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Keep Wind Coverage out of Flood Insurance Conference Report

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As Congress begins its final weeks before the upcoming elections, the National Flood Insurance Program (NFIP) reauthorization appears as if it might finally be considered in conference committee. However, the conference report on the reauthorization of the NFIP should not be bogged down by irresponsible expansion into coverage of wind damage.

While the House bill (H.R. 3121) provides for expanding an NFIP that is deeply in debt and requiring it to offer a completely new type of insurance that is already available from the private sector, the Senate version does not include this unwise expansion. Although an amendment on wind insurance was offered during the Senate consideration, it received only 19 votes. However, supporters of the new product have vowed to continue their efforts in the conference committee despite a veto threat if such language is included.¹ Legislators should resist any expansion of the NFIP, and, if wind insurance is added to the program, the President should follow through with his veto threat.

The NFIP and How It Works. Congress originally created the NFIP to reduce the vast amount spent on federal disaster aid. In short, it requires all homeowners in a flood plain (defined as an area with a 1 percent chance of flooding each year) to purchase insurance that replaces government grants and loans. FEMA estimates that for every \$300 in flood insurance claims that are paid, federal disaster aid is reduced by \$100.²

In average years the NFIP is self-sufficient. The amount taken in from premiums roughly equals the amount paid in claims and spent on operating expenses. The NFIP normally collects approximately \$2 billion in premiums and fees per year, and between 1994 and 2004, it paid out around \$867 million annually. The program is also allowed to borrow up to \$3.5 billion from the Treasury Department in the event of a major disaster.

However, in 2005, flaws in the program were exposed. Hurricanes Katrina and Rita inundated the program with claims and forced the government to increase the NFIP's borrowing authority to approximately \$20.8 billion, up from the initial \$1.5 billion. The Senate version forgives the borrowing that was necessary to pay Katrina-related claims. However, the fact that NFIP was unable to pay those claims from its own resources demonstrates the need for further reform and not expansion.³

The Case Against Including Wind Insurance. Expanding the NFIP in any way is fiscally irresponsible. Some believe if coverage against wind-caused damage is provided at unsubsidized rates, the revenue brought in would cover the real cost of providing the insurance. But a study by Towers Perrin

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reveals that the proposed wind insurance program would actually run regular operational deficits.⁴ Even if Congress forgives the amount that the NFIP already owes, increasing its costs by running additional deficits is a step in the wrong direction.⁵

Affordable wind insurance is readily available through many private sector companies. There is no need to replace these providers with a public-sector program that is already in trouble and has no expertise in administering a wind insurance program. As the experience of states such as Florida has shown, once politics are involved, it becomes very difficult to set premiums in a way that accurately reflects the costs of potential losses.⁶ Instead, politicians tend to influence the program to set unrealistically lower premiums to keep their constituents happy and worry about the potential liability only much later.

Furthermore, including wind insurance in the conference committee version would undoubtedly kill the bill, because the Bush Administration says that it will veto any reauthorization bill that includes such an expansion.⁷ In September 2007 the White House released a Statement of Administration Policy stating: “If the final bill presented to the President includes provisions to expand the NFIP to include coverage for windstorm damage,

his senior advisors will recommend he veto the bill.”⁸ Including wind insurance will only endanger the entire program by delaying its reauthorization.

Don’t Catch the Wind. When Congress considers NFIP reauthorization, it should resist the urge to include wind insurance. Fundamentally, the NFIP is a bankrupt and failing program in urgent need of reform. The Senate-passed bill takes modest steps toward improving this program, but any expansion of NFIP’s coverage or new product lines will only lead to additional bailouts from the taxpayers. The upcoming conference negotiations provide an opportunity to fix a program that has a history of mismanagement and financial problems. Unfortunately, the House version not only falls short of reform but expands a failing program. The conference report should reflect the positive parts of the Senate bill, including the refusal to include wind insurance coverage. To do otherwise would be to invite a veto. Congress should begin the process of fixing the NFIP instead of recklessly expanding it.

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