

Enforcement of floodplain management standards could be more challenging within a private flood insurance system, as the current system makes the availability of NFIP insurance in a community contingent on the implementation of floodplain management standards. For example, the Association of State Floodplain Managers (ASFPM) has expressed concerns that the widespread availability of private flood insurance could lead some communities to drop out of the NFIP and rescind some of the floodplain management standards and codes they had adopted, leading to more at-risk development in flood hazard areas.⁹³ ASFPM suggested that this issue could be addressed by allowing private policies to meet the mandatory purchase requirement only if they were sold in participating NFIP communities.⁹⁴ FEMA suggested that access to federal disaster assistance could be made partially contingent on the adoption of appropriate mitigation policies, but noted that this approach could be politically challenging.⁹⁵ However, a positive consequence is that government investment in mitigation could increase private market participation by reducing the flood exposure of high-risk properties and thereby increasing the number of properties that private insurers would be willing to cover.⁹⁶

Concluding Comments

The policy debate surrounding NFIP and private insurance has evolved over the last few years. The discussion in 2012 was framed in the context of privatization of the NFIP and actions that might be taken to create conditions for private sector involvement. One of the primary interests of Congress at the time was to reduce the federal government's role in flood insurance by transferring its exposure to the private sector,⁹⁷ with an expectation that a realignment of roles would allow the federal government to focus on flood risk mitigation while private markets focused on providing flood insurance.⁹⁸ One argument for increasing private sector participation in the U.S. flood market was that competition should lead to innovation in flood risk analytics and modeling and produce new flood insurance products that would better meet customer needs and lead to greater levels of insurance market penetration.⁹⁹ In fact, private sector flood risk analytics and modeling have improved significantly before any sizable entry of private insurers into the market. Another argument was that, in contrast to the NFIP, which cannot diversify its portfolio of flood risk by insuring unrelated risks, the insurance industry can diversify catastrophic risks with uncorrelated or less correlated risks from other perils, other geographic regions, non-catastrophic risks, or risks from unrelated lines of business.¹⁰⁰

⁹³ Association of State Floodplain Managers, *ASFPM's Comments on Loans in Areas Having Special Flood Hazards - Private Flood Insurance Joint Notice of Proposed Rulemaking*, January 6, 2017, pp. 1-4, http://www.floods.org/ace-images/PrivateFloodIns_OCC_Jan2017.pdf.

⁹⁴ Ibid.

⁹⁵ FEMA, *National Flood Insurance Program Report to Congress on Reinsuring NFIP Insurance Risk and Options for Privatizing the NFIP*, August 13, 2015, p. 92, http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf.

⁹⁶ FEMA, *National Flood Insurance Program Report to Congress on Reinsuring NFIP Insurance Risk and Options for Privatizing the NFIP*, August 13, 2015, p. 108, http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf.

⁹⁷ Ibid., p. 2.

⁹⁸ Ibid., p. 52.

⁹⁹ FEMA, *National Flood Insurance Program Report to Congress on Reinsuring NFIP Insurance Risk and Options for Privatizing the NFIP*, August 13, 2015, p. 50, http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf.

¹⁰⁰ Ibid., p. 51.

FEMA considered a range of concrete steps by which the barriers to private sector involvement could be addressed.¹⁰¹ One of these has been introduced: the purchase of reinsurance. Two others are in progress: the reduction of premium subsidies for some properties¹⁰² and reporting to make premium subsidies and cross-subsidies more transparent.¹⁰³ Although BW-12 directed FEMA to make a recommendation about the best manner in which to accomplish the privatization of the NFIP, FEMA presented the report without a recommendation, arguing that any privatization strategy is complex and involves significant policy decisions that would require input from a variety of stakeholders. They concluded that there is no single, clear solution; it is heavily politicized; and harsh criticism of any change is inevitable.¹⁰⁴

Currently the discussion is more focused on sharing risk, with the recognition that neither the NFIP nor the private sector is likely to be able to write all of the policies needed to cover all of the flood risk in the United States. FEMA has identified the need to increase flood insurance coverage across the nation as a major priority for NFIP reauthorization, and this also forms a key element of their 2018-2022 strategic plan.¹⁰⁵ FEMA has developed a “moonshot” with the goal of doubling flood insurance coverage by 2023 through the increased sale of both NFIP and private policies.

