



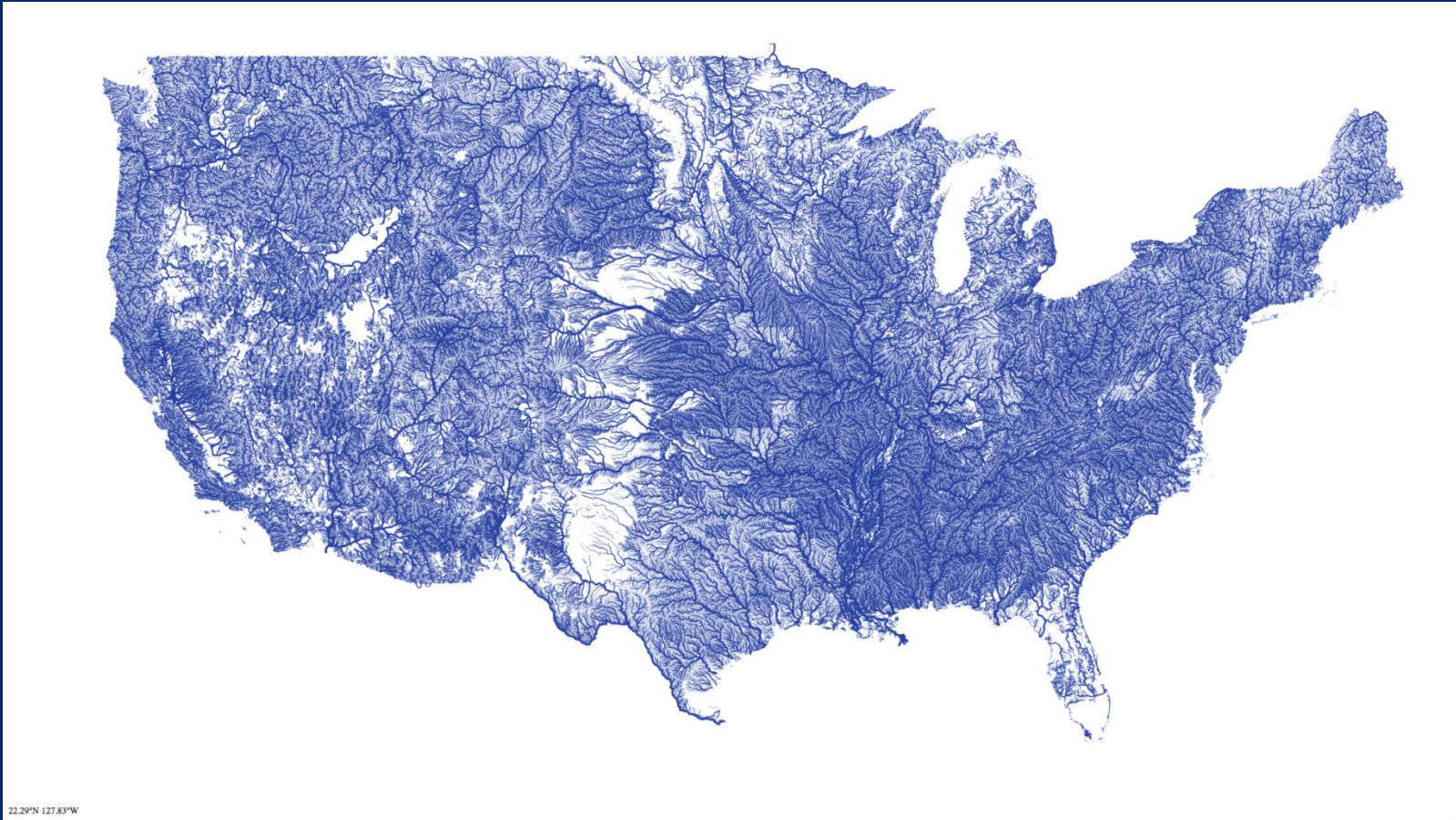
Joint Legislative Committee on Insurance: National Flood Insurance Program

