

Private Flood Improves NFIP's Stability

As Congress debates NFIP reform, discussions about private sector competition have spurred concern about what private sector competition would do to the underlying economics of NFIP. Though some have raised concerns that private insurers would 'take out' the best properties from NFIP, this fear has not borne out. There are two key data points that show this is not likely to be the case: (1) most private companies writing flood in Florida currently are writing in higher hazard areas and are not choosing the least risky properties; and (2) in a similar insurance program in Florida, private insurance 'take outs' led to a much smaller and stronger insurance program. This paper focuses on the lessons learned from the 'take outs' in Florida Citizens-- a program with significant similarities to NFIP.

The Florida Citizens Experience

Florida's Citizens Property Insurance Corporation, a state-run, subsidized wind insurer, provides a useful proxy for an analysis of greater private competition with NFIP. In 2012 Citizens, had roughly 1.5 million insured properties, many heavily subsidized, and like NFIP, presented the likelihood of a massive deficit in the event of a major catastrophe. Policymakers and the program's management realized they had to do something different.

By 2016, after: (a) undertaking a program designed to move policies to the private sector; (b) gradually increasing rates; and (c) purchasing reinsurance, Citizens reduced its policy count to below 500,000, put itself on strong financial footing, and significantly reduced its probable losses. Taxpayers were better protected and homeowners had more choices in both providers and the terms and types of coverage offered.

Private insurance companies eventually took on 66% of policies previously covered in the program, a 77 percent reduction in written premium as of January 1 2016, but it is also financially more stable and stronger. This progress has continued into 2016. Citizens is now even smaller, with approximately 456,000 policies at year end 2016.

Currently, Citizens can meet potential losses from a 1 in 100 hurricane without needing any additional financing, compared to in 2011, when it would have needed over \$6 billion in additional financing if such a storm hit Florida. While homeowners generally had the option of staying with Citizens, most policyholders accepted private insurance, and private insurers, applying their underwriting standards, chose policies across the risk spectrum, including those in "high risk" coastal zones.

NFIP Would Be Better Off

If NFIP were to undergo similar actions, we estimate the results would be extremely beneficial to both policyholders, taxpayers, and NFIP.

While the attached analysis is intended to demonstrate that private flood insurance competition will strengthen the NFIP's financial condition, equally important is that we anticipate that additional private flood insurance will actually increase the number of consumers and properties insured against the peril of flood. Private market flood insurance will supplement and enhance the NFIP, making it stronger and enhancing the financial resiliency of the consumers, communities, the NFIP and taxpayers

Using the assumptions in the analysis, over a four-year period the NFIP policy count could drop from 5.1 million to 3.5 million, while the projected future borrowing from Treasury to cover losses could drop from nearly \$10 billion to about \$860 million. This movement toward fiscal soundness would occur because of the same three factors that helped Citizens: gradual rate increases, purchase of reinsurance, and policies being written in the private market.

The Citizens depopulation program faced concerns around "cherry picking", but the results speak for themselves. By taking policies out of the program Citizens reduced its overall risk. Thus, the maximum loss faced by the program was smaller than before. The gradually increasing premiums infused more cash into the company, while reinsurance took on much of the catastrophic risk. In short, a smaller NFIP should be a healthier NFIP.