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National Flood Insurance Program

Agenda

Today's Agenda

- Overview
- A brief history
- Program description
- Approach to ratemaking
- NFIP reform
- What's next?



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National Flood Insurance Program

Overview

Introduction

- Some things have changed.
- Some things have not.



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National Flood Insurance Program

Overview



"FLOODS ARE AN ACT OF GOD; FLOOD DAMAGES RESULT FROM ACTS OF MEN."

H.D. 465



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National Flood Insurance Program

Overview

Managing the Hazard of Flooding

A National Approach



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National Flood Insurance Program

Overview

A part of the FEMA Mission



FEMA Administrator
Craig Fugate

FEMA's mission is to support our citizens and first responders to ensure that as a nation we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from and *mitigate* all hazards.



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National Flood Insurance Program

Overview

Federal Insurance and Mitigation Administration (FIMA)

Formally the *Mitigation Directorate*



Woodstock, GA, October 1, 2009 - FEMA Mitigation Specialist Gisela Santiago provides information to a flood affected resident.



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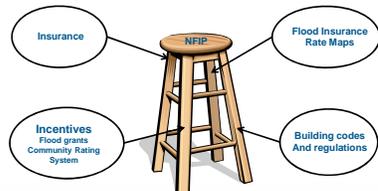
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National Flood Insurance Program

Overview

The NFIP – more than insurance

The NFIP is a voluntary Federal program enabling property owners in participating communities to purchase insurance against flood losses in exchange for adopting and enforcing regulations that reduce future flood damages. A participating community's floodplain management regulations, must meet or exceed the NFIP minimum requirements.



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National Flood Insurance Program

A brief history

Flood Insurance Protection Act of 1973

Tropical Storm Agnes in 1972

- Hit Southern Tier of NY, Northeast/Central PA, MD, DC, VA
- Very little flood insurance in force – Wilkes-Barre, PA had 29 policies
- Highlighted the need for incentives to participate and to buy flood insurance

Resulted in Act of 1973

- Established Mandatory Purchase Requirements
- Required FIA to notify all flood-prone communities (approx. 20,000) by June 30, 1974 of their special flood hazard areas (SFHA)



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National Flood Insurance Program

A brief history

FIA/NFIA Dispute - 1977

- Dispute over program authority and financial control
 - FIA position – Secretary of HUD, not NFIA, had ultimate authority over program policy and authority to audit NFIA financial records
- FIA opted to exercise Part B of 1968 Act – all Federal program using industry resources
- EDS served as NFIP Servicing Agent
- Began a period of tension with the private insurance industry



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National Flood Insurance Program

A brief history

1980's

- Two key goals:
- Make the NFIP self-supporting for the average historical loss year by 1988 (reached goal in 1986)
- Re-involve the insurance industry in the NFIP (Write Your Own Program)
 - 80+ private insurance companies – sell and service NFIP policies under their own name
 - Expense Allowance ~30% of premium (Based on A.M. Best)
 - 15% agents commission, 13% company expenses, 2% State premium tax
 - WYO Arrangement



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National Flood Insurance Program

A brief history

Hurricane Katrina – 2005

- 166,000 losses
- \$16 billion paid
- \$16 billion borrowed from Treasury



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National Flood Insurance Program

Program Description

Components of the NFIP that Buy Down Risk

The NFIP is a public safety program implemented at the local level.

- **Risk Analysis** (Mapping, Assessment and Planning)
- **Risk Reduction** (Floodplain Management, Building Science and Hazard Mitigation grants)
- **Risk Insurance**



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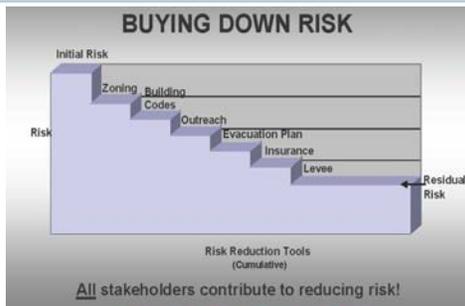
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National Flood Insurance Program

Program Description



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National Flood Insurance Program

Program Description

FIMA: Risk Analysis Division

Through collaboration with State, Local, and Tribal entities, Risk MAP will deliver **quality data** that increases **public awareness** and leads to **action** that **reduces risk** to life and property.



