

Flood Program Reauthorization: Why Congress Must Act

As the clock ticks down toward expiration of the National Flood Insurance Program (NFIP), the task ahead is clear. Congress must pass an on-time, multi-year reauthorization bill that simplifies the overly complicated NFIP, improves its financial stability and encourages private flood insurance before the NFIP expires on September 30, 2017.

The paradox of flooding and flood insurance uptake only serves to reinforce the need for action. Talk to any flood industry participant, be it policymakers, FEMA officials or insurance companies, and (regrettably) they will be able to recite one of the best-kept secrets in the country: flooding is the most catastrophic and costly natural disaster in the United States. All 50 states, according to FEMA, have experienced flooding and flash flooding in the last five years. Yet, only about five million property owners are covered by a flood insurance policy.

There is a universal lack of appreciation, as the statistics brutally point out, for flood risk. “Too complex,” or “already covered by homeowners insurance,” (which is seldom true) or “not mandatory,” are common refrains. In fairness to those who do not have flood insurance, it is hard to appreciate the need for a low-frequency, yet high-severity risk until it happens to you.

Nonetheless, the risk is real. Look no further than last year’s large-scale catastrophic event in Baton Rouge, Louisiana, and the near-miss earlier this year due to the Oroville Dam spillway failure in northern California forcing 180,000 people to evacuate, for pertinent reminders.

To the credit of lawmakers in Washington, D.C., the recent submission of a draft legislation provides some encouraging signs that Congress gets it and plans to act. This is welcome news considering, between 2008 and 2012, the NFIP experienced unprecedented disruption – 14 short-term extensions, including five program lapses. Everyone agrees lapses, short-term extensions, or both, are a bad idea. Consistent with the intent of protecting more of our nation’s property owners, the program must be

reformed. The efforts should be grounded in four key principles:

First, stabilize the market with an on-time, long-term reauthorization that property owners and NFIP insurance providers can count on. Uninterrupted access to, and appropriate funding of the program for existing and potential new policyholders are the bare minimum and are easily achievable.

Second, simplify policy administration and streamline implementation of regulatory changes. In response to consumer concerns that the program is too complex, instituting a brief, formal comment period, prior to any non-rate impacting changes, allows for smoother synchronization between FEMA and industry participants. The goal here isn't to slow down the process. It is about allowing FEMA to gather market input from those on the front lines, which would consider any unforeseen knock-on effects and mitigate any unintended consequences.

Third, increase consumer choice by explicitly encouraging private market participation. The bipartisan Flood Insurance Market Parity and Modernization Act (HR 1422/S 563), co-sponsored by Reps. Dennis Ross and Kathy Castor of Florida and Sens. Dean Heller of Nevada and Jon Tester of Montana, would accomplish this goal.

Fourth, bolster the financial stability of the NFIP through use of risk transfer/reinsurance. The Taxpayer Exposure Mitigation Act (HR 2246), introduced by Rep. Blaine Luetkemeyer of Missouri, would require risk transfer from the NFIP to the capital markets via reinsurance programs similar to those used by Fannie Mae and Freddie Mac.

The stakes are high, and times have changed – it's simply not practical to reauthorize the program as it stands today. The NFIP of the future must be a simplified, financially stable version that supports private flood insurance and protects both property owners and taxpayers, providing more options and risk mitigation.

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