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AMERICAN ACADEMY *of* ACTUARIES

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August 30, 2017

The Honorable Paul Ryan  
Speaker of the House  
U.S. House of Representatives  
Washington, D.C. 20515

The Honorable Nancy Pelosi  
Democratic Leader  
U.S. House of Representatives  
Washington, D.C. 20515

Via Email

Dear Speaker Ryan and Leader Pelosi:

Hurricane Harvey has brought into sharper focus the importance of the National Flood Insurance Program (NFIP). Earlier this year, the U.S. House of Representatives Committee on Financial Services approved a package of seven bills that would make various changes to the NFIP, which is expected to be considered by the House in the near future. On behalf of the Casualty Practice Council of the American Academy of Actuaries,<sup>1</sup> I am writing to share our perspectives on the reauthorization and proposed changes to the program, and specifically on the package of seven bills that was passed by the committee, and to urge members to consider:

- **Renewing the Program**—Timely renewal of the NFIP’s authorization is important in order to avoid disruption to the real estate, mortgage lending, and insurance markets. Reauthorization for a period of at least five years is needed in order to assure stability and implement proposed changes. The legislation authorizes a five-year extension.
- **Encouraging Growth of the Private Market**—Private insurance companies can and should play a larger role in the flood insurance market. More consumer choice and a variety of marketing channels should lead to an increase in the total number of flood insurance policies in force. Making it clear that coverage from qualified private insurers satisfies federal mortgage requirements will eliminate an obstacle to the use of private insurance coverage. The legislation does clarify this, mirroring legislation (HR 2901) that passed the House unanimously last year.

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<sup>1</sup> The American Academy of Actuaries is a 19,000-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.

- **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 that 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. The legislation does not address either concern.
- **Resolving the Debt Question**—The NFIP’s current debt to the U.S. Treasury of \$24.6 billion (plus annual interest charges of \$400 million) is due almost entirely to claims paid out after mega-storms such as Hurricane Katrina and Superstorm Sandy. (The current debt does not include amounts expected to be added as a result of Hurricane Harvey.) The Congressional Budget Office, the Government Accountability Office, the Federal FEMA, and the American Academy of Actuaries 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 does not address this issue beyond requiring a report.
- **Making Data Available**—The NFIP has accumulated a great deal of historical flood loss data that would be helpful to private insurers as they contemplate entering this market. Making historical loss data accessible to insurers and analysts should facilitate growth of the private market and help to make NFIP operations more transparent. The legislation makes helpful changes in this regard.
- **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, 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 helps by directing the NFIP to modernize its practices.
- **Changing the 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 very little help to homeowners who want to act proactively to avoid future losses. The legislation helps to refocus the NFIP’s attention on pre-flood mitigation efforts. However, along with FEMA, we observe that this provision would be more meaningful if additional funds were provided.
- **Aligning Coverages**—NFIP policies differ from private insurance policies in several ways, including replacement cost, living expenses, business interruption, 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 helps to move the NFIP in this direction by requiring studies of the feasibility of updating NFIP policies and coverages.

- **Taking Into Account Rising Sea Level**—Rising sea level is an observed fact, with non-storm coastal flooding now occurring regularly in some areas of the United States. This presents challenges both in the number of properties that are at risk and in the expected 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 does not address concerns about expected changes in sea level.

For more information, please read our April 2017 [monograph](#), *The National Flood Insurance Program: Challenges and Solutions* or contact Marc Rosenberg, senior casualty policy analyst, at 202-785-7865 or [rosenberg@actuary.org](mailto:rosenberg@actuary.org).

Sincerely,

Rade Musulin, MAAA, ACAS  
Vice President, Casualty Practice Council

CC: Members of the House of Representatives