**American Insurance Association**
**Financial Services Roundtable**
**Independent Agents and Brokers of America**
**Mortgage Bankers Association**
**National Association of Mutual Insurance Companies**
**National Association of Realtors**
**National Association of Home Builders**
**Property Casualty Insurance Association of America**

# National Flood Insurance Program
# List of "Consensus Reforms"

Inclusion of Deadlines for FEMA Responsibilities under 2004 Reform Act – This includes the appeals process; minimum training and education requirement; mitigation programs and a report to Congress on the implementation on the 2004 reform bill.

Provide Funding for Map Modernization – Funds should be appropriated to expedite completion of the map modernization initiative.

> *Rationale* - Every year, a significant percentage of flooding occurs in areas outside of designated flood plains. Modernization of flood zone maps is therefore critical.

Increase annual elasticity band for premium increases to no higher than 15% maximum per year

> *Rationale* - By statute the NFIP cannot increase annual premiums by more than 10% per year. For over two decades this has sustained an even checks-and-balance in the program, with the amount paid out in claims corresponding with the amount brought in. However, given the substantial increases in NFIP borrowing authority and the requirement that this money be paid back with interest, the NFIP needs to consider additional mechanisms for recouping losses. Increasing the annual premium restriction would likely result in a nominal difference in premium prices while at the same time generating a revenue stream for rectifying the program's indebtedness to the U.S. Treasury.

Consider Increasing Deductibles – Under the current program, the lowest deductible for structures and contents is $500, and could be increased to $1,000 for single family residential and up to 5% for 5 or more unit multi/family and commercial.

> *Rationale* – In the voluntary market for homeowners and commercial property insurance, there has been a trend toward increasing minimum deductibles, especially in catastrophe-prone areas. Increasing the minimum deductible could have many positive effects. First, it helps to increase capacity to write additional

business. Second, by increasing the share of the risk that the policyholder assumes, there is a greater incentive for the policyholder to engage in mitigation efforts. Third, higher deductibles can help keep premiums more affordable.

Increase Coverage Limits - Increase maximum dwelling coverage limit from $250,000 to_____ for 1-unit single family residential and from $500,000 to ____ for 2 or more unit multifamily/commercial structures. (The increase could be indexed to the rate of inflation, i.e., adjusting the $250,000/$500,000 limits, which were established in 1994, to 2006 dollars.) Increase maximum contents coverage from $100,000 for residential to [insert amount that is a proportionate increase to increase in structure limits] and from $500,000 to [insert amount that is proportionate increase to increase structure limits] for multifamily/commercial.

*Rationale* - The NFIP maximum limits have not been increased since 1994, yet labor and materials costs have increased significantly since that time. This would also include multifamily housing as commercial and increase the maximum accordingly. In addition, unlike a typical homeowners insurance policy, there is no automatic contents coverage. One benefit to the Program could be an increase in premiums collected, which will help maintain the Program's cash flow and solvency.

Consider Creating a "Deluxe" Flood Insurance Policy – Such a policy, that could be available for an extra premium, could include the following features: (1) alternative living expense coverage, set at a percentage of the structure limits, including lost rental income for rental properties; and (2) replacement cost coverage for personal property, if the policyholder is eligible for replacement cost on the structure and insures the structure to at least 80% of its value. Also include basement damage.

*Rationale* – Some consumers may believe that the current flood policy does not provide meaningful coverage. Some, however, believe that premiums for the coverage currently available are too high. By making an additional "deluxe" flood insurance policy available, the NFIP would be providing consumers with additional coverage options, the program may be more attractive to some consumers. In addition, the NFIP would generate additional premium dollars on the front end, which could help improve cash flow and preserve solvency.

Inclusion of Business Interruption Insurance as an option to commercial policies

*Rationale* - If a catastrophe, such as a flood, causes a business premises to be temporarily unusable, that business may have to relocate or even close down temporarily. Property owners are still required to pay employees, mortgages, leases and other debts during this process, and these ongoing expenses can mount up quickly for a business that has reduced income--or no income at all. For commercial insurance policies, business interruption insurance provides protection against the loss of profits and continuing fixed expenses resulting from an interruption in commercial activities due to the occurrence of a peril. Typically, business interruption insurance is part of a package or added when

purchasing property insurance, and it is directly associated with standard commercial fire policies. A business will be covered for profits they would have earned during the time they are unable to conduct business. This is generally based on the financial records of the company. The policy can also typically cover extraordinary expenses the business still has to pay even though they cannot resume normal operations, such as the phone or electric bill, relocation, and additional rental expenses for temporary premises.

The inclusion of an optional business interruption provision will provide stability to the local economies in the areas affected by flood damage, and will offset government disaster relief payments should the flood peril result in widespread destruction across a region. The pricing structure for such an endorsement at an additional cost can involve a more actuarial-based system in order to lessen taxpayer burden.

Require the GAO to Study Mandates and Other Issues – The Government Accountability Office (or other Federal government entity) should study how increasing participation in the NFIP might affect the program. Specifically, the GAO should consider an actuarial study on how changes in mandatory purchase requirements are likely to affect program participation. Changes that could be included are: Requiring homeowners who live in a flood zones beyond the current 100-year zone to purchase flood coverage from the federal government and studying estimates based on annual probability rather than mapping zones. Other issues to be included are: Studying the impact of increased premiums and increased coverage on regional markets, on the cost of housing and on the cost of existing homeownership and studying what mechanism would allow the for collection of flood insurance premiums for non-mortgaged properties. Finally, additional study options include: A more simplified rating and pricing system of the flood insurance policy and the impact of amending the flood policy to provide for replacement cost on contents.

*Rationale* – Before mandating increased participation in the program, for example, by requiring all mortgagees in designated flood plains to purchase federal flood insurance, or by requiring those in a 100-year natural or a one in 250-year or one in 500-year flood plain purchase this coverage, the GAO should study how these mandates are likely to affect participation, pricing, and the integrity of the program, and housing and regional markets. It may well be that increased participation could increase risk spreading, decrease adverse selection, and perhaps reduce premiums. But before any such changes are made, a study, with the input of actuaries knowledgeable about the NFIP, makes sense. The GAO should also study the impact of moving toward replacement cost coverage for contents, and how to implement more simplified rating and pricing of the flood policy.