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US Flood Insurance: Current NFIP and Public Policy Issues

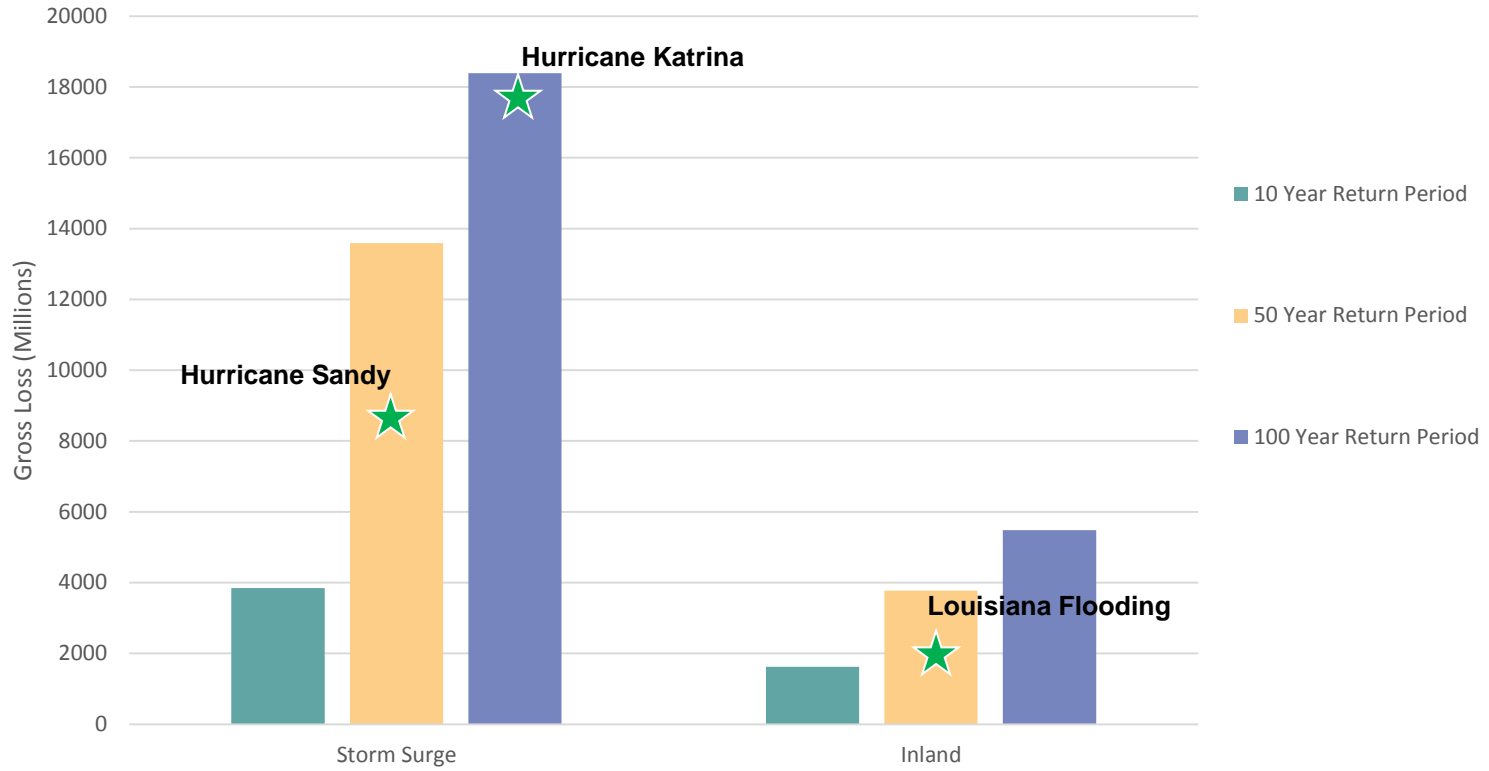
Andy Neal
Federal Emergency Management Agency (FEMA)
Federal Insurance and Mitigation Administration (FIMA)

- 2017 Reinsurance Program
- Risk Rating Redesign
- Sound Financial Framework
- Catastrophic Models

