Not Even a Trickle of Flood Insurance Reform

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Eakinomics: Not Even a Trickle of Flood Insurance Reform

The Wall Street Journal (WSJ) took to task the House leadership for its failure to support even small reforms of the National Flood Insurance Program (NFIP). Its frustration is understandable. As further documented by AAF's Thomas Wade, the NFIP is riddled with poor policy foundations, weak financial performance, and a remarkable resilience against reform. On the latter, 38 of the most recent 41 reauthorizations have been straight up extensions of the program without any attempt at reform.

Reforms are badly needed. Any insurance program relies on a balanced pool of larger and smaller risks, good underwriting, and actuarial pricing so that premiums on average cover the cost of payouts. The NFIP is anything but that. The flood maps are badly out of date and do not identify the right pool of at-risk homes and businesses. There is widespread failure to participate in the program, leading to adverse selection as those places most likely to be damaged become the bulk of the book of business. (As the *WSJ* points out, "Fewer than 2% of five million policies have absorbed more than $8 billion in payments.") And premiums are consistently below the actuarially fair rates.

The results are predictable. Even prior to Hurricane Harvey in 2017, the NFIP was $24.6 billion in debt. The devastation of Harvey made things predictably worse. As a result, in October 2017, Congress forgave $16 billion of the NFIP's debt as it reached its borrowing cap of $30 billion. The NFIP borrowed another $6 billion in 2017, bringing the total financial performance to borrowing of $39.4 billion, $16 billion forgiven, and indebted to the taxpayer for $20 billion.

Politics continue to block reforms to the NFIP. But as the financial losses mount, pressure will rise to broaden the pool, price insurance appropriately, and engage the private sector to protect the taxpayer from unnecessary risk.