The 2017 hurricane season highlighted the flood insurance gap in the United States, where many people that are exposed to flood risk are not covered by flood insurance. For example, in Texas and Florida, less than a third of the flooded residential structures in SFHAs were insured, and no more than 10%-12% of flooded residential structures outside the SFHA were insured.¹⁰⁶ Recent floods have also demonstrated that insured flood victims generally receive significantly more from NFIP flood insurance than from FEMA Individual Assistance (IA). For example, in the 2015 South Carolina floods, the average NFIP claim was \$34,936, while the average IA payment was about \$3,199. In the 2016 Louisiana floods, the average NFIP claim was \$90,725, while the average IA payment was about \$9,349. For Hurricane Harvey, the average NFIP claim was \$112,964, while the average IA payment in Texas was about \$4,331. For Hurricane Irma, the average NFIP claim was \$45,421, while the average IA payment in Florida was about \$1,302.¹⁰⁷

¹⁰¹ Ibid., pp. 82-84.

¹⁰² For a discussion of the reduction of NFIP subsidies and cross-subsidies, see the section on Pricing and Premium Rate Structure in CRS Report R44593, *Introduction to the National Flood Insurance Program (NFIP)*, by Diane P. Horn and Jared T. Brown, and the section on Premiums Subsidies and Cross-Subsidies in CRS Report R45099, *National Flood Insurance Program: Selected Issues and Legislation in the 115th Congress*, by Diane P. Horn.

¹⁰³ The requirement in section 28 of HFIAA (P.L. 113-89, 128 Stat. 1033) that the Administrator “clearly communicate full flood risk determinations to individual property owners regardless of whether their premium rates are full actuarial rates.”

¹⁰⁴ FEMA, *National Flood Insurance Program Report to Congress on Reinsuring NFIP Insurance Risk and Options for Privatizing the NFIP*, August 13, 2015, p. 84, http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf.

¹⁰⁵ FEMA, *2018-2022 Strategic Plan*, <https://www.fema.gov/media-library/assets/documents/160940>.

¹⁰⁶ CRS analysis of data provided by FEMA Congressional Affairs staff, November 6, 2017. For additional information on NFIP penetration rates in recent floods, see CRS Insight IN10890, *Closing the Flood Insurance Gap*, by Diane P. Horn.

¹⁰⁷ CRS analysis of data from FEMA on average NFIP payments at <https://www.fema.gov/significant-flood-events>. Data on IA payments for 2015 South Carolina floods at <https://www.fema.gov/disaster/4241>. Data for IA payments for 2016 Louisiana floods at <https://www.fema.gov/disaster/4277>. Data for IA payments for Hurricane Harvey in Texas at <https://www.fema.gov/disaster/4332>. Data for IA payments for Hurricane Irma in Florida at <https://www.fema.gov/disaster/4337>.

FEMA's view is that both the NFIP and an expanded private market will be needed to increase flood insurance coverage for the nation and reduce uninsured flood losses.¹⁰⁸ However, the private market is unlikely to expand significantly without congressional action. The concerns of private companies related to the mandatory purchase requirement and continuous coverage and the concerns of some Members of Congress about adverse selection are among the most pressing issues likely to be addressed in any long-term NFIP reauthorization.

¹⁰⁸ Roy Wright, *Keynote Remarks to National Flood Conference*, May 1, 2017, https://www.fema.gov/media-library-data/1493727672905-9f2950b534607c3f9ef3e771d28a81e2/PreparedRemarks_Wright_NationalFloodConference_May2017.pdf.