


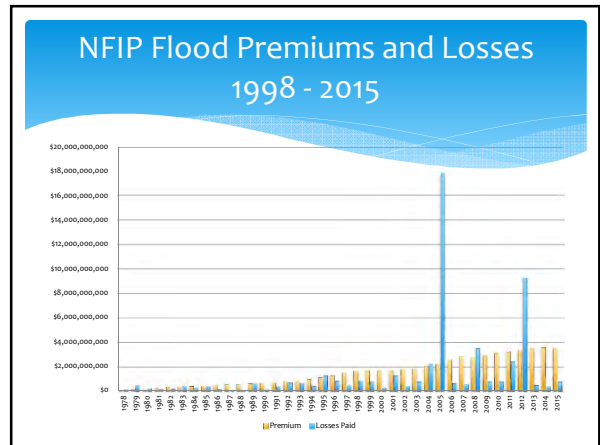
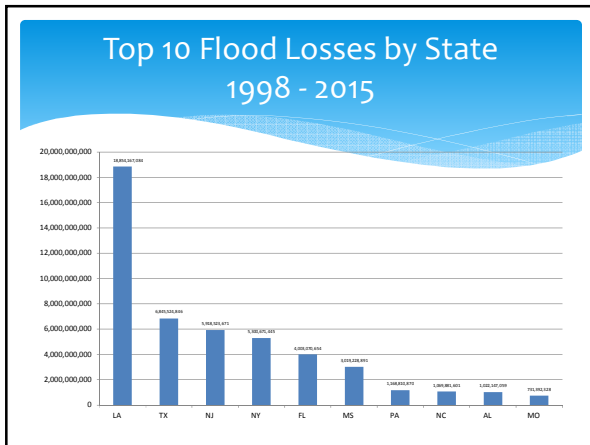
Privatization: A Complement to the National Flood Insurance Program

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Climate Risks

- * "Floods are the most common natural disaster in the United States" – NFIP
- * Almost all climate scientists now agree that Earth's average temperature is rising
 - * Observations of air & water temperatures
 - * Melting snow and ice
 - * Rising sea levels
 - * Increase in greenhouse gas levels
- * Exposure to flood losses across the United States
 - * Expected to increase due to climate change
 - * Any public-private partnership in flood risk is mutually beneficial



The NFIP

- * NFIP – Established 1968
- * Passage of National Flood Insurance Act
- * Lack of availability of private flood insurance
- * Continued increases in federal disaster assistance
- * Federal Program – Managed by FEMA
 - * Provide flood insurance
 - * Improve floodplain management
 - * Develop maps of hazard zones
- * Is deep in debt and has been since Hurricane Katrina – \$24 B (2015)
- * Subject to substantial reforms in the Biggert-Waters Act of 2012
 - * Some of the reforms were scaled back by the Homeowners Flood Insurance Affordability Act of 2014 (aka Grimm-Waters Act)

NFIP Participation

- * NFIP participation
 - * Based on an agreement between communities and the Federal Government
 - * Provides an insurance alternative to disaster assistance
 - * Charged with floodplain identification and mapping and floodplain management

NFIP Obstacles

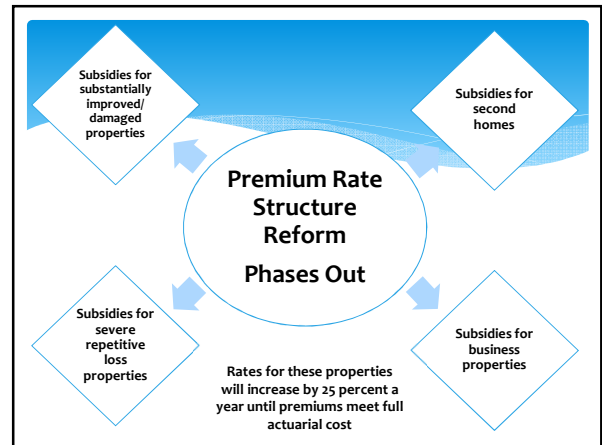
- * Subsidized Premiums
 - * High risk areas
 - * Underpricing of flood insurance
- * Repetitive loss properties
- * Convincing property owners to purchase flood insurance
 - * Belief that updated flood maps overstate their flood risks
- * Property owners with lower flood exposure
 - * Pass on coverage
- * Property owners in flood-prone areas
 - * Oftentimes assume that federal disaster assistance will help them if a major flood event occurs

