

REFORM & REAUTHORIZE THE NATIONAL FLOOD INSURANCE PROGRAM

BACKGROUND

The National Flood Insurance Program (NFIP) was created as a result of the passage of the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973. It is a federal program, managed by the Federal Emergency Management Administration (FEMA), and has three components: to provide flood insurance, to improve floodplain management and to develop maps of flood hazard zones. **Homes and businesses in high-risk flood areas with mortgages from federally regulated or insured lenders are required to have flood insurance.** While flood insurance is not federally required if you live in a moderate to low-risk flood area, your lender may still require you to have insurance.

Damage from a flood is not covered under a standard homeowner's policy. Flood insurance is a special policy that is federally backed and available for homeowners, renters and businesses. According to FEMA, **90 percent of all natural disasters involve flooding, and all 50 states have experienced floods or flash floods in the past five years.**

THE ISSUE

To date, the NFIP is authorized until May 31, 2019, and with hurricane season beginning June 1, it is crucial there is no lapse in authorization.

When there is a lapse in NFIP reauthorization, policies cannot be renewed and new policies cannot be written. The NFIP currently undergoes short-term reauthorizations, which result in program volatility and lapses that create uncertainty not only in the insurance market, but also in the housing market. It has been estimated that should the NFIP lapse for a month, the U.S. economy would lose out on 40,000 property sales.

The Biggert-Waters Act of 2012 required the banking regulators to issue a rule to implement its private flood insurance provisions. It is through the mortgage lenders discretionary acceptance that the current private flood insurance market has been able to exist and provide financial protection in areas that the NFIP cannot.

The FDIC and the Comptroller of the Currency have signed off on the final version of the regulation, which must also be approved by the Federal Reserve, National Credit Union Administration and Farm Credit Administration. Once finalized by these agencies, the rule is set to take effect July 1.

While we applaud the 7-year effort of these regulating agencies, we are concerned and seek legislative affirmation from Congress as it concerns the acceptance of non-admitted insurers, also known as surplus lines carriers. Surplus lines

carriers are beneficial in the flood insurance market as they cover risk that the standard insurance market may not, like flood risk to a large commercial property.

Currently, it is not clear that if a property owner were to purchase private flood insurance and decided to then return to the NFIP, if they would be considered having maintained continuous coverage. Continuous coverage is required for property owners to retain any subsidies or cross-subsidies in their NFIP premium rates. A borrower may be reluctant to purchase private insurance if doing so means they would lose their subsidy should they later decide to return to NFIP coverage.

OUR POSITION

The Council urges Members of Congress to support legislation that will not only provide a long-term reauthorization of the NFIP, but also provide unwavering clarity on the acceptance of non-NFIP policies for residential and commercial properties. In addition, we urge all Members to include continuous coverage in any upcoming reauthorization legislation.

ABOUT US

The Council of Insurance Agents & Brokers is the premier association for the top regional, national and international commercial insurance and employee benefits brokerage firms worldwide. Council members are market leaders who annually place 85 percent of U.S. commercial property/casualty insurance.

joel.wood@ciab.com
joel.kopperud@ciab.com
blaire.bartlett@ciab.com