



LEGISLATIVE REVIEW

SEPTEMBER 2017

The National Flood Insurance Program

What is a flood?

The Federal Emergency Management Agency (FEMA) defines a flood as:

“1) A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is the policyholder’s property) from:

- Overflow of inland or tidal waters; or
- Unusual and rapid accumulation or runoff of surface waters from any source; or
- Mudflow.

2) Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above.”¹

Floods are a component in about 90% of all disasters and are considered one of the most destructive types of natural disasters in the United States. According to CoreLogic’s annual Natural Hazard Risk Summary and Analysis there were \$17 billion in total flood losses in 2016, about six times as much as in 2015.² A small level of water can be devastating and can literally occur anywhere—not just in designated flood zones. Nearly all standard property policies (personal and commercial) exclude flood losses.

What is the legislative history of federal flood insurance?

In response to a lack of coverage in the standard market, Congress passed the National Flood Insurance Act of 1968 (NFIP). It provided flood insurance, floodplain management (zoning, building codes, etc.), and flood hazard zone maps.

The Flood Disaster Protection Act of 1973 made the purchase of flood insurance mandatory for the protection of property located in special flood hazard areas.

The Biggert-Waters Flood Insurance Reform Act of 2012 was signed into law on July 6, 2012. It was designed to make the program “actuarially

sound” by adjusting the program’s premiums cover its expected claims and to reauthorize the NFIP until September 30, 2017.

The Homeowner Flood Insurance Affordability Act of 2014 was signed into law on March 21, 2014. It intended was to soften the impact of premium increases of Biggert-Waters by lowering rates and limiting rate changes.

HR 2901/S.1679 Flood Insurance Market Parity and Modernization Act were identical bills in the House and Senate. It amended the Flood Disaster Protection Act of 1973. The House passed it on April 28, 2016, but the bill failed to make it out of the Senate’s Committee on Banking, Housing and Urban Affairs.

What is currently covered in the federal flood insurance program?

It provides, a single-peril policy, for direct physical damage to the insured property (structure/contents) up to the lesser of actual damages or the policy limits. The current limits can be found on the following page.³

The full FEMA Flood Insurance Manual is available on FEMA’s website.⁴

Why is legislation needed?

1. The current law expires on December 8, 2017.
2. The National Flood Insurance Program (NFIP) has a debt of about \$25 billion.
3. NFIP premiums are not actuarially sound and, if so, unaffordable.
4. There is a low participation rate, which could be improved by a redesign.
5. There is market uncertainty as to future acceptability of private insurer policies.
6. Resilience efforts (mitigation, mapping and community participation) are not addressed.

¹ Definitions (FEMA) Retrieved on May 17, 2017, <https://www.fema.gov/national-flood-insurance-program/definitions#F>

² January 26, 2017, Floods, Damaging Winds Most Destructive Natural Hazards in 2016, Claims Journal, Retrieved from <http://www.claimsjournal.com/news/national/2017/01/26/276501.htm>

³ Flood Insurance manual, Rating Section, Page 1 (April 1, 2017 edition). Retrieved on May 22, 2017 https://www.fema.gov/media-library-data/1491846079273-28adf8361db1633c5445e-716c15b0f58/05_rating_508_apr2017_v2.pdf

⁴ <https://www.fema.gov/media-library/assets/documents/130234>

The National Flood Insurance Program Insurance Limits^{1,2}

	Emergency Program	Regular Program		
		Basic Insurance Limits	Additional Insurance Limits	Total Insurance Limits
Single-Family Dwelling	\$35,000 ³	\$60,000	\$190,000	\$250,000
2–4 Family Building	\$35,000 ³	\$60,000	\$190,000	\$250,000
Other Residential Building	\$100,000 ⁵	\$175,000	\$325,000	\$500,000
Non-Residential Building (including Business Buildings and Other Non-Residential Buildings) ⁴	\$100,000	\$175,000	\$325,000	\$500,000
Contents Coverage				
Residential Property ⁶	\$10,000	\$25,000	\$75,000	\$100,000
Non-Residential Business, Other Non-Residential Property ⁴	\$100,000	\$150,000	\$100,000	\$500,000

1. This table provides the maximum coverage amounts available under the Emergency Program coverage and the Regular Program, and the columns cannot be aggregated to exceed the limits in the Regular Program, which are established by statute. The aggregate limits for building coverage are the maximum coverage amounts allowed by statute for each building included in the relevant Occupancy Category.
2. These limits apply to all single condominium units and all other buildings not in a condominium form of ownership, including cooperatives and timeshares. Refer to the Condominiums section of this manual for basic insurance limits and maximum amount of insurance available under the RCBAP.
3. In Alaska, Guam, Hawaii, and U.S. Virgin Islands, the amount available is \$50,000.
4. For further guidance on Non-Residential Business and Other Non-Residential occupancies, refer to the General Rules section of this manual.
5. In Alaska, Guam, Hawaii, and U.S. Virgin Islands, the amount available is \$150,000.
6. The Residential Occupancy Category includes the Single Family, 2–4 Family, Other Residential, and Residential minimum Occupancies.

What does RIMS want to see in the final legislation?

- 1. Continue to Fund Accurate and Up-to-Date Mapping:** Congress must ensure that the highest-quality data is used when updating the flood maps. More accurate mapping will enable the NFIP and private insurers to offer rates based on more accurate calculations of a property’s risk of flooding. We urge Congress to continue to fund and support any efforts to modernize and update the current flood mapping system. We encourage Congress to assess the current mapping guidelines to ensure that FEMA is using the most accurate data from public and private sources. We also ask that Congress explore ways to expedite the mapping approval process—currently, there are maps that have taken upwards of two years to be approved and adopted.
- 2. Allow for the Purchase of Blanket Policies:** Currently, owners of commercial properties are forced to purchase a separate NFIP policy for each property they own. This can be burdensome as many commercial and state and local government entities may own hundreds of buildings. For example, an apartment complex with one owner will have to purchase a separate policy for each building within their complex. Allowing policyholders to cover multiple buildings under one policy will eliminate the current frictional costs for both the policyholder and the NFIP.
- 3. Expand Commercial Coverage for Betterments and Improvements:** Under current NFIP rules, a tenant who leases space in an NFIP covered building is unable to purchase insurance to cover damages to the betterments and improvements they have made caused by flood. These

are defined as anything a tenant attaches to the landlord’s real estate that will become permanent part of the real estate; in most cases referring to office and commercial space build outs. A majority of tenants spend significant amounts of money to build out their leased space within a building including flooring, light fixtures and wall coverings. We ask Congress to consider allowing the NFIP to cover these expenditures specifically for tenants in commercial buildings so that they may recover and rebuild after a flood. Allowing for this coverage will also give tenants an opportunity to participate in the NFIP which would increase the amount of policyholders.

4. Address Privatization Concerns

RIMS supports efforts to allow for private insurance companies to enter the flood insurance market. However, as Congress explores this option it should consider the following:

- *Support Continuous Coverage:* Ensure that if an entity decides to use a private insurer for their flood coverage that they are allowed to return to the NFIP as needed.
- *Meet Current NFIP Coverage Criteria:* Ensure that private flood policies are consistent with the NFIP in cases where those with federally-backed mortgages are required to buy coverage.
- *Encourage Risk-Sharing:* Explore ways to ensure that private insurance companies entering the flood market assume some of the bad risk in high-risk flood areas and states.