BW-12

- * Prior to the passage of BW-12
 - * Stopgap extensions
 - * Stalled home sales
 - * Impaired insurance consumers' ability to plan ahead
- * Passed 7/6/2012 - Reauthorized NFIP until September 2017
- * Meant to eliminate artificially low rates and discounts & facilitate private-market Flood insurance solutions
- * FEMA stated only 20% of NFIP policies receive subsidies
- * An Attempt to address the NFIP's debt by eliminating certain premium subsidies and phasing-in premium increases so that prices were risk-based

BW-12 and Risk-Based Pricing

- * BW-12 included significant rate increases for many
 - * 25% increase annually until rates reflect true risk
 - * Non-primary/secondary residents in a Special Flood Hazard Area (SFHA)
 - * Property that has experience severe or repeated flooding
 - * Owners of subsidized policies on business/non-residential properties in a SFHA



BW-12 Premium Adjustment – Original Plan

- * Premium and Rate Adjustment
 - * Required on property located in an NFIP participating area
 - * Determination is made after the effective date of any revised or updated flood insurance map
- * Increase in Risk Premium
 - * Phased in over a 5-year period
 - * Rate of 20%
- * Properties not previously designated as an area having special flood hazard and becomes designated as such an area
 - * Chargeable risk premium will be phased in over a 5-year period
 - * Rate 20% following the effective date of remapping

BW-12 – Key Rate Structure Changes

- * Key Premium Rate Structure Changes
 - * Creation of an additional exemption to the 30-day waiting period (flooding from federal lands)
 - * Insurance premium adjustments
 - * Designed to strengthen financial solvency of the NFIP
 - * Premiums were to increase yearly until premiums reflected full-risk rates
 - * Affected homeowners with subsidized insurance rates on non-primary residences
 - * Also affected structures built prior to the first Flood Insurance Rate Map (FIRM) or pre-FIRM properties, which receive subsidized rates

Flood Insurance Mandatory Purchase & Escrow

- * Purchase of flood insurance is mandatory for all federal or federally related financial assistance for the acquisition and/or construction of buildings in high-risk flood areas
- * BW 12
 - * Provides for federally regulated lenders to escrow flood insurance payments for loans made two or more years after enactment of the law

BW-12 Obstacles

- * Political and consumer resistance to full cost-based pricing of flood risk
 - * Senate and House rolled back some of the rate increases called for in BW-12
- * The State of Mississippi brought suit against FEMA and the NFIP (9/26/2013)
 - * Affordability the issue
 - * Alleged the NFIP had not completed study mandates

Homeowner Flood Insurance Affordability Act of 2013

- * The Homeowner Flood Insurance Affordability Act of 2013
 - * Addressed some of the issues caused by BW-12
 - * Significant rate relief for many
 - * Reinstated lower flood insurance premium rates for grandfathered properties repealed by BW-12
 - * Imposed a surcharge on ALL flood insurance policies
 - * Extended effective date for new escrow rules under BW-12 from July 6, 2014 to January 1, 2016

Homeowner Flood Insurance Availability Act of 2015 (HFIAA)

- * Premium increases – effective April 1, 2016 – 25% Annually until they reach full-risk rates
 - * Pre-Firm Subsidized policies
 - * Non-primary residential properties
 - * Business properties
 - * Severe repetitive loss properties
 - * Substantially damaged/substantially improved properties
- * Average annual premium rate increases for all other risk classes are limited to 15% while the individual premium rate increase for any individual policy is simultaneously limited to 18%
- * Average annual premium rate increase for Pre-FIRM subsidized policies must be at least 5%
- * Federal Policy fees increase (\$22 - \$25 for PRPs and \$45 - \$50 for standard-rated policies)

Implementations as of April 2016 – BW-12 and HFIAA

- * Implementation of 25% Rate Increases for Policies Covering Non-Residential Business Properties
- * New Rating Methodology for Both Preferred Risk Policies and Property Newly Mapped into the SFHA
- * Elimination of Subsidy for certain Pre-FIRM policies that lapse and are reinstated
- * Initial Implementation of HFIAA Section 28 – Clear Communications
- * Reformation of coverage
- * Declaration Page requirements
- * <http://nfipiservice.com/Stakeholder/FEMA7/ATTACHMENT%20A%20-%20Summary%20of%20the%20NFIP%20April%202016%20Program%20Changes%20final.pdf>

NFIP - Reinsurance

- * FEMA – secured more than \$1bn in reinsurance for the NFIP effective January 1, 2017 – January 1, 2018
 - * Indemnification is made on an occurrence basis
 - * Covers 26% of losses between \$4bn and \$8bn
- * Combined total of \$1.042 billion of the NFIP's flood risk was transferred to the private reinsurance market