Garret Graves

Coastal Protection and Restoration Authority

October 23, 2013

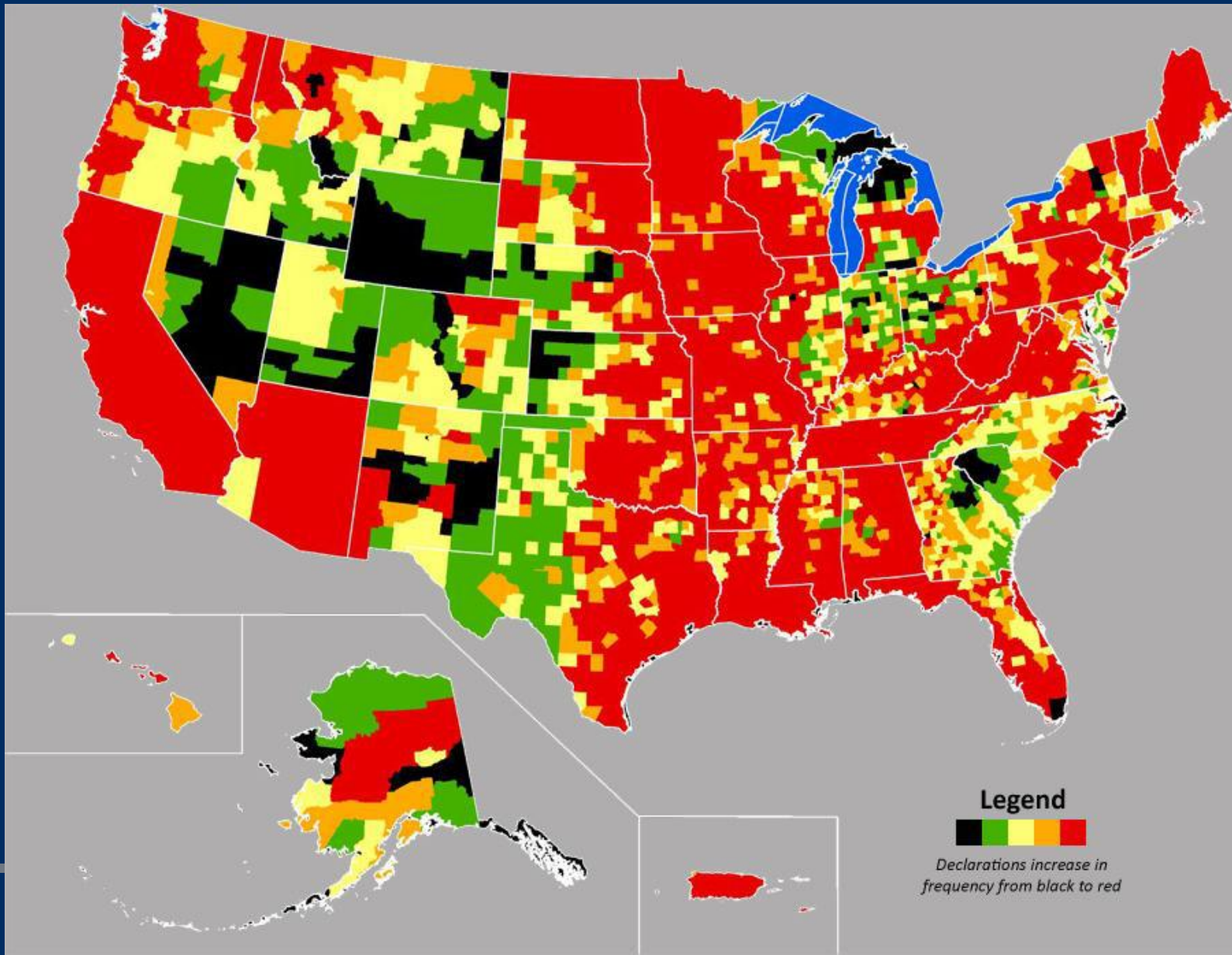




- Flood risk is not limited to coastal communities
- 5.5 million property owners in the NFIP
- 22,000 communities



