

America's flood insurance system is sinking

CBS Money Watch

Here's some bad news for the 5 million Americans who have flood insurance policies: Premiums will rise an average 6.3 percent this year, according to the National Flood Insurance Program (NFIP).

But this could be followed by even worse news when rates rise as much as 25 percent a year until the NFIP — now \$24 billion underwater and in debt — becomes "actuarially sound." It's up to Congress to throw policyholders a life raft, which it has to do by Sept. 30, when the current program expires.

Flooding nationwide caused by torrential downpours and tornadoes, has brought home to millions of Americans the need for flood insurance, many of whom were surprised to learn they didn't have it. An estimated 43 percent thought it was included in their homeowners' policies. It's not.

Still others thought they were safely out of flood zones because federal flood maps led them to believe this, and so they didn't buy flood coverage. Then, like thousands of Louisianans who were hit with the "500-Year Flood" last year, they found out they weren't insured for flood losses.

Louisiana is one of two states that sustained \$2 billion for inland flooding last year. A map provided by the Pew Charitable Trusts showed that 24 states experienced at least one flood so severe it had to be declared a federal disaster.

So it's not an exaggeration to say 25 million homeowners need this insurance, according to Cynthia DiVincenti, a vice president at Aon National Flood Services, a unit of insurer AON. That's about five times as many as have it now.

But could you afford it? Chief Executive Amy Bach of United Policyholders, a consumer advocacy group, headed to Mississippi recently to hear the horror stories. She said one woman there saw her home insurance bill, including flood insurance, climb from \$800 to \$4,000 in just one year.

"The cost of home and flood insurance has created a vacuum in some areas of the country," she said. "Contractors can't afford to build, and people can't afford to buy."

While no one seems to argue the point, fixing the problem — which has festered since 2005's Hurricane Katrina and grows with each flood disaster like Superstorm Sandy — is like fixing health care: It's a large and looming crisis. And the health insurance issue does offer parallels. Congress is reluctant to act, the problem is compounded each time it's put off and those who probably don't need flood insurance will still

have to shoulder much of the burden for those who do.

Congress' way of dealing with flood insurance consists mostly of kicking the soggy can down the road. "Even when it was easier to get things done, there were all kinds of delays," said Vice President Loretta Worters, a spokesperson for the Insurance Information Institute, which represents the industry. "The last time the NFIP ran out, it took 17 short-term extensions, four lapses and almost four years before the program was reauthorized."

During those lapses when flood insurance wasn't available, people in certain areas couldn't buy homes because banks wouldn't give them mortgages without flood insurance. "It's terrible for consumers," said Vice President Nat Wienecke of the Property Casualty Insurers Association of America (PCIAA). "You think you can close on your house ... and you can't. And according to Aon's DiVincenti, "over 1,300 home sales were disrupted every day."

The major effort to repair the NFIP took place in 2012, when Congress passed the Biggert-Waters Act, which attempted to put federal flood insurance on a sound financial footing by charging "actuarially sound" rates. In other words: If you live on or near a body of water that frequently floods, you have to pay up. But the sudden rise in rates, which caused an outcry in low-lying and shore communities across the country, prompted Congress to pass the Flood Insurance Affordability Act in 2014. It extended the time frame for raising premiums, once again kicking the can.

So while the NFIP's deficit grows, the clock is ticking again on its lifespan. Putting a finger in the dike hasn't worked, and critics — and even supporters — admit something has to change. But like health insurance, no one can agree on what to change, which is probably why no dates have been set for hearings in either the House or Senate. But when they are, the battle is likely to be "contentious and ideologically pitched," according to Louisiana newspaper The Baton Rouge Advocate.

The Trump administration, along with Republicans, wants to privatize flood insurance. They look to Europe, where private insurers run much of this market, and point out that private insurers here already have more than 10 percent of the U.S. market.

Private insurers have two advantages. One is "big data." If the Federal Emergency Management Administration (FEMA), which responds to disasters, would turn over the data on flood claims and damages, insurers think they could do a better job managing than the NFIP. And their willingness is enhanced by the profit motive: They won't have to react to political fallout the way the federal program does.

Consumer advocate Robert Hunter, director of insurance for the Consumer Federation of America, regards this concept as "awful." He says it would allow private insurers to "cherry pick" the best risks — the high and dry homes — and leave the rest to the limping, leaky NFIP. Another criticism is that

Republicans, like President Donald Trump, tend to be “climate change deniers.” The president recently cut back FEMA’s already backward flood mapping program by \$180 million.

So is there any wiggle room or middle ground? There are those, including some in Congress, who are prepared to give it a try. Flooding and its threat in many states have made unlikely allies of Republicans and Democrats. Even those on the far right know something needs to be done.

They also agree that the NFIP has to be renewed. Private insurers acknowledge that they can’t act immediately on all these looming challenges. Wienecke’s best estimate is “a minimum four-year reauthorization,” during which time the NFIP would run in tandem with private insurers that would gather information and inject capital into the market.

But in the meantime, the NFIP has to function and, if possible, become stable by shedding some of the bad risk. One course of action would be for Congress to absorb that \$24 billion in debt into the federal deficit where it would hardly be noticed.

Another proposal is to eliminate homes worth more than \$250,000 from the program. The NFIP usually caps losses at \$250,000 per home, and if you own a million-dollar property why should you get a “beachfront bailout?” said Robert Hartwig, who teaches risk management at the University of South Carolina.

United Policyholders’ Bach feels the right amount to give people who’ve been washed out could be just \$100,000. “People would rather have a little something than nothing at all,” she said. “It’s better than being mired in an ongoing fight,” as many homeowners were after Superstorm Sandy knocked their houses off their foundations.

A drastic alternative could be to offer people in flood plains a choice: build up or move out. Properties that repeatedly flood shouldn’t be reinsured, argued Wienecke, unless homeowners’ raise them above the flood level or simply take a buyout, like the kind offered in some areas of New Jersey and New York after Sandy. Let nature take its course. And, even better, don’t build there in the first place.

But that rationale has its limits. “There are real people living in these homes,” said Wienecke. “We’re talking about Mississippi sharecroppers and oil riggers who’ve been living there 100 years. You can’t just tell them to move.”

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