

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: January 8, 2016

Subject: January 13, 2016, Housing & Insurance Subcommittee Hearing Entitled
“How to Create a More Robust and Private Flood Insurance Marketplace”

The Subcommittee on Housing & Insurance will hold a hearing entitled “How to Create a More Robust and Private Flood Insurance Marketplace” on Wednesday, January 13, 2016 at 9:15 a.m. in Room 2128 Rayburn House Office Building. This hearing will examine the National Flood Insurance Program (NFIP) and legislative concepts that will facilitate the creation of a competitive private flood insurance market to compliment the NFIP. Accordingly, the hearing will provide an opportunity to review the current government flood insurance model, the technological changes since 1968 that could improve the NFIP, and how the private sector could develop a private flood insurance market that compliments the current NFIP model.

This will be a one-panel hearing with the following witnesses:

- Ms. Teresa D. Miller, Commissioner, Pennsylvania State Insurance Department, on behalf of the National Association of Insurance Commissioners
- Mr. Steve Bradshaw, Executive Vice President, Standard Mortgage Corporation, on behalf of the Mortgage Bankers Association
- Mr. Brady Kelley, Executive Director, National Association of Professional Surplus Lines Offices, Ltd.
- Mr. Birny Birnbaum, Executive Director, Center for Economic Justice

Background on the National Flood Insurance Program

In 1968, Congress created the NFIP, which is administered by the Federal Emergency Management Agency (FEMA) and provides flood insurance to policyholders across the country. Residents and business owners in participating communities across the United States and its territories may buy flood insurance through insurance agents and companies that participate as third-party administrators in the NFIP’s Write Your Own (WYO) Program.

Property owners can purchase flood insurance through the NFIP only if their communities participate in the NFIP. To participate in the NFIP, communities must agree to abide by provisions intended to mitigate flood risks. For example, participating communities must adopt building codes that require new structures built in floodplains (which are high-risk areas) to be protected against flooding or to be elevated above the 100-year floodplain. FEMA calculates flood insurance premiums according to the average expected annual losses resulting from a natural disaster event that has a probability of occurring once every 100 years.

In 1973, Congress passed the Flood Disaster Protection Act, under which federally regulated or insured lenders must require the purchase of flood insurance on properties in high-risk flooding areas if the U.S. government backs the mortgage thereon. While the Act does not require that coverage be provided under the NFIP, its effect, over time, has been to discourage private sector participation in the flood insurance market and funnel virtually all flood risk through the NFIP.

Currently, the NFIP has approximately 5.3 million policies providing over \$1.3 trillion in coverage in almost 22,000 communities in 56 jurisdictions that participate in the program.¹ As of October 2015, the NFIP had an outstanding debt of \$23 billion borrowed from the U.S. Treasury, with \$7.425 billion remaining of its total temporary \$30.425 billion Treasury borrowing authority.

H.R. 2901, the Flood Insurance Market Parity and Modernization Act

H.R. 2901, the Flood Insurance Market Parity and Modernization Act, introduced by Representatives Dennis Ross and Patrick Murphy on June 25, 2015, amends the Flood Disaster Protection Act to clarify that flood insurance offered by a private carrier outside of the NFIP can satisfy the Act's mandatory purchase requirement. H.R. 2901 defines acceptable private flood insurance as a policy providing flood insurance coverage that is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the insured property is located. Under H.R. 2901, an acceptable private flood insurance policy may also be issued by an insurance company that is eligible as a non-admitted insurer to provide insurance in the state or jurisdiction where the property to be insured is located.

H.R. 2901, if enacted, would provide consumers with private sector alternatives to the NFIP and may reduce flood insurance premiums through greater competition.

¹ Testimony of Brad Kieserman, Deputy Associate Administrator for Federal Insurance, Federal Insurance and Mitigation Administration, Federal Emergency Management Agency, hearing before the House Financial Services Subcommittee on Housing and Insurance titled "The National Flood Insurance Program: Oversight of Superstorm Sandy Claims," June 2, 2015, *available at* <http://financialservices.house.gov/uploadedfiles/hhrg-114-ba04-wstate-bkieserman-20150602.pdf>