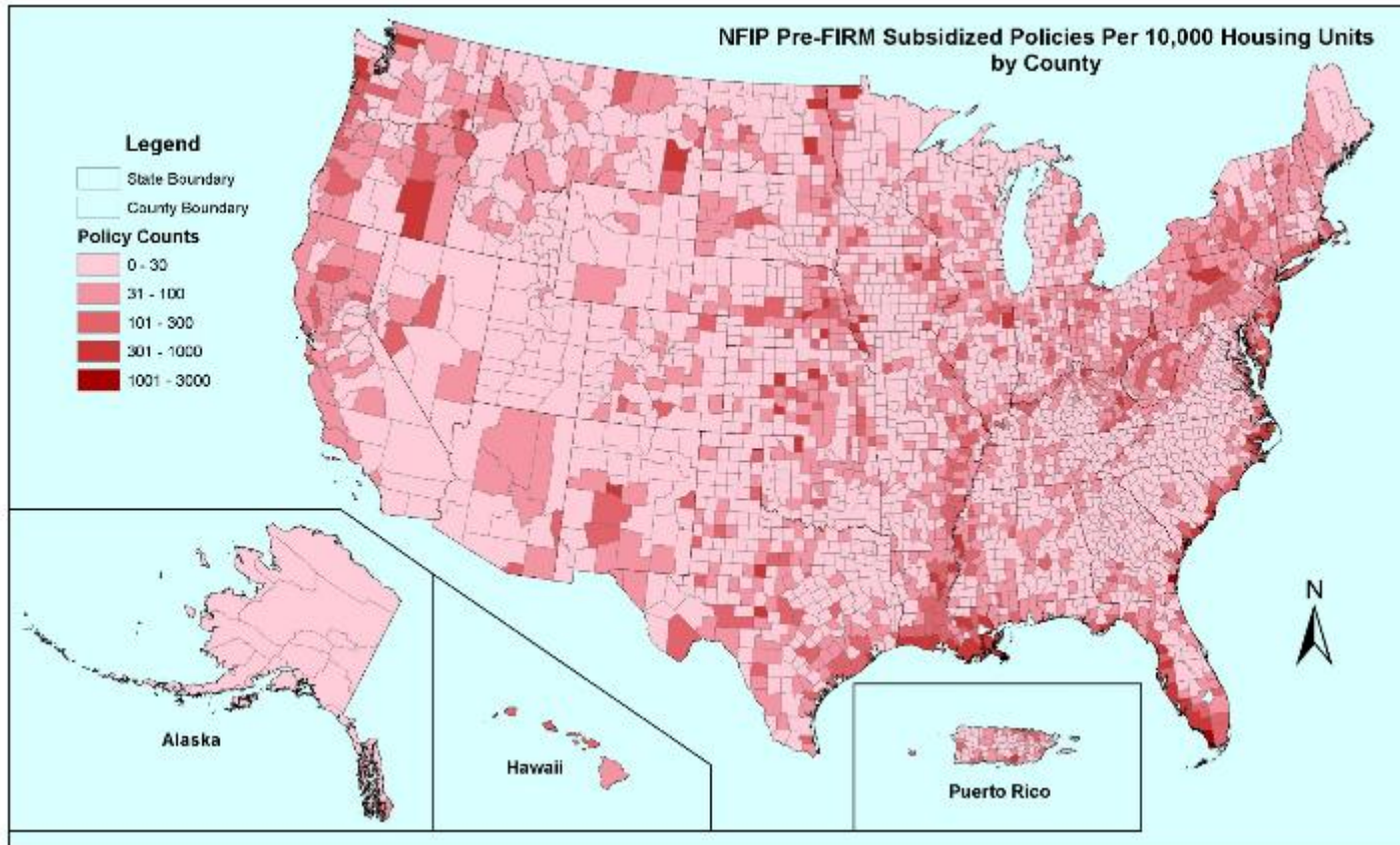
Pre-FIRM pricing



Now being phased out

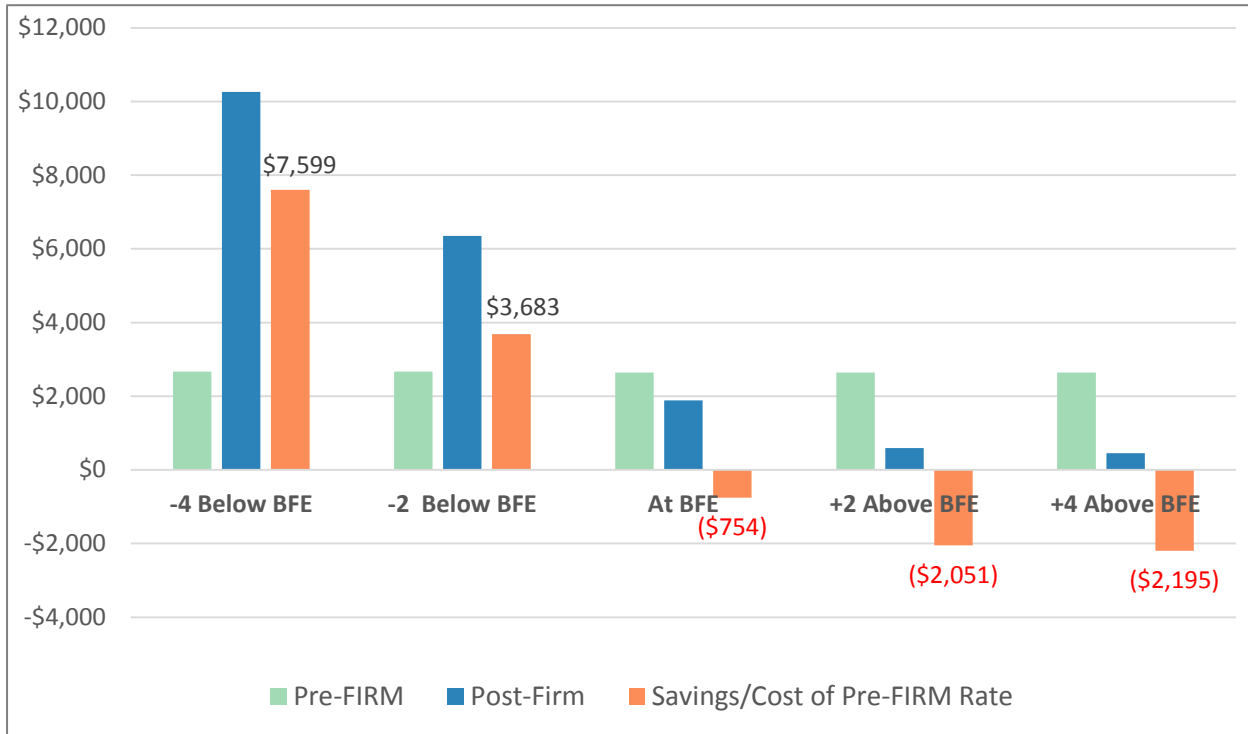
- Discounted rates for pre-existing development
- Not means tested; higher for non-primary, SRL, improved
- Do not vary with elevation
- Minimum \$1,500 deductible for primary residences
- Still often higher than full risk rate for buildings built in compliance
- As of July 2012, roughly 19% of NFIP policies
- Lost revenue not recouped or covered by tax dollars
 - Historically related to targeting average annual loss