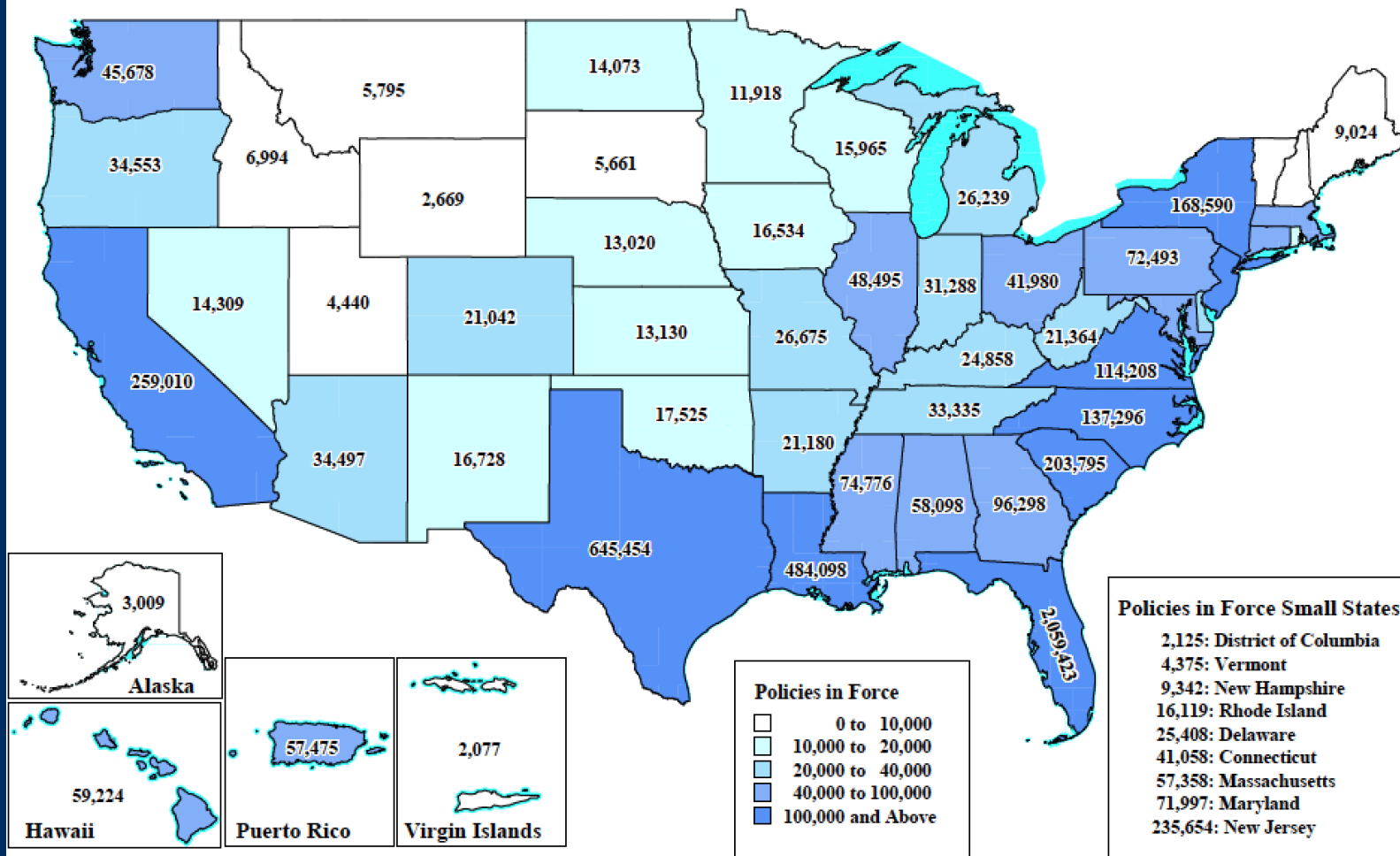
Presidential Flood Disasters Since 1965





National Flood Insurance Program Total Number of Policies in Force

AS OF SEPTEMBER 30, 2012



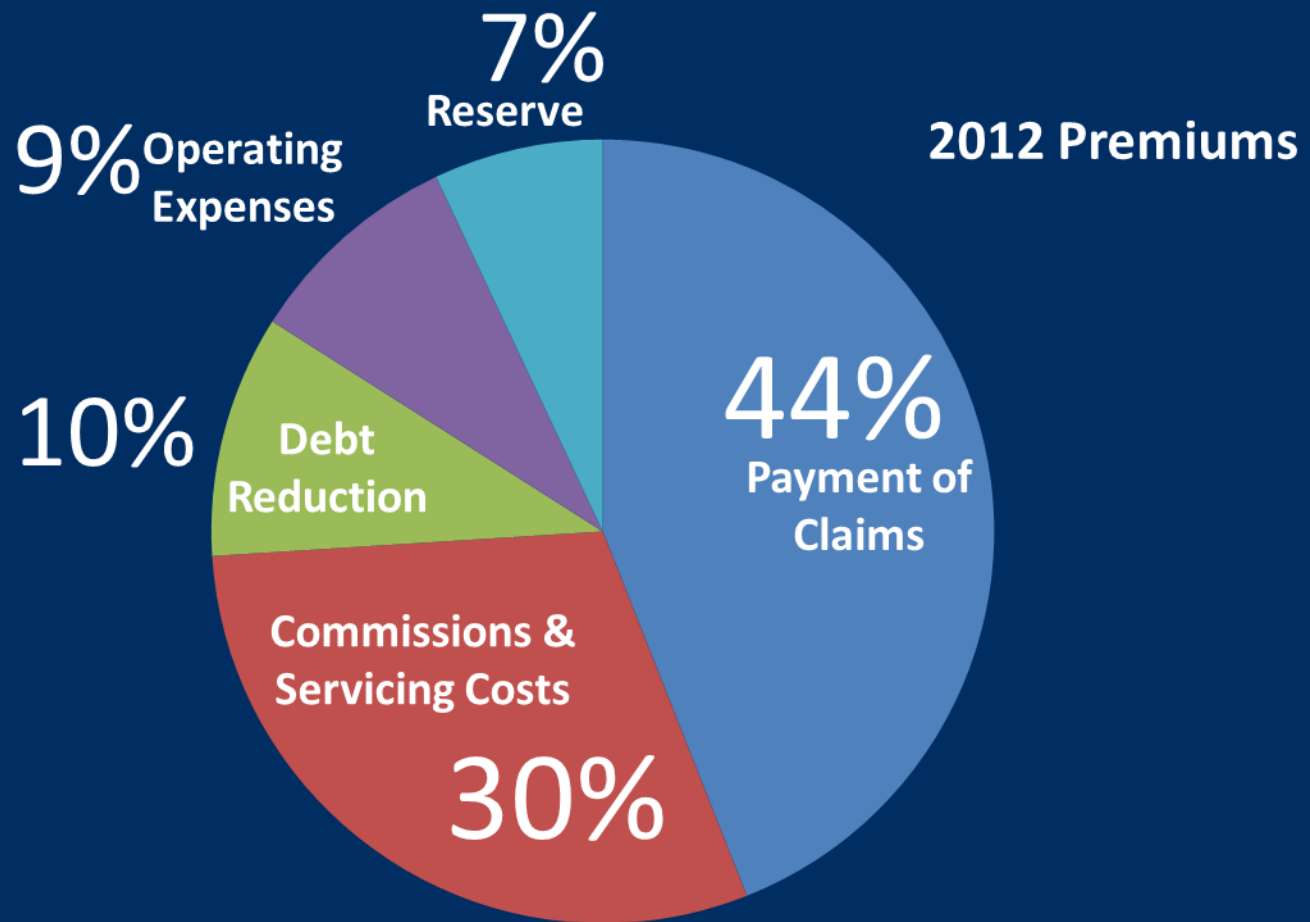
