

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.<sup>104</sup> 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.<sup>105</sup> 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.<sup>106</sup> 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.<sup>107</sup>

## Concluding Comments

The policy debate surrounding NFIP and private insurance has evolved over time. 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,<sup>108</sup> 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.<sup>109</sup> 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.<sup>110</sup> 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.<sup>111</sup>

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<sup>104</sup> 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](http://www.floods.org/ace-images/PrivateFloodIns_OCC_Jan2017.pdf).

<sup>105</sup> *Ibid.*

<sup>106</sup> 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](http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf).

<sup>107</sup> *Ibid.*, p. 108,

<sup>108</sup> *Ibid.*, p. 2.

<sup>109</sup> *Ibid.*, p. 52.

<sup>110</sup> 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](http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf).

<sup>111</sup> *Ibid.*, p. 51.

FEMA considered a range of concrete steps by which the barriers to private sector involvement could be addressed.<sup>112</sup> Two of these have been introduced: the purchase of reinsurance and reporting to make premium subsidies and cross-subsidies more transparent.<sup>113</sup> The reduction of premium subsidies for some properties will occur with the introduction of Rating 2.0.<sup>114</sup> 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.<sup>115</sup>

Currently the discussion is more focused on sharing risk and increasing penetration rates, 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.<sup>116</sup> 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.

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.<sup>117</sup> 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.

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<sup>112</sup> Ibid., pp. 82-84.

<sup>113</sup> The requirement in §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.”

<sup>114</sup> For a full discussion 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 Baird Webel; the section on Premiums Subsidies and Cross-Subsidies in CRS Report R46095, *The National Flood Insurance Program: Selected Issues and Legislation in the 116th Congress*, by Diane P. Horn and Baird Webel; and the section on Premium Subsidies and Cross-Subsidies in CRS Report R45999, *National Flood Insurance Program: The Current Rating Structure and Risk Rating 2.0*, by Diane P. Horn.

<sup>115</sup> 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](http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf).

<sup>116</sup> FEMA, *2018-2022 Strategic Plan*, <https://www.fema.gov/media-library/assets/documents/160940>.

<sup>117</sup> 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](https://www.fema.gov/media-library-data/1493727672905-9f2950b534607c3f9ef3e771d28a81e2/PreparedRemarks_Wright_NationalFloodConference_May2017.pdf).