Pre-FIRM policies nationwide



Produced by AECOM

Above BFE do better without pre-FIRM rate

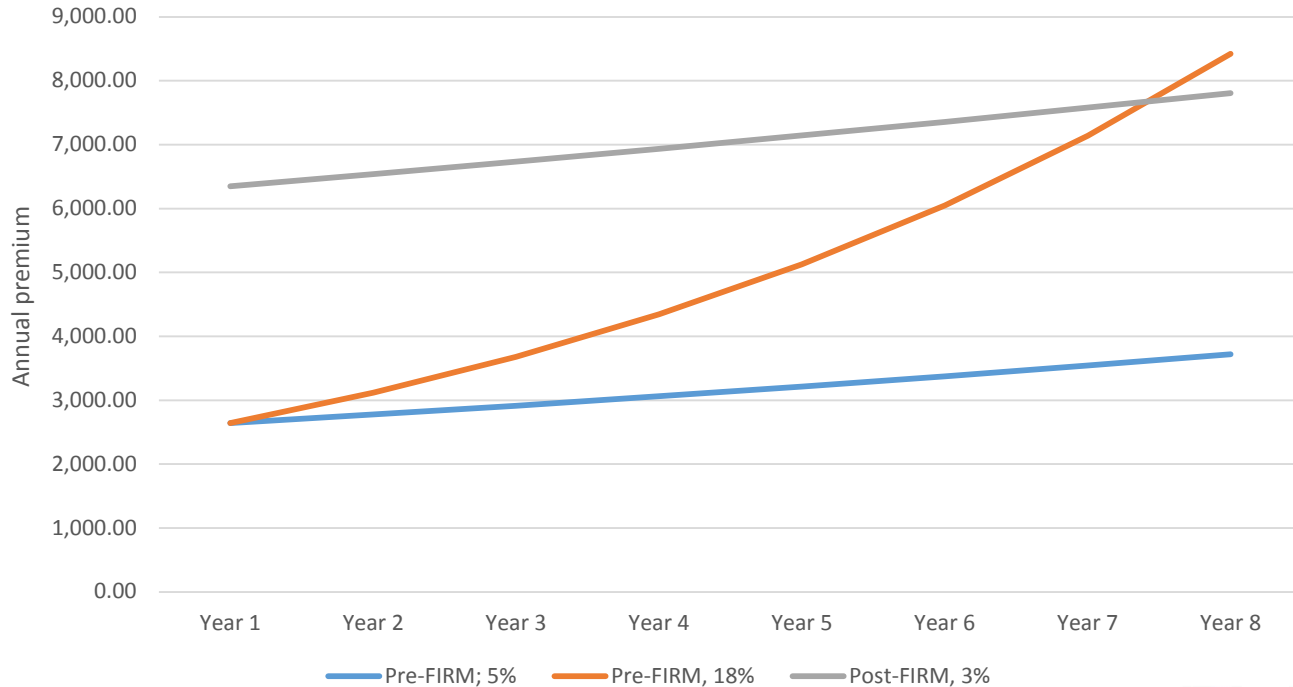


Comparing Pre-FIRM and Post-FIRM Rates for a Single-Family Home in AE Zone

Elimination of Pre-FIRM rates

- For single family residences: rates increasing a minimum of 5% a year and a maximum of 18%
- Non-primary residences, businesses, SRL, substantially damaged or improved: 25% annual increase
- Increasing until elevation certificate obtained

Pre-FIRM phase-out (AE, -2 BFE, \$250k coverage)



Grandfathered policies

- Properties built in compliance with map in effect at time of construction but new maps changes zone or BFE
- Can keep lower rate (no grandfathering of PRP rate)
- Recouped by higher rate on all other properties in zone, but no data to assess adequacy

Grandfathering Savings

Property	Building coverage / deductible	Elevation	X zone (grandfathered) premium	AE zone (full risk) premium	Savings from grandfathering
2 stories, basement	\$250,000 / \$2,000	-4	\$1,678	\$2,675	\$997
		0	\$1,678	\$682	- \$996
		+4	\$1,678	\$398	- \$1,280
1 story, no basement	\$250,000 / \$2,000	-4	\$1,349	\$9,748	\$8,399
		0	\$1,349	\$1,798	\$449
		+4	\$1,349	\$430	- \$919

Notable Cross-subsidies

- X zone, PRP not elevation rated
- Coastal AE zone priced same as inland AE
- Grandfathering
- CRS

What is an “affordable” premium?

Governed by ideas of willingness to pay and ability to pay

Ultimate definition is a policy judgement

Riskiest properties are the most expensive

Is the rating too confusing?

- Misquotes from agents
- Incorrect information about discounts, price increases
- Inability to assess whether mitigation is cost-effective

Q & A