Source Report: PIFW0902



Is the NFIP Solvent?



Solvency Question: Premiums



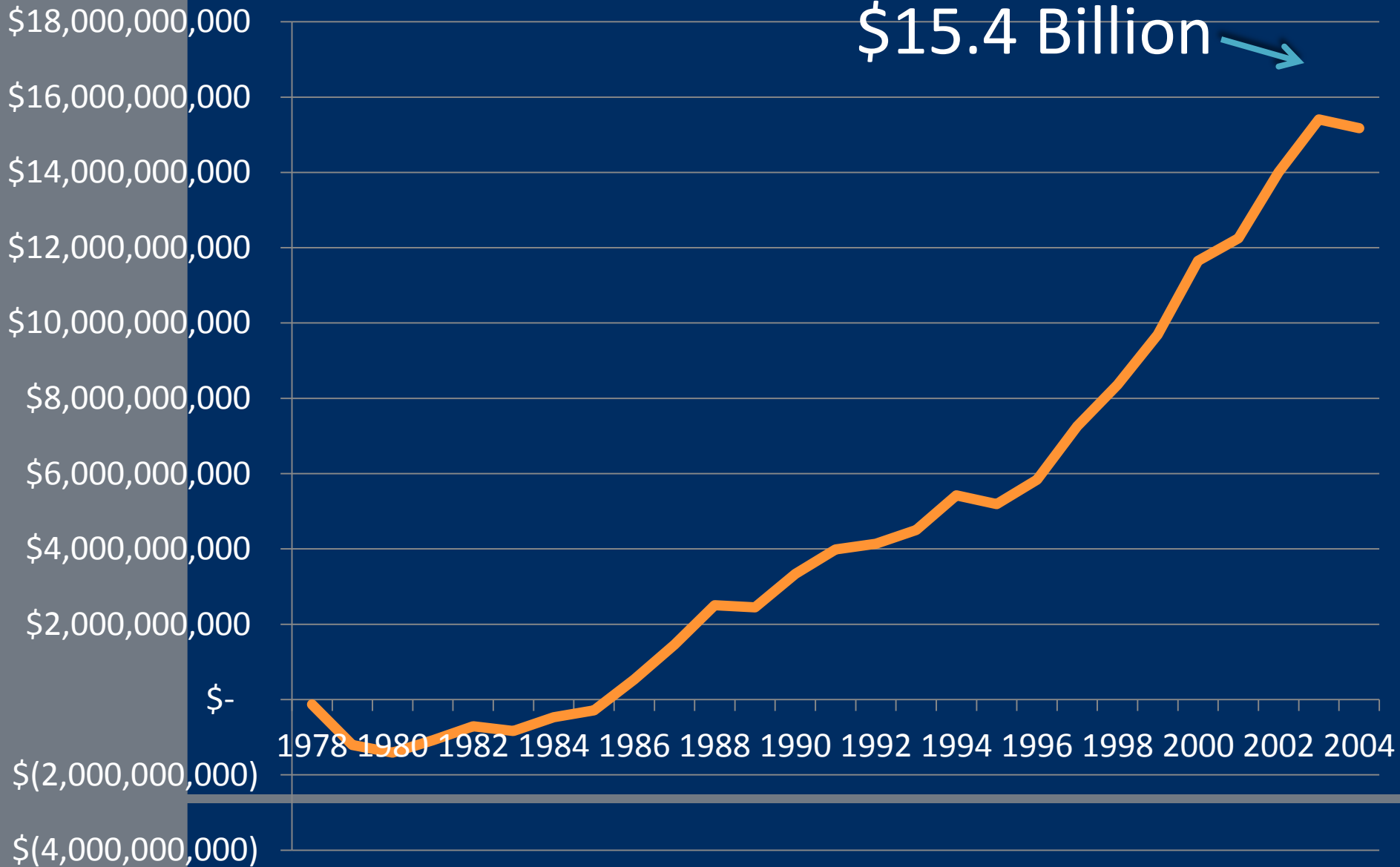
Commissions & Servicing Costs include 14%, Company Expenses 11%, Premium Tax 2%, Loss Adjustment Expense 3%