Watershed Approach



Science Based



Comprehensive Lifecycle



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National Flood Insurance Program

Program Description

FIMA: Risk Reduction Division

Floodplain Management



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National Flood Insurance Program

Program Description

FIMA: Risk Insurance Division

The National Flood Insurance Program (NFIP)

Nation's largest single-line property insurance carrier, with over a trillion dollars in insured assets and over 5 million policyholders in 20,600 communities.

Sets underwriting and claim policies to sell and service the NFIP policies by the insurance industry.

Why require Community Membership in the NFIP instead of selling policies to all individuals?



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National Flood Insurance Program

Program Description

FIMA: Risk Insurance Division

The scope of the National Flood Insurance Program

- Over 5.6 million policies in force.
- Over a trillion dollars in assets insured.
- Average Paid Loss - \$43,508
- Almost 21 thousand communities participate in the NFIP.
- 1,110 Communities participate in the Community Rating System.
- Only 23.3 % of homes in a Special Flood Hazard Area have flood insurance



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National Flood Insurance Program

Program Description

FIMA: Risk Insurance Division

Flood Insurance vs. Disaster Assistance

Disaster assistance is in the form of loans (must be repaid with interest) and grants; most forms of federal disaster assistance require a Presidential declaration.

Flood insurance is a payment on a claim; there is no payback requirement.



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National Flood Insurance Program

Ratemaking

Risk Rating Elements

- Flood Hazard (Coastal vs. Riverine)
- Elevation (difference from 1% flood, or from ground)
- Structure Type (number of floors, with or without basement, ventilated crawlspace, etc.)
- Contents Location (first floor and above, second floor and above, etc.)
- Community mitigation through CRS (Community Rating System – discounts for communities that actively manage their flood risk)



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National Flood Insurance Program

Ratemaking

Mapped Flood Hazards

Elevation rated hazards

- AE, A1-30 – elevation based riverine flooding (difference from 1% event)
- VE, V1-30 – elevation based coastal (velocity) flooding (diff. from 1% event)
- AO/AH – ponding and sheetflow (diff. from community standard)
- Unnumbered A – flood hazard based on approximate techniques

Non-elevation rated hazards

- D – Sparsely populated areas that do not warrant study
- B/C/X – less than 1% chance of flooding – Preferred Risk Policy (PRP) rates available



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National Flood Insurance Program

Ratemaking

Elevation rating – the science behind the rates

$$\text{RATE} = \left[\sum_{i=\text{Min}}^{\text{Max}} (\text{PELV}_i \times \text{DELV}_i) \right] \times \frac{\text{LADJ} \times \text{DED} \times \text{UINS}}{\text{EXLOSS}}$$

- PELV is the probability that flood waters reach a certain depth (frequency)
- DELV is the ratio of the flood damage to the value of the insurable properties (severity)
- LADJ, DED, UINS Loss adjustment expenses, underinsurance, and deductible
- EXLOSS is the loading for expenses and contingency



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National Flood Insurance Program

Ratemaking

Subsidized Rates – less than full risk rates

- Pre-FIRM (Flood Insurance Rate Map)
- Pre-'81 V
- AR/A99 incomplete or de-accredited levees



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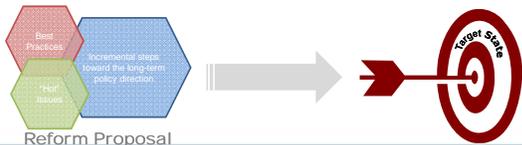
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Rethinking the NFIP

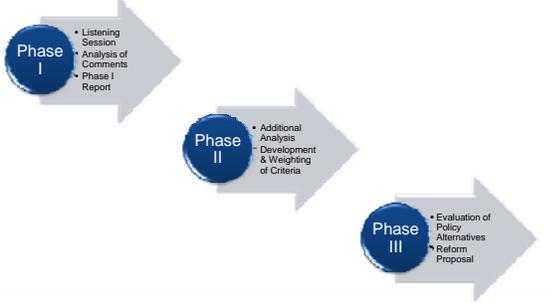
What does success look like?

