Amendment #4724 - To study alternative approaches to ensure the future of the National Flood Insurance Program by requiring greater efficiency and financial accountability.

This amendment would authorize a two-part study to be completed by GAO within one year that would examine the feasibility of purchasing private reinsurance (means by which an insurance company can protect itself against the risk of losses with other insurance companies).

The first part would examine the feasibility of purchasing private reinsurance in addition to current law regarding reinsurance for the National Flood Insurance Program (42 U.S.C. 4055).

The other study would examine the feasibility of replacing the current federal flood insurance reinsurance system that often results in large borrowing from the Treasury with the ability to purchase private reinsurance.

This study will also estimate the benefit to the taxpayer of either of these approaches to acquiring reinsurance.

By allowing the program to borrow from the Treasury whenever necessary, Under the current system, the Federal Taxpayer is the Ultimate Reinsurer

The current system allows NFIP to use the **taxpayer as the ultimate reinsurer** when claims exceed premiums. NFIP does not have to purchase private reinsurance to insure catastrophic losses will not result in program collapse/default – unlike other private insurance companies.

This does not encourage NFIP to cut costs, properly calculate risks and premium rates, or engage in proper long term planning. In fact, since 1981, NFIP has borrowed from taxpayers on at least 15 separate occasions and will likely continue to do so without significant reform. [1]

[1] http://www.congress.gov/erp/rs/pdf/RS22394.pdf

The National Flood Insurance Program is not actuarially sound.

This bill would forgive more than $17.5 billion in debt NFIP has amassed – completely at the taxpayers' expense. The actual amount forgiven may actually be close to $30 billion if one takes into account future claims and interest from the amount owed to the general treasury.

Congress is in this situation because we have continued to allow NFIP not to be actuarially sound.

We have continued to subsidize premiums for properties for almost 40 years at an average of 30 percent of the total premium, even though Congress intended these subsidies to be phased out. Many of these properties make up the majority of the 50,000+ repetitive loss properties (RLPs) with flood insurance.

RLPs are insurable buildings for which two or more claims of more than $1,000 were paid by NFIP within any rolling ten-year period, since 1978. These RLPs represent **a little over one percent of total flood insurance policies, yet account for 30 percent of total claims on average**.

The premium structure we currently have does not consider catastrophic years in determining the "average historical loss year" and thus is only actuarially-sound during these average years.

The National Flood Insurance Program (NFIP) is failing to meet its original mandate.

According to the Congressional Research Service, "Through enactment of the National Flood Insurance Act, Congress established a comprehensive risk management program to: (1) reduce suffering and economic losses due to floods through the purchase of flood insurance; (2) promote state and local land-use controls to guide development away from flood-prone areas; and (3) reduce federal expenditures for disaster assistance and flood control."[2]

The general consensus is that the program has failed on all counts to accomplish its goals.

More Americans than ever live in flood prone regions, driving up risks and stress on the flood insurance program. "Some 153 million people live in coastal counties, an increase of 33 million since 1980. An additional 12 million are expected in the next decade."[3] Risk exposure, just for NFIP properties, now exceeds $1 trillion.

It is estimated that $6.9 trillion of the estimated $19 trillion of insured (general insurance) coastal properties are vulnerable to hurricane risk.

Homeowners living in high risks areas do not have to purchase flood insurance in order to receive disaster assistance related to flood events.

Furthermore, homeowners can refuse NFIP flood risk mitigation offers, and still qualify for federal assistance later when the home is impacted by flooding events.

Compounding this problem, the program provides generous subsidies to expensive coastal properties. In other words, the program is actually incentivizing bad unsustainable practices, and increasing economic losses and federal expenditures. Rather than reducing risks, the program actively encourages greater risks and greater exposure for taxpayers.

The Long-Term Viability of NFIP Depends on Its Ability to Be Self-Sustainable

According to the Senate Banking Committee: "The NFIP has grown significantly over its history from 1 million policyholders and $50 billion of risk exposure to over 5.4 million policyholders with in excess

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[2] http://www.congress.gov/erp/rl/pdf/RL34367.pdf
[3] http://www.livescience.com/environment/ap_050301_coastal_pop.html (Associated Press- March 1, 2005

of $1 trillion of risk exposure." Yet, it only brings in an estimated $2.6 billion in premiums each year.

$1 trillion in risk exposure to the American taxpayer with only $2.6 billion in collected premiums each year.

If one subtracts one third of the collected amount for the administrative costs paid to private insurance companies administering flood insurance policies, the taxpayer finds himself covering $577 dollars of risk with every one dollar collected in claims after administration costs.

While this legislation does include a number of provisions that will improve NFIP, it does not require NFIP to be "actuarially sound" and does not attempt to define the term. Forcing NFIP to be accountable to private reinsurers in some capacity may help taxpayers avoid at least some of the incredible exposure they currently have and encourage NFIP to adopt sustainable business practices.

Such practices are critically necessary if Congress wants to avoid this same scenario when the next natural disaster strikes and causes extensive flood damage in the next several years.