Insurance Companies Do Not Shoulder Risk



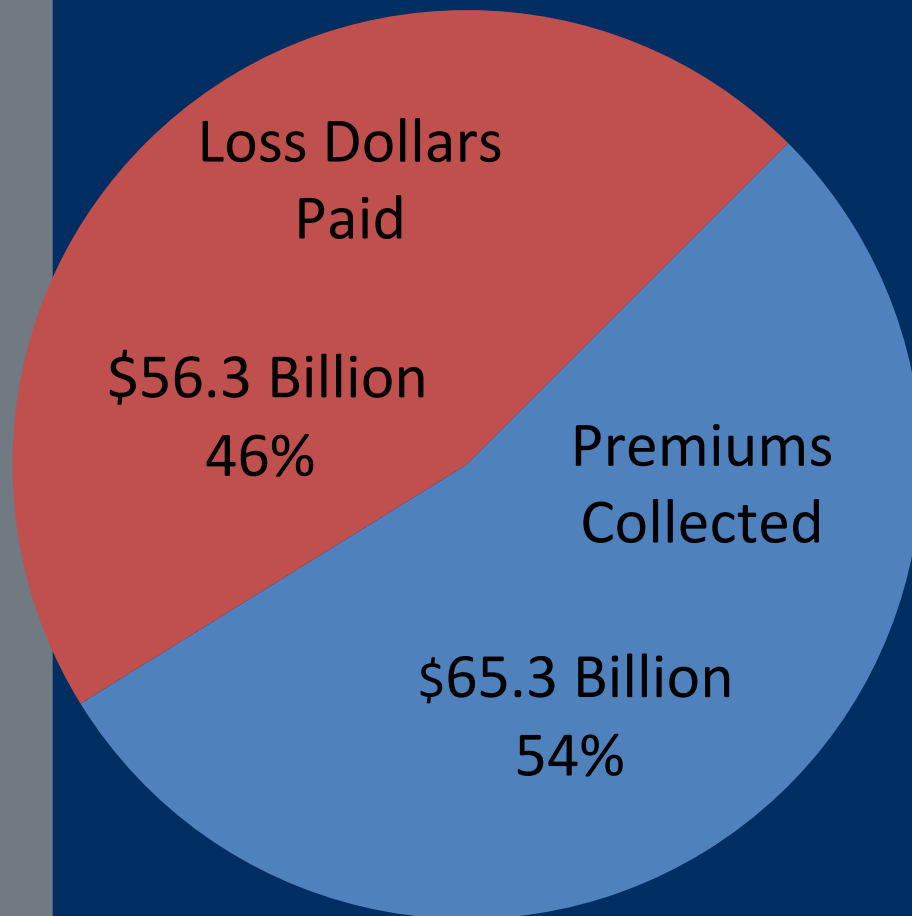
Cumulative Surplus/Deficit NFIP in \$2012

(through 2004)





NFIP Premiums Collected vs. Losses Paid since 1978 in 2012 Dollars



Despite that premium arrangement the NFIP has collected almost

\$9 billion

more in premiums than it has paid out to policy holders since 1978 when measured in 2012 Dollars.



