

Summary

The National Flood Insurance Program (NFIP) is the main source of primary flood insurance coverage in the United States, collecting over \$4.6 billion in premiums, fees, and surcharges for over five million flood insurance policies. This is in contrast to the majority of other property and casualty risks, such as damage from fire or accidents, which are covered by a broad array of private insurance companies. One of the primary reasons behind the creation of the NFIP in 1968 was the withdrawal by private insurers from providing flood insurance coverage, leaving flood victims largely reliant on federal disaster assistance to recover after a flood. While private insurers have taken on relatively little flood risk, they have been involved in the administration of the NFIP through sales and servicing of policies and claims.

In recent years, private insurers have expressed increased interest in providing flood coverage. Advances in the analytics and data used to quantify flood risk along with increases in capital market capacities may allow private insurers to take on flood risks that they shunned in the past. Private flood insurance may offer some advantages over the NFIP, including more flexible flood policies, integrated coverage with homeowners insurance, or lower-cost coverage for some consumers. Private marketing might also increase the overall amount of flood coverage purchased, reducing the amount of extraordinary disaster assistance necessary to be provided by the federal government. Increased private coverage could reduce the overall financial risk to the NFIP, reducing the amount of NFIP borrowing necessary after major disasters.

Increasing private insurance, however, may have some downsides compared to the NFIP. Private coverage would not be guaranteed to be available to all floodplain residents, unlike the NFIP, and consumer protections could vary in different states. The role of the NFIP has historically been broader than just providing insurance. As currently authorized, the NFIP also encompasses social goals to provide flood insurance in flood-prone areas to property owners who otherwise would not be able to obtain it, and to reduce government's cost after floods. Through flood mapping and mitigation efforts, the NFIP has tried to reduce the future impact of floods, and it is unclear how effectively the NFIP could play this broader role if private insurance became a large part of the flood marketplace. Increased private insurance could also have an impact on the subsidies that are provided for some consumers through the NFIP.

The 2012 reauthorization of the NFIP (Division F, Title II of P.L. 112-141) included provisions encouraging private flood insurance; however, various barriers have remained. Legislation passed the House in the 114th Congress (H.R. 2901) and 115th Congress (H.R. 2874) which would have attempted to expand the role of private flood insurance; neither bill was taken up by the Senate. In the 116th Congress, no NFIP legislation advanced past introduction. Two bills have been introduced in the 117th Congress for long-term reauthorization and reform of the NFIP.

The NFIP is currently operating under a short-term reauthorization until February 18, 2022.