



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

May 24, 2022

The Honorable Emanuel Cleaver
Chairman
Subcommittee on Housing, Community
Development and Insurance
U.S. House of Representatives
Washington, D.C. 20515

The Honorable French Hill
Ranking Member
Subcommittee on Housing, Community
Development and Insurance
U.S. House of Representatives
Washington, D.C. 20515

Via Email

Dear Chairman Cleaver and Ranking Member Hill:

On behalf of the Property and Casualty Extreme Events and Property Lines Committee of the American Academy of Actuaries¹, I am writing to share the committee's perspectives on the reauthorization and proposed changes to the National Flood Insurance Program (NFIP), and specifically the five bills that the subcommittee will be considering during the hearing, *Reauthorization and Reform of the National Flood Insurance Program*, on Wednesday, May 25. As Congress considers important updates or changes to this critical program, the committee suggests the following considerations:

- **Avoiding Pricing Disparity and Funding Problems**—Currently, surcharges are imposed on NFIP policies to help pay for the Federal Emergency Management Agency's (FEMA) 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 those 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. In the proposed legislation being considered by the subcommittee is language that would address flood mapping and pricing concerns.
- **Resolving the Debt Question**—The NFIP's current debt to the U.S. Treasury of \$20.5 billion (plus annual interest charges of around \$400 million) is almost entirely the result

¹ The American Academy of Actuaries is a 19,500-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.

of claims paid out after mega-storms such as Hurricane Katrina, Superstorm Sandy, Hurricane Harvey, and Hurricane Ida. The Congressional Budget Office, the Government Accountability Office, FEMA, and the American Academy of Actuaries' Casualty Practice Council all have noted that the NFIP's premium income by itself is not sufficient to cover "normal" year losses, purchase reinsurance, 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 reinsurance, with some form of public absorption of losses beyond that. The legislation before the subcommittee would address this concern by treating the indebtedness as a public debt of the United States.

- **Making Data Available**—The NFIP has accumulated a great deal of historical flood loss data that would be helpful to private insurers should they contemplate entering this market. Making historical loss data accessible to insurers and analysts could facilitate growth of the private market and help to make NFIP operations more transparent. The legislation before the subcommittee would make helpful changes in this regard by creating a data exchange program.
- **Modernizing 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 (such as improved catastrophe models, lidar measurements, and more data analytics) 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. The legislation before the subcommittee would further help by directing the NFIP to modernize its practices.
- **Changing the NFIP 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 little help to homeowners who want to act to proactively avoid future losses. The legislation before the subcommittee would provide funding (\$200 million) for the flood mitigation grant program.
- **Aligning Coverages**—NFIP policies differ from private insurance policies in several ways, including providing replacement costs, living expenses, business interruption coverage, and adjustments to limits of 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. The legislation before the subcommittee would help move the NFIP in this direction by addressing replacement cost, but would not address other aforementioned differences.
- **Taking Into Account Rising Sea Level**—Rising sea level is an observed fact², with non-storm coastal flooding now occurring regularly in some areas and with more frequent "sunny day" high-tide nuisance flooding in many areas of the United States³. This presents challenges both in the number of properties that are at risk and in the expected

² <https://climate.nasa.gov/vital-signs/sea-level/>

³ https://tidesandcurrents.noaa.gov/HighTideFlooding_AnnualOutlook.html

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. The legislation before the subcommittee does not include language that would address concerns about expected changes in sea level and potential impacts on the NFIP.

The Property and Casualty Extreme Events and Property Lines Committee identifies possible extreme events (low frequency-high severity events that could generate extremely large property/casualty losses). The committee also identifies issues relevant to the treatment of such risks including sizing, insurability, pricing, funding, reserving, capital management, and loss mitigation. Included in the committee's charge is the monitoring of federal, state and international catastrophe legislation and regulation. For more information, please read our September 2020 monograph, [*The National Flood Insurance Program: Challenges and Solutions*](#). You may also find useful the [Actuaries Climate Index](#), which contains measurement of several climate-related indicators including rainfall and sea level.

If you have any questions or wish to discuss these comments, please feel free to contact Rob Fischer, Senior Casualty Policy Analyst, at fischer@actuary.org.

Sincerely,

Steve Kolk, MAAA, ACAS
Vice Chair, Extreme Events Committee
American Academy of Actuaries