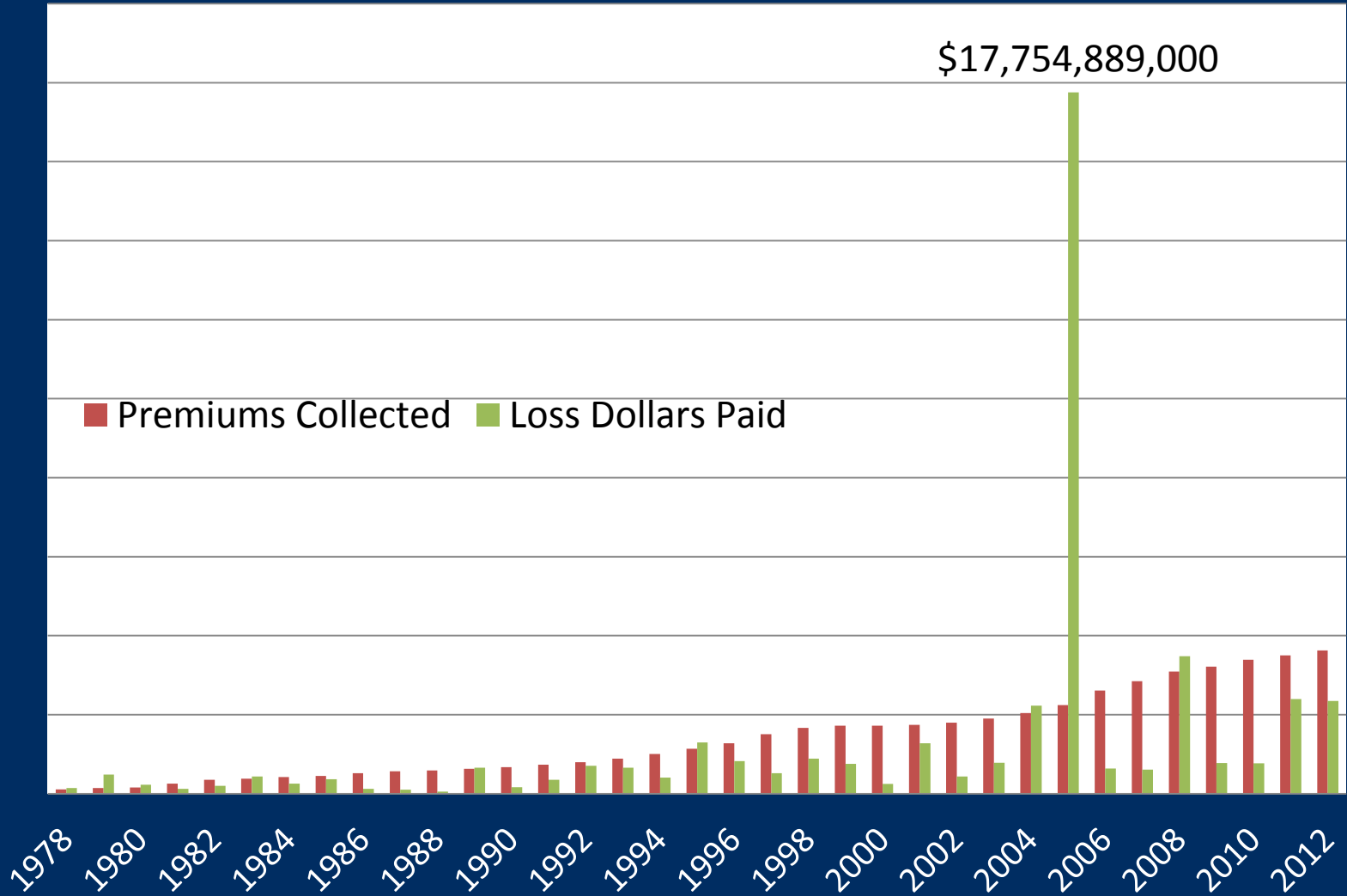
Distorted reality

Holding policyholders accountable for federal failures



Solvency Question: Katrina

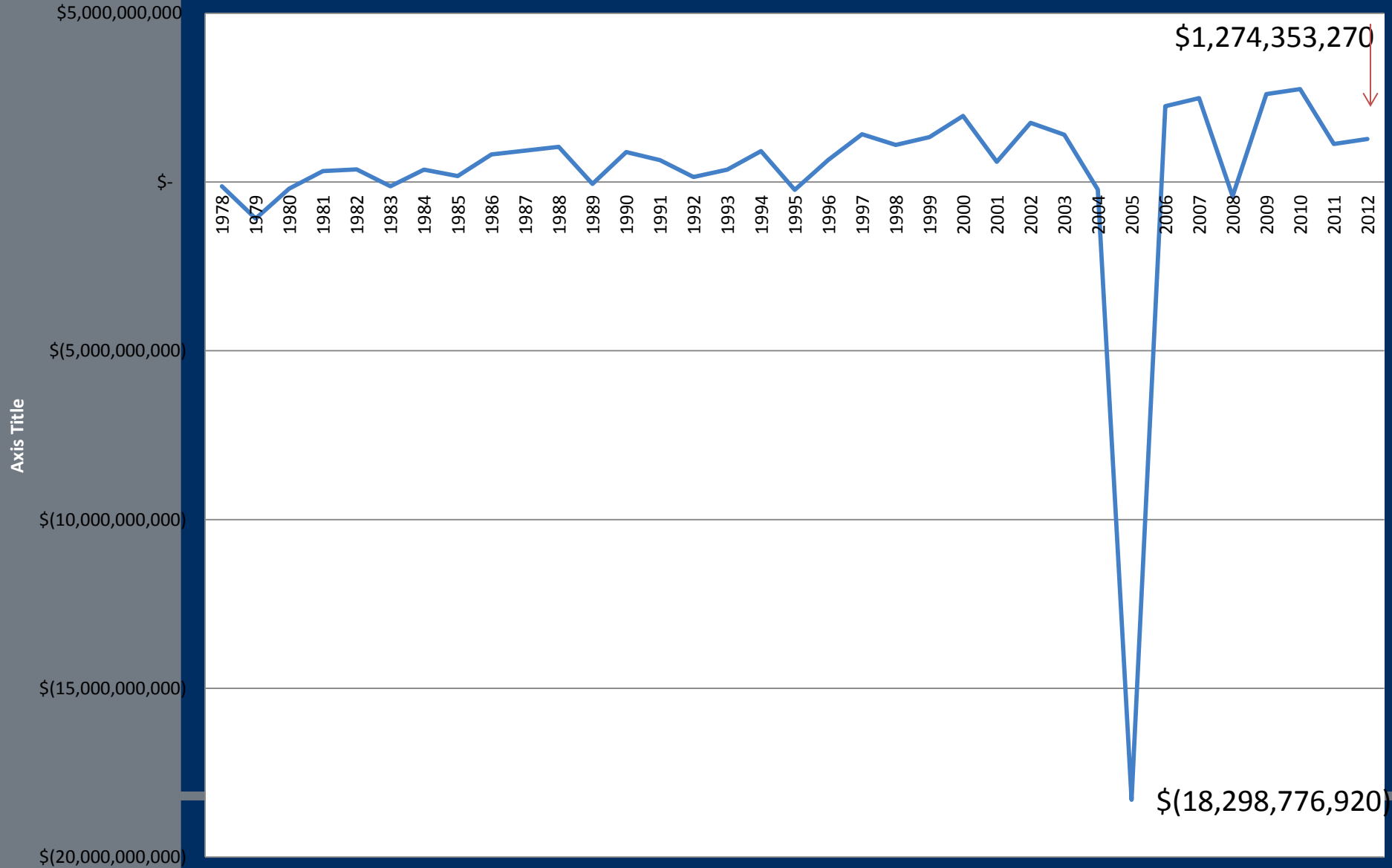
NFIP Premiums Collected vs. Loss Dollars Paid





NFIP Solvency in 2012 Dollars

(plotted per year)





Solvency Question: Katrina

- Fault of NFIP or USACE?
- NFIP is punishing all those living in flood hazard areas for the failures of Corps levees in 2005
- NFIP payouts as a result of Katrina were not because of the hurricane, but because of engineering failures of USACE levees



Solvency Question: Katrina

Punished Three Times for Corps Levee Failures:

1. Katrina debt the impetus for the transition to “actuarial”/increased rates across the country in BW 12 to help pay principal and interest on NFIP debt attributable to hurricanes



Solvency Question: Katrina

2. Katrina debt inspired a 5% “reserve fund assessment” charged on the value of all policies to build a catastrophic reserve fund (based on Katrina expenses)



Solvency Question: Katrina

3. Katrina losses caused
distortions in the actuarial rates
charged to LA policyholders.

(Actual risk of flooding should
