



National Association of Insurance Commissioners

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FLOOD INSURANCE

- *The 2004 and 2005 hurricane season revealed that the National Flood Insurance Program (NFIP) is not prepared to meet the challenges of a large-scale disaster.*
- *The NAIC stands ready to assist Congress in crafting NFIP reform legislation and implementing improvements that will make flood insurance viable and effective.*
- *NAIC staff worked with Congress to incorporate non-binding mediation language as part of the current flood insurance reform legislation, H.R. 3121. This concept should be part of any reform legislation addressing the NFIP.*

Issue Background

The National Flood Insurance Act of 1968 authorized the creation of the National Flood Insurance Program (NFIP) because this type of insurance was unavailable from the private insurance markets. With premium revenues of roughly \$2 billion and borrowing authority of roughly \$1.5 billion, the NFIP was overwhelmed by the magnitude of the 2005 hurricane season, and Congress acted to raise the program's borrowing authority to \$20.8 billion.

Although state insurance departments regulate most insurance, the NFIP is a federal program with no state oversight. However, the NAIC collaborates with the NFIP and FEMA to ensure that consumers are sufficiently protected and informed. This working relationship has developed minimum flood insurance training and education requirements for agents who sell flood insurance policies for FEMA.

Key Points

- The NAIC encourages Congress to pass NFIP reform legislation and specifically to adopt non-binding mediation language as contained in H.R. 3121.
- State non-binding mediation has a proven and successful record that will allow the NFIP, insurance companies, and policyholders to settle claims quickly outside the expensive and time-consuming litigation process. The NFIP should be required to participate when appropriate to resolve wind and water claims simultaneously.
- As Congress considers flood reform, thought should be given to the broader issue of natural catastrophes in general so that solutions to these related problems are developed cooperatively.
- All-perils insurance coverage would help to address flooding and other natural catastrophes in one policy. While H.R. 3121 adds wind coverage to the flood program, the NAIC believes that catastrophic insurance for wind and water can and should be offered in one policy through the private market, not the government.
- Private market catastrophic perils coverage may raise issues of affordability which can be addressed through a national catastrophic reinsurance plan.

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