Center for Economic Justice Summary Proposal for NFIP Reform

1. **Flood Coverage Included In Residential And Property Insurance Policies – Phase Out NFIP As Direct Provider Of Flood Insurance**

Benefits:

- More resilient and sustainable buildings and infrastructure because of broader -- near universal – flood insurance coverage
- Reduce cost of providing flood insurance coverage by eliminating administrative costs of second policy, eliminating claim costs of adjusting wind versus flood claims; reducing average claim costs by dramatically increasing the diversification of risk.
- Provide same state-based consumer protections for flood as exist for all other property insurance, including oversight of sales, policies and claims settlement.
- Raise risk awareness of consumers and meet consumers' expectations of coverage by proving flood coverage that matches coverage provided for other catastrophic perils.
- Eliminate future federal taxpayer liability for flood insurance
- Re-orient federal expenditures from subsidies for non-resilient, unsustainable structures to investments in loss mitigation for those needing financial assistance.
- Greater reliance on and use of private capital and market forces for financing disaster relief and promoting loss mitigation partnerships.
- Risk-based pricing to better enable consumers and businesses to make rational investments in properties and to fairly present the costs and benefits of loss mitigation investments.

How to Accomplish:

Option: Establish Phase-Out Date for NFIP as Direct Provider of Insurance, Requiring States to Take Action

Option: Establish Congressional Mandate for All Perils Policy by Date Certain or Trigger Undesirable Consequence for the States, e.g. All Property Insurance Regulation Reverts to the Federal Insurance Office.

2. **Reauthorize NFIP for Three (to Five) Years to Transform NFIP from Direct Provider of Insurance to Mega-Catastrophe Reinsurer modeled after the TRIA.**

Benefits

- Assist states in ensuring private insurer coverage of the all-perils property insurance policy by providing certainty on private insurer exposure to flood.
- Facilitate private reinsurer participation in flood insurance by phasing in a larger threshold for federal flood reinsurance

3. **Provide Seed Funding for States Wishing to Create Tax-Exempt State or Multi-State Insurance, Catastrophe or Catastrophe Reinsurance Funds**

Benefits

- Assist states in addressing market failures or reluctance of insurers to offer all-perils policies.

4. **Federal Funding for Flood Loss Mitigation and Other Necessary Financial Assistance for Consumers and Businesses Facing Affordability Problems. Task HUD and FEMA Jointly with Evaluating Financial Need and Delivering Financial Assistance. Provide Cash Assistance for Premium Payment Only if Loss Mitigation Investments are Not Cost-Effective and for No More Than Ten Years.**

Benefits

- Transition federal expenditures from subsidies that undermine sustainability and resilience goals for those not in need of financial assistance to targeted financial assistance to only those in need.
- Re-orient federal expenditures towards investments in resilience and stability, reduce taxpayer liability and burden, reduce disaster relief expenditures in the future.

5. **Federal Funding for Flood Mapping Outside of Flood Insurance Premiums**

Benefits

- Provide reliable funding stream for risk management data essential for assisting private market provision of flood insurance and for federal and state loss mitigation, disaster recovery and national security needs.
- Dedicated funding outside of flood insurance premiums needed and desirable after transition of provision of flood insurance from NFIP to States.

6. **Forgive NFIP Debt Upon – and Only Upon – Transition of Provision of Flood Insurance from the NFIP to States**

Benefits

- Recognition that NFIP cannot raise premiums sufficiently to retire debt without entering a death spiral of premium increases that reduce NFIP revenues and ability to repay debt.
- Recognize that NFIP-incurred debt represents disaster relief and Congressional mandates for subsidies.