not include estimated \$14B
from Katrina failures)



Return to Solvency

- When comparing historical premiums and losses paid in 2012 dollars...
 - NFIP returned to overall solvency in 2007 (historical payouts and premium collections)
 - From 2009 to 2012, NFIP took in average of \$1.9 billion more in premiums each year than it paid out.



Mapping



Mapping Errors: Livingston Parish

- 2012 Maps based on a conglomeration of engineering studies from 1980s through 2001
- New and old elevation data not properly matched
- Structures appeared lower than they really are.



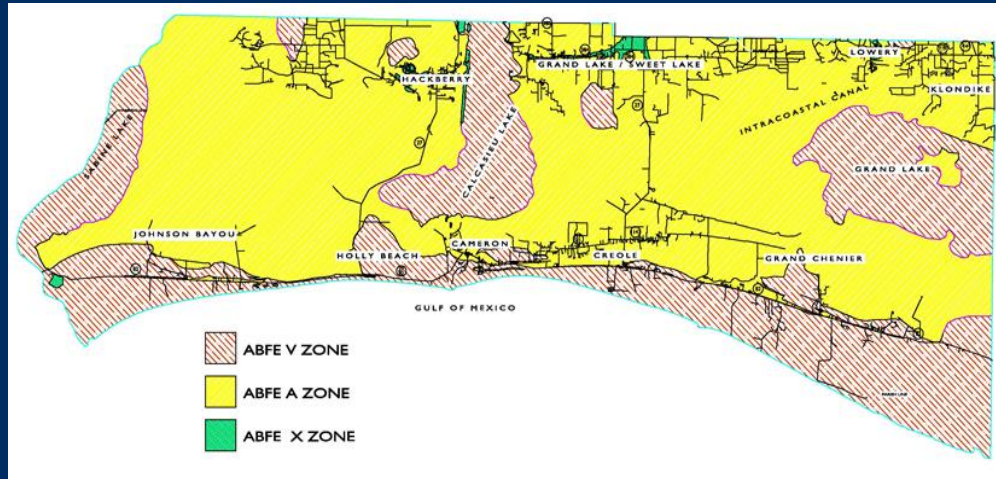
Mapping Errors: Jefferson and Lafourche

- Miscalculated pumping station capacity and no local levees factored into risk calculations in Jefferson
- 2009 maps for Lafourche, “could not possibly represent the true risk of flooding in our area because the flood zones shown on the maps had no correlation to any real world features.”
 - (Dwayne Bourgeois, Executive Director North Lafourche Conservation, Levee and Drainage District testimony to Senate Committee on Banking, Housing, and Urban Affairs subcommittee on Economic Policy, May 2009)

