The 21st Century Flood Reform Act

Background: The taxpayer-backed National Flood Insurance Program (NFIP) was created in 1968 to provide government insurance protection against flood risks for both homeowners and commercial businesses. 50 years later, the federal program has a monopoly, has borrowed over $30 billion from taxpayers, operates a $1.4 billion annual deficit and lacks the innovation expected of a company with $1.2 trillion of insurance coverage. The NFIP's 5 million policies represent 4% of U.S. households at an annual average cost of $884. Over 94% of NFIP residential policyholders paid less than $2,000 in annual premiums for NFIP coverage.

The 21st Century Flood Reform Act, a collection of seven bills approved by the Financial Services Committee, would reauthorize the NFIP for five (5) years, introduce private market competition, and provide programmatic reform to help policyholders.

Trump Administration Position:

"…[t]he Administration believes that bold steps are necessary to transition the NFIP from its current state to a sustainable program that minimizes reliance on the American taxpayer to finance recovery from future flood losses."

"The NFIP is simply not fiscally sustainable in its present form." –Office of Management and Budget, 10/4/17

The NFIP needs "common-sense reforms that would begin to place the NFIP on a sound financial footing and…remove barriers for customers who may want to switch to private carriers" –Office of Management and Budget, 10/30/17

> **The Committee's revised package of reforms is supported by: the National Association of Realtors (NAR), the National Association of Home Builders (NAHB), the Property Casualty Insurers Association of America (PCI), the Mortgage Bankers Association (MBA), the National Association of Mutual Insurance Companies (NAMIC), and many other industry stakeholders.**

The 21st Century Flood Reform Act will:

1. Provide Affordable NFIP Coverage for Current Policyholders

- Decreases from 18 to 15 percent the cap on any individual's annual rate increases.
- Limits the chargeable risk premium of any residential property to no more than $10,000 per year.
- Leaves in place the current practice of grandfathering.
- Reduces annual surcharges from $250 to $125 for certain non-owner occupied low-risk residential properties.
- Allows for the continued coverage of new construction.

2. Consideration of Coastal and Inland Locations In Premium Rates.

- Requires consideration of unique characteristics of local inland properties that are oftentimes over-charged.

3. Monthly Installment Payment of Premiums.

• Expedites the implementation of policyholder monthly installment payment of premiums.

4. Establish Flood Damage Savings Account.

• Requires the study and development of Flood Damage Savings Accounts for individual policyholders to facilitate either the reduction or elimination of NFIP premiums.

5. Establish Private Market for Flood Insurance.

• Includes the Ross-Castor Flood Insurance Market Parity and Modernization Act [H.R. 1422] to provide greater private market access, competition and consumer choice. Similar legislation passed in the 114th Congress by 419-0. These changes will help real people save real money.

- "[M]arket feasibility studies in three states - Florida, Texas, and Louisiana – which combined account for 56% of NFIP insurance policies in-force nationwide...found that **a majority of single-family homes could see cheaper premiums with private insurance than with the NFIP.** Based on our estimates, this would hold for 77% of all single-family homes in Florida, 69% in Louisiana, and 92% in Texas." -Research by Milliman, a global provider of actuarial and related products and services, July 2017
- "In Pennsylvania, competition is proving to be good for consumers, providing more choices and better prices…We are finding in many cases that private carriers are willing to offer comparable coverage at substantially lower cost than the NFIP." -Teresa Miller, Commissioner of the Pennsylvania Insurance Department, January 13, 2016
- "…[s]o AIG, CHUB, Allianz, HCI, they've already begun underwriting policies for homeowners and businesses. Just this week, HCI announced expansion plans beyond Florida to nine more states, and AIG's Lexington Insurance unit says it has 10,000 policies and expects that to more than double in just the next year…and experts expect this to grow." -Morgan Brennan, CNBC Business News, June 23, 2017
- "…[m]ost interesting, it's not the low risk properties that are necessarily the most attractive to insurers, either. it's the ones where rates, many of which had been subsidized, have already jumped so much in the last couple of years that private insurers say that they can now compete." -Morgan Brennan, CNBC Business News, June 23, 2017

6. Establish Community Flood Maps.

• Allow localities, who elect to use their own resources, to develop their own map alternatives to NFIP flood maps using better and cost-effective technology at an accelerated pace, subject to FEMA standards and approval.

7. Simplifies FEMA's approach to designating and addressing multiple-loss properties.

- Provides a simpler way to identify and address at-risk properties through a new "multiple-loss property" designation, based on three distinctions: "repetitive-loss," "severe repetitive-loss," and "extreme repetitive-loss."
- Enables FEMA to efficiently designate and track multiple-loss properties and measure their risks.
- Prioritizes mitigation assistance for multiple-loss properties, which historically represent a disproportionate number of NFIP claims payments made.

8. Financial Soundness.

- Requires, for the first time, FEMA accountability of the solvency and actuarial soundness of the NFIP program by requiring an annual independent actuarial study of the NFIP fund to determine whether the government program is collecting revenue sufficient to cover its long-term expected losses.
- Requires prioritization in maintaining its Reserve Fund, which would avoid future NFIP borrowing from the U.S. Treasury.
- To prevent further taxpayer bailouts and achieve actuarial soundness, limits any new scheduled rate increases for properties charged discounted rates to .5% annually, capped at 6.5%.
- Reduces payments to Write Your Own companies by 3% to preserve the NFIP and prevent future bailouts.

9. Risk Transfer Requirement.

- Requires the Administrator to use risk transfer tools, such as reinsurance, catastrophe bonds, collateralized reinsurance, resilience bonds, and other insurance-linked securities, to reduce direct taxpayer exposure to insurance losses.

10. Premium Surcharge Reforms.

- Cuts in half the Grimm-Waters surcharge on the lowest-risk non-primary residences, while simultaneously limiting increases to the surcharge on other properties by an average of less than $2 per month.

11. Formalizes an appeals process that was established for consumers when they dispute their claims.

- Requires due process protections for consumers pursuing their NFIP contract rights.
- Allows for a more efficient claims processing.

12. Improved Disclosure Requirement for Standard Flood Insurance Policies.

- Provides each policyholder a disclosure sheet that provides general information about the policyholder's standard NFIP policy.