By Briana Bell

The National Flood Insurance Program, or NFIP, began in 1968 and has since focused on providing insurance to high-risk flood communities. The program, although intended to mitigate the financial effects of floods, has come under criticism from some who believe the program subsidizes building in high risk areas.

“Flooding is the most common and costly natural disaster in the United States,” said Elizabeth Mendenhall, National Association of Realtors president, and according to the Federal Emergency Management Act, or FEMA, the program is designed to reduce the socio-economic impact of these disasters.

However, multiple-loss properties, which account for 30% of all claims, and a series of high profile flood events have led to the program accruing a significant amount of debt. Despite Congress’s $16 billion-dollar debt forgiveness in 2017, the program has already gained back a substantial amount of that debt and, with hurricane season in effect, will likely accumulate more.

On July 31, 2018, Congress renewed the 50-year old NFIP program. Yet, despite years of successful reauthorization efforts, the House has reportedly experienced increasing difficulty and faces pressure to make reforms to the program before its next expiration date, November 30, 2018. Prospects in the Senate are less certain without additional reforms, as even the most recent reauthorization narrowly passed.

While some, including Senator Bill Nelson and Senator Marco Rubio, both of Florida, are relieved about the reauthorization, others have expressed their disapproval of this process.

Senator Roger Wicker of Mississippi explained that, as a group, they were not thrilled to reauthorize the program so close to the deadline.

“[Short term reauthorization] should motivate members to work across the aisle to provide meaningful reforms,” Senator Roger Wicker told The Washington Post.

Other senators, including Louisiana Senator Bill Cassidy and Senator John Kennedy and New Jersey Senator Robert Menendez, have noted their continuous efforts to improve the program.

The current bill addresses operational issues like premium rates, accurately mapped high-risk areas, and financial advising of at-risk communities. HR 2875 allows FEMA to require the property owner remain insured while the property lies within the mapped flood zone. Accordingly, agents are required to advise each client of certain financial options depending on the location of the property. In addition, the bill establishes annual premium rates and has recently introduced policies with optional additional coverage. These rates are intended to accommodate properties at high risk of future flood damage.

With an increase in flood damage to homes outside of mapped flood zones, lawmakers have also sought to find ways to utilize private sector innovations. The private sector, according to a recent report in The Washington Post, lacked the financial and analytical capacity to manage such a task in the beginning years of this program. Nonetheless, FEMA is now encouraging private companies to supplement the NFIP and enter the market through the Write Your Own program.
FEMA explains that the Write Your Own program allows private insurance companies to issue flood insurance policies in their own name, while offsetting much of the financial responsibility to the federal government. The goals of this program are to increase the policy base and geographic distribution of policies and improve service to policyholders by providing insurance industry knowledge. Although restricted by federal rules and regulations, these private companies are free to deny a claim in the event of a flood loss under NFIP. These WYO’s are incentivized by the NFIP through expense allowance for written policies and processed claims.

If a property owner is a member of a community participating in the NFIP, the owner may purchase flood insurance through the NFIP. The community is only granted federal participation after agreeing to adhere to certain statutory provisions that mitigate risks, such as the construction of floodplains.

With policies available either directly through the NFIP or through WYO private insurance companies, lawmakers hope to increase coverage nationally and operate strategically to ensure fair treatment of policyholders and efficient use of funds.

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