Coastal Exposures

- * Florida
 - * Close to 80% of the total insured value is located in coastal counties
- * Texas and densely populated Mid-Atlantic and Northeast states
 - * 38% total exposure in Gulf and East Coast States located in coastal counties
- * Historically, the insured value of properties in coastal states has grown an estimated compound annual rate of about 7%

Private Flood Insurance

- * When BW-12 was adopted there was interest from the private sector in writing flood insurance
 - * Risk-based pricing important
 - * Private sector able to compete for business
 - * Interest from surplus lines insurers and Lloyd's Syndicates
- * The HFIAA has tempered some of the enthusiasm
 - * Rate rollbacks make private sector flood policy less attractive

Private Flood Insurance

- * Changes must be made to address some of the unintended consequences of BW-12
- * One of the objectives of Biggert-Waters was to create opportunities for the growth of the private market as an alternative to the NFIP
 - * The definition of and regulatory environment created by the Act is at odds with this objective

Private Flood Insurance

- * Specifically, the nation's insurance commissioners find it troubling that Biggert-Waters empowered federal banking and housing regulators and the government-sponsored enterprises (GSEs) to apply their own requirements related to the financial solvency, strength, or claims-paying ability of private insurance companies from which they will accept private flood insurance.
 - * This is problematic as banking and housing regulators neither have the expertise nor the experience to regulate insurance companies or insurance markets
 - * This can result in duplicative and potentially inconsistent solvency requirements for insurers.

Private Flood Insurance

- * Regulators have testified to Congress that it may be appropriate for lending entities and the GSEs to review the financial health of insurers and provide guidelines as to the type of companies its customers may purchase private flood insurance
 - * However, state regulators have the expertise over supervising insurance companies and insurance markets - and have a long history of balancing market availability with solvency
 - * Banking and housing regulators' regulatory objectives (i.e., ensuring the safety and soundness of banks and the GSEs) are fundamentally different than insurance consumer protection and fostering competitive insurance markets

Private Flood Insurance

- * In addition to our solvency regulatory concerns regulators are concerned that the private flood insurance definition could be an impediment for entrants into the private flood market
 - * Private flood insurance is defined in narrow terms with a number of prescriptive conditions
 - * In order for a private market to evolve, insurers would need flexibility to tailor insurance products to meet consumer needs
 - * Biggert Waters does not allow for this innovation, rather it focuses on ensuring policies do not deviate from its criteria, despite the fact private insurers may be able to offer the consumer additional coverage features or greater limits at a potentially more affordable price

Privatization of Flood Insurance

- * Political challenge because it would require policymakers to openly indicate how much of the risk should be borne by property owners and how much, if any, should be subsidized by the government
- * May require mandating that people in flood prone areas buy insurance
- * Currently the global insurance and reinsurance industry have the ability to take the risk and absorb the transition
- * Challenge trying to get more people to buy flood insurance while simultaneously moving the premiums to risk-based levels

NAIC NFIP Reauthorization Principles

- * State insurance regulators and the NAIC want to be involved in helping to improve the NFIP and the consumer experience and stand ready to assist Congress in tackling the challenges of NFIP reauthorization and reform
- * To that end, state insurance regulators worked through the NAIC to develop Guiding Principles for NFIP Reauthorization for Congress
 - * These principles support a long term reauthorization, encourage greater growth in the private flood insurance market, support increased transparency in the FEMA mapping process, and encourage support for disaster mitigation planning.
 - * The NAIC encourages a coordinated effort between the public and private sector to increase overall take up rates of flood insurance and recommend implementing methods to ensure better compliance with the federal mandatory purchase requirement
- * The NAIC has been sharing these principles with Congressional offices and continues to play an active role as legislative reform proposals are being drafted

Obstacles

- * Private sector entry
 - * Can't compete with NFIP subsidized rates
- * <http://www.nationalmortgage.com/news/compliance-regulation/pitfalls-ahead-for-flood-insurance-reform-in-2017-1093568-1.html>

Solutions

- * Reinsurance for private carriers
- * NFIP could purchase reinsurance & has
- * Spread risks through sale of catastrophe bonds
- * Diversify flood risk through a flood insurance pool
- * Use NFIP as insurer of last resort

Summary

- * No matter which option is adopted:
 - * Federal Government may need to retain a role
 - * Flood hazard assessment and mitigation
 - * Mapping of flood zones
 - * Enforcement of zoning laws
 - * Building codes

Thanks!!!

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