

Flood Insurance Issues

In the Aftermath of Biggert–Waters

CARe Meeting
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Agenda

- American Academy of Actuaries Involvement
- Some Issues Raised by Biggert–Waters
 - Privatization
 - Reinsurance – Capital Markets
 - NFIP Debt
- World–Wide Flood Issues

Brief background – AAA involvement

- ▶ Previous Flood authorization expired in 2008
- ▶ AAA Extreme Events Committee started work on paper to address flood issue
- ▶ Congress took 5 years – and numerous short-term authorizations to pass new law
- ▶ *The National Flood Insurance Program: Past, Present...and Future? – 2011*
 - Purpose was to educate on the Flood program to aid in the public discourse
 - Primary audiences
 - Actuaries
 - Decision makers

Brief background – AAA involvement

- ▶ Capitol Hill briefing on monograph (July, 2011)
- ▶ Comment letters and written testimony to Congress when deliberations were ongoing (e.g., 6/28/12)
- ▶ Presentations to NCOIL and NAIC (2011,2012)
- ▶ Comment letters concerning the House and Senate bills, 2013 and 2014

Biggert–Waters Studies / Issues

- Privatization
 - Why was flood deemed uninsurable?
 - Only those who would often get flooded were interested in buying it
 - Premium for those properties alone would be prohibitive
 - Small premium base wouldn't support catastrophic potential

Biggert–Waters Studies/Issues

- Privatization
 - Do past issues still exist?
 - Current situation
 - Few companies stepping in to profit from this niche
 - Some companies offer excess coverage on high valued properties
 - Large commercial properties usually covered in all–risk policies
 - Lloyds of London has begun to offer private flood insurance
 - And, Florida has a new law trying to encourage private flood insurance
 - Few buy NFIP insurance unless forced
 - And, enforcement not consistent even when mandated

Biggert–Waters Studies/Issues

- Privatization
 - Do past issues still exist?
 - Can new technologies help?
 - Wharton/CoreLogic Study
 - *A Methodological Approach for Pricing Flood Insurance & Evaluating Loss Reduction Measures: Application to Texas*

Biggert–Waters Studies/Issues

- Privatization
 - Can it be properly rated? And would those rates be sustainable in the market?
 - Expected Losses can be estimated by models
 - Much more granular rating than NFIP
 - NFIP has no capital requirements – therefore, no capital cost load – private companies would need a significant load
 - An estimate has been made that rates would have to be roughly doubled if written privately
 - Can it develop a broad base?
 - Without a mandate, it's hard to foresee increase in take-up rates

Biggert–Waters Studies/Issues

- Reinsurance or Capital Markets
 - Can these mechanisms be used to support the NFIP?
 - At current rate levels, there is little premium to cover the cost of private reinsurers
 - Could Federal government act as reinsurer instead of simply a lender?
 - One idea – Federal government pays for private market reinsurance
 - Would provide a stable expense for the government
 - Private/Public partnership in vogue now for some
 - Politically viable?

Biggert–Waters Studies / Issues

- Reinsurance or Capital Markets
 - Can these mechanisms be used to support a private market?
 - This could be a key piece of privatization – but requires enough premium to pay for the reinsurance

Biggert–Waters Studies / Issues

- Should the Debt be Forgiven?
 - At current rate levels, it would take decades to repay debt – even without further major occurrences
 - After Katrina, about \$20B
 - After Sandy, currently about \$24B
 - Biggert–Waters requires FEMA to create a repayment schedule
 - Must submit to Congress a report on options to eliminate debt in 10 years

Biggert–Waters Studies /Issues

- Should the Debt be Forgiven?
 - Reserve
 - Required by Biggert–Waters
 - 1% of "total loss potential" in force
 - Fund at 7.5% of reserve ratio until capitalized
 - If NFIP unable to make the minimum contribution, it must report this to Congress
 - How is this to be paid for?

Foreign Flood Situation

- Germany
 - Was mandatory – changed to private market
 - Exclusively private companies
 - Penetration is low
- United Kingdom
 - Exclusively private companies
 - Flood bundled with other HO coverages
 - Penetration is high

Foreign Flood Situation

- France
 - Exclusively private companies
 - Mandatory for HO insurance
 - Government-run nat-cat reinsurance
- Czech Republic
 - Private Insurer
 - Coverage optional
 - Penetration is medium
- Australia
 - Private market
 - Penetration is high in hazardous areas (Queensland)

Foreign Flood Situation

- Spain
 - Private companies
 - Flood bundled with other HO coverage
 - Penetration is high
 - Government-run reinsurance company
- Netherlands
 - Government pays losses from taxes
- Switzerland
 - Varies by Canton
 - Mix of public and private companies
 - Mandatory with fire insurance
 - Government-run reinsurance pool

Questions and Answers