

# Private Market Reforms to Flood Insurance Market Can Protect Taxpayers

*Congress Should Support Increased Private Involvement in Flood Insurance*

Dear Member of Congress:

As free market organizations who participate in the [SmarterSafer](#) coalition, we encourage you to keep the interests of taxpayers in mind when reforming America's flood insurance markets. Historically, legislation in these areas was written in response to major catastrophes, narrowly focusing on the needs of affected residents and their local/state governments with little concern for broader impacts on the nation. With the current debt [level](#) of the National Flood Insurance Program (NFIP) eclipsing \$22 billion a few months ago, and overall federal debt approaching \$39 trillion, taxpayers cannot afford further government intrusions into insurance markets.

The NFIP was created by Congress in 1968, partially in response to a lack of private flood insurance options available to Americans, as well as escalating federal government costs from post-disaster legislation. Private insurers mainly exited this market in the late 1920s, after a major Mississippi River flood caused them to conclude that future risk was uninsurable at a rate level that consumers could afford. At the time, companies also encountered great difficulties in creating accurate risk assessments that could set appropriate rates. However, the private sector now has ample tools available to better assess risk, including LiDAR technology, high-resolution imaging, flood sensor and virtual water gauges, and high precision 3D risk modeling. Thanks to products like reinsurance and catastrophe bonds, insurance companies have more options available to them to operate in markets where major loss events are more likely to occur.

In the early years following creation of NFIP, Congress envisioned a more robust role for private insurance, one that would re-enter markets over time and supplant the government backstop. Currently, the private sector's role is limited to writing NFIP flood policies, with premiums that are artificially constrained by the NFIP's price setting. NFIP premiums have historically been set at levels below program costs. This is because the government has prioritized affordability and accessibility over actuarial soundness, which is partially why the program is still more than \$22 billion in debt even after \$16 billion was previously forgiven by Congress in 2017.

While we support the goal of affordable insurance coverage that is available to all, the NFIP's role in creating untenable, artificially low premiums distorts and limits the flood insurance market. Rather than correcting a market imperfection, the current role of NFIP obfuscates the economic reality for policyholders and taxpayers, artificially forcing down premiums while moving the repayment risk to taxpayers to cover at an unknown and unforeseen date.

We encourage Congress to allow for full implementation of [Risk Rating 2.0](#), as envisioned by the [Biggert Waters Flood Insurance Reform Act of 2012](#) (BW12), which realigns the NFIP's premium pricing to more accurately account for risk and replacement cost. Risk Rating 2.0 is a step in the right direction of reducing premiums for lower-income policyholders, and right-sizing premiums for wealthy, coastal properties which cannot be continually supported by taxpayer subsidies. In the long run, taxpayers should not be expected to subsidize insurance coverage costs, as this delays the time when private insurance can take a broader role in the market.

To be fair, some homeowners in lower income communities have come to rely on subsidized rates, and policymakers must be careful not to unfairly pull the rug out from under them. As part of a transition to a fully private market, we support carefully designed, properly overseen, means-tested assistance outside of the insurance rate structure to help ensure that nobody is left stranded without any kind of financial hope. This will allow for rate pricing under Risk Rating 2.0 to clearly communicate flood risk, while helping those in marginal communities maintain insurance coverage.

Also, while the federal government is still in the business of providing flood insurance coverage, it is appropriate to continue a limited federal role in floodplain management. For those communities that choose to participate in the NFIP, they should take actions to limit taxpayers' costs going forward, including encouraging changes that limit or exclude properties with repetitive losses and implementing policies that help improve their score in the Community Rating System (CRS). The CRS should also be strengthened to better reflect taxpayer risk, including using modern risk data in developing updated ratings.

We strongly believe that, over time, the private insurance market can successfully build a full-fledged suite of products that meet the needs of virtually all policyholders, at pricing that they can afford. That is, if the federal government gets out of the way. Firms are already successfully [entering](#) this space. The blossoming of the private flood insurance program is a big step forward. A flood insurance managing general agent recently held a successful initial public offering, and the private flood market has distinguished itself by providing higher limits than what is available from the NFIP. Federal policies should encourage this transition to continue. As a result, we oppose any legislation that would expand the federal role in any part of the homeowners insurance market, including any attempt at creating a federal reinsurance program.

We want to be a partner in your efforts to move America toward a more sustainable flood insurance system, and ultimately a more resilient structure for all types of home insurance. Please consider reaching out to our groups as you develop proposals. Correspondingly, we will carefully review all legislation in this space. Those of us who issue legislative scorecards, vote alerts, or other legislative evaluations will give considerable weight toward these proposals.

Thank you for your consideration. Our groups, as well as other organizations that broadly partner through SmarterSafer, look forward to working with you.

Sincerely,



**National Taxpayers Union**  
Pete Sepp  
*President*



**R Street Institute**  
Jerry Theodorou  
*Director - Insurance, Finance &  
Trade Program*



**Taxpayers for Common Sense**  
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