Historic Losses Compared with Expected Losses

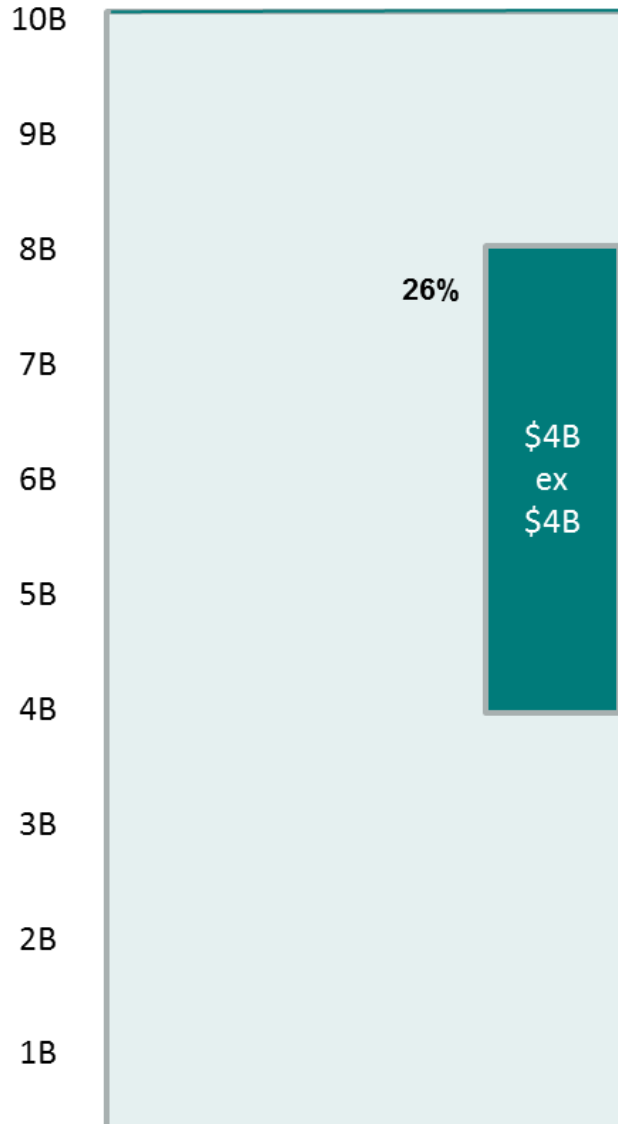


Countrywide Expected Losses – Occurrence Basis



- A notice was widely distributed to announce FEMA's intent to purchase reinsurance
- FEMA requested pricing from **12** leading reinsurers
- FEMA issued Firm Order Terms to **76** reinsurers
- A total of **39** reinsurers offered capacity in support of the Program
- FEMA signed the agreement with **25** reinsurers

The 2017 Reinsurance Program protects against medium-sized events



- Transfers \$1.04B in NFIP flood risk to reinsurers
- Reduces the likelihood of exceeding the current claims paying capacity by 10%
- Attaches reinsurance at more likely loss levels, which is advantageous given NFIP's financial position as of January 2017

Program Design:

- 26% between \$4B and \$8B
- 14.4% Rate on Line
- Total Spend: \$150M

- Current rating system jointly developed by NFIP and private insurance industry
 - Current system was developed in the 1960's and 1970's
 - Based on best practices of fire and home insurance sector
- NFIP has not stayed current with industry
 - NFIP risk rating approach has changed over time but without real regard for industry
 - Need to develop an approach that can be continuously upgraded and stay current
- A customer-experience assessment identified the following gaps:
 - policyholders lack understand their flood risk
 - Inconsistency in program value proposition

Updating the Risk Rating approach is a step towards improved customer experience

Experiment and innovate to continuously improve our understanding of risk

Examples of individualized risk in car insurance



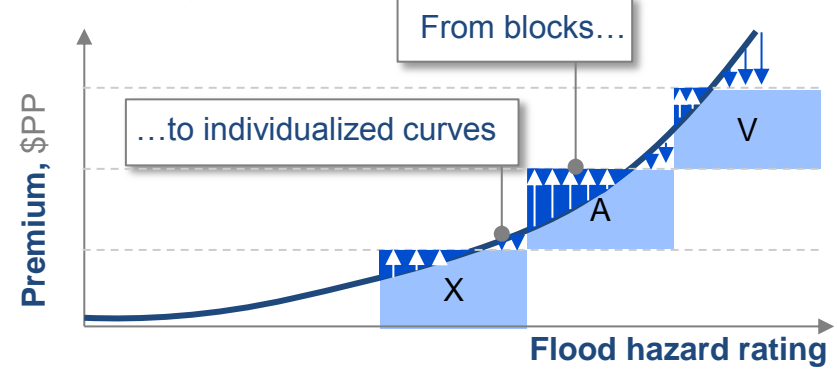
Incorporates behavioral changes in individual risk assessments, and adjusts premiums accordingly



What this could look like for the NFIP

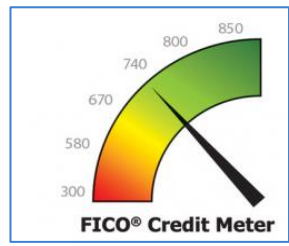
Structure-specific flood risk assessment

Current zoning model



Communicate flood risk through a simple, integrated flood score

Examples of rating scales



What this could look like for the NFIP

Flood score that reflects individual property risk



SOURCE: Company websites; TMAC 2015 Interim Annual Report; FEMA's National Flood Hazard maps

Risk Rating Redesign will enable citizens to better understand their flood risk and the actions they can take to reduce that risk – ultimately saving lives and property.