- ❑ A Reauthorized NFIP
- ❑ Reform Recommendations that:
 - ❖ Addresses near-term "hot issues" in context of the future state
 - ❖ Considers expert judgment and best practices
 - ❖ Includes key elements for initial program changes (incremental changes toward the target state)
 - ❖ Addresses the long-term target state



Rethinking the NFIP

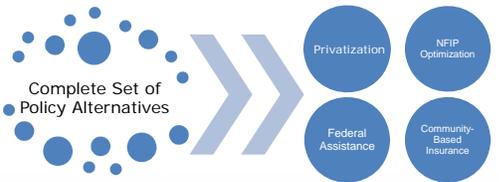
Public Policy Reform Process



Rethinking the NFIP

The Policy Alternatives

- Within each policy theme, the Working Group identified a comprehensive set of policy alternatives
- After gathering extensive stakeholder input, the options were narrowed and refined to represent the most feasible policy alternative for each theme



Rethinking the NFIP

Evaluated Policy Alternatives

Current NFIP with Modifications

- **This policy proposal seeks to make enhancements to the existing program to address programmatic weaknesses and current challenges while maintaining the current NFIP framework. Examples include:**
 - Future conditions (urbanization) will be mapped and used for regulatory purposes
 - Maps will show residual risk associated with flood control structures (landward side of levees and downstream of dams) and mandatory purchase requirements apply
 - Floodplain management requirements for all communities are more stringent to reduce losses
 - Subsidies are specifically phased out
 - Grandfathering of rates will be discontinued
 - Low income families will be eligible for assistance to purchase flood insurance through FEMA
 - Disaster assistance will only be available to insured structures located in SFHA



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Rethinking the NFIP

Evaluated Policy Alternatives

Privatization Background

- **Under this theme, FEMA is seeking the optimal balance of shared flood coverage between the private and public sectors**
- **Advantages: innovation, increased coverage, cost of insurance communicates risk**
- **Challenges: rating freedom, adverse selection, catastrophic losses**



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Rethinking the NFIP

Evaluated Policy Alternatives

Privatization Overview

- **Private market with Federal residual pool**
- **Federally provided catastrophic reinsurance for private market (in excess of traditional reinsurance layer)**
- **Vouchers for low-income**
- **Optional federal rating board (rate and form freedom), optional mandatory purchase (adverse selection, non-participation)**



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Rethinking the NFIP

Evaluated Policy Alternatives

Federal Assistance

- Policy establishes a quid pro quo system which ties eligibility to federal pre- and post-disaster assistance, including mitigation assistance and other federal flood management programs, with a community's enacted mitigation measures.
- A community rating would determine local cost-share for disaster assistance, flood control projects (US Army Corps. of Engineers), and other federal projects.
 - Advantages: Greater flexibility of implementation on the part of the community. Could also include "community resiliency" measures.
 - Concerns: Would need to account for small and impoverished communities



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Rethinking the NFIP

Evaluated Policy Alternatives

Community Based Insurance

- This policy proposal seeks to establish a direct link between the land use and construction decisions of a community and the full cost of flood.
- FEMA is exploring a communitywide insurance policy under this theme;
- While some communities have reservations about this approach, others have expressed interest in this policy alternative. Points of discussion include methods for risk assessments and methods for premium collection.



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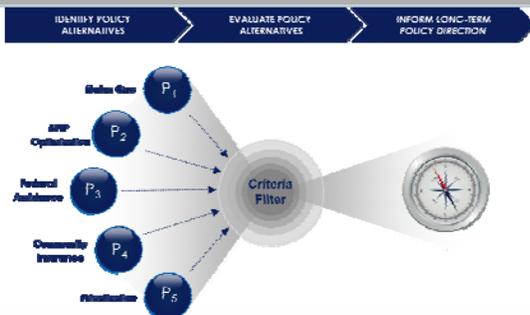
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Rethinking the NFIP

Which Direction Should We Select?



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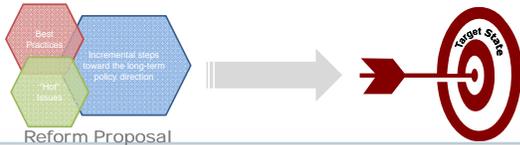
Rethinking the NFIP

What does success look like?

A Reauthorized NFIP

Reform Recommendations that:

- ❖ Addresses near-term "hot issues" in context of the future state
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Reform Proposal



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