- Provides a Flood Risk Score for every property
- Simplifies the sale of a flood insurance policy and opens up the possibility of online policy sales
- Allows for targeted floodplain management because a score would clearly identify the risk to an individual structure
- Easier to prioritize mitigation projects to target the highest risk properties
- Mapping and catastrophic risk modeling will inform the severity of the risk to which an individual structure is exposed
- Supports FIMA Moon Shots:
 - Double Coverage by 2023
 - Increase Investment in Mitigation x4 by 2023



Accuracy

Improve accuracy of the NFIP's risk classification system and Risk Rating model to inform policy, pricing decisions, data collection, and cost

Agility

Increase agility by adapting to new methods and data that is current with industry standard, with a focus on continuous improvement

Cost-effective Methodology

Increase cost-effectiveness by using purposeful, value-driven approach to collecting, analyzing and communicating flood risk

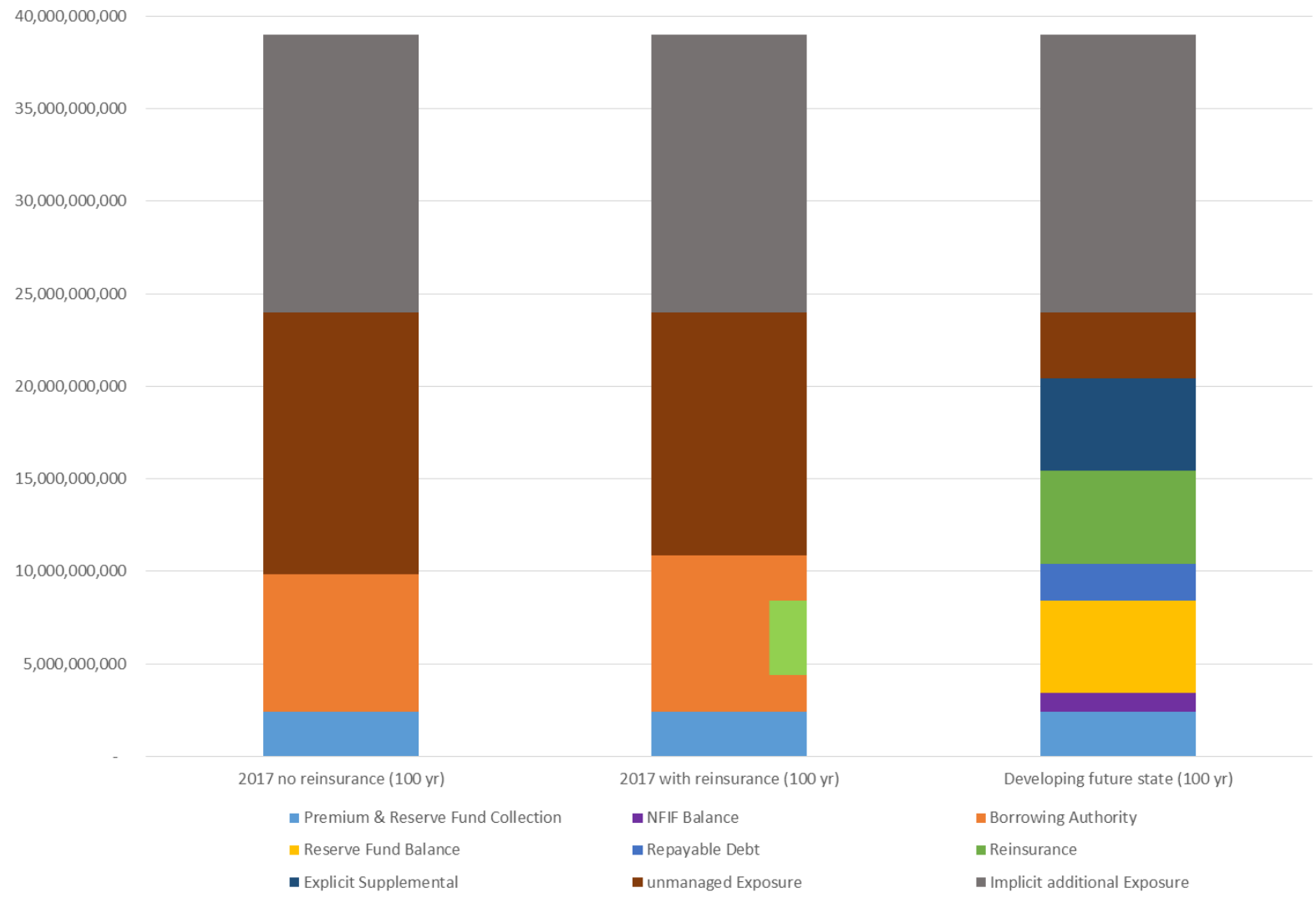
Customer Orientation

Improve customer experience by improving policyholder understanding of their risk and the delivery of the pricing to the policyholders

Improved Floodplain Management

Support sound floodplain management by more clearly communicating risk at both the community and individual level

Current and Future Exposure Management



FEMA has plans to procure catastrophic flood models in 2017 in order to:

- understand the program's risk and exposure to flood loss
- price reinsurance
- help the NFIP set rates for their policies
- understand and validate the accuracy and precision of available catastrophic flood models
- understand the ability of the catastrophic models to provide real-time event tracking information for major flooding events

- FIMA is charged to increase the resiliency of the nation, to ensure that Americans are better prepared for and protected against flooding
- Individuals understanding their own risk is important for building resiliency
- Risk Rating Redesign and Reinsurance are critical in building a sound financial framework

Thank You