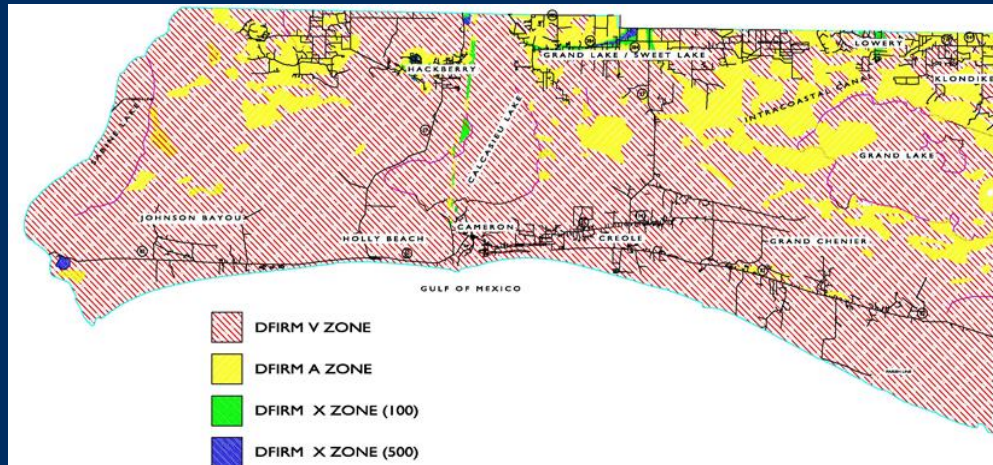


Mapping Errors: Cameron Parish

Advisory Base
Flood Elevation



DFIRM



Significant
proposed
changes
in flood
zones
with new
maps



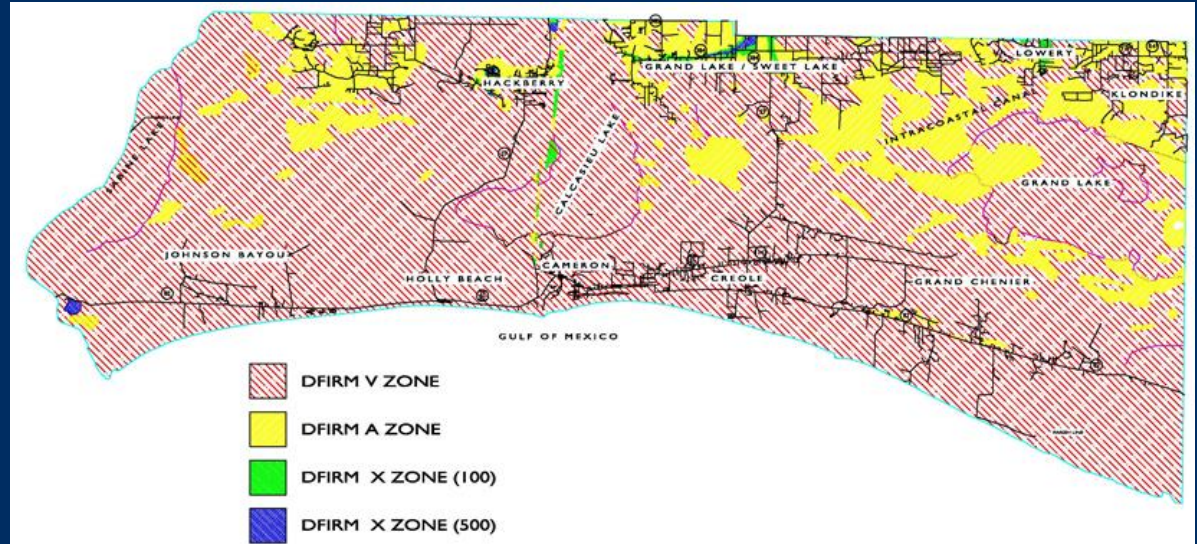
Cameron Parish

- Major chenier ridges, levees, manmade features and other topography data omitted from the model
- Calibration errors present: hind-cast for Rita compared to measured value as large as +/- 4.5 feet
- Model does not reflect terrain conditions; starting point 500 feet in Gulf of Mexico; vegetation drag improperly calculated and 4 types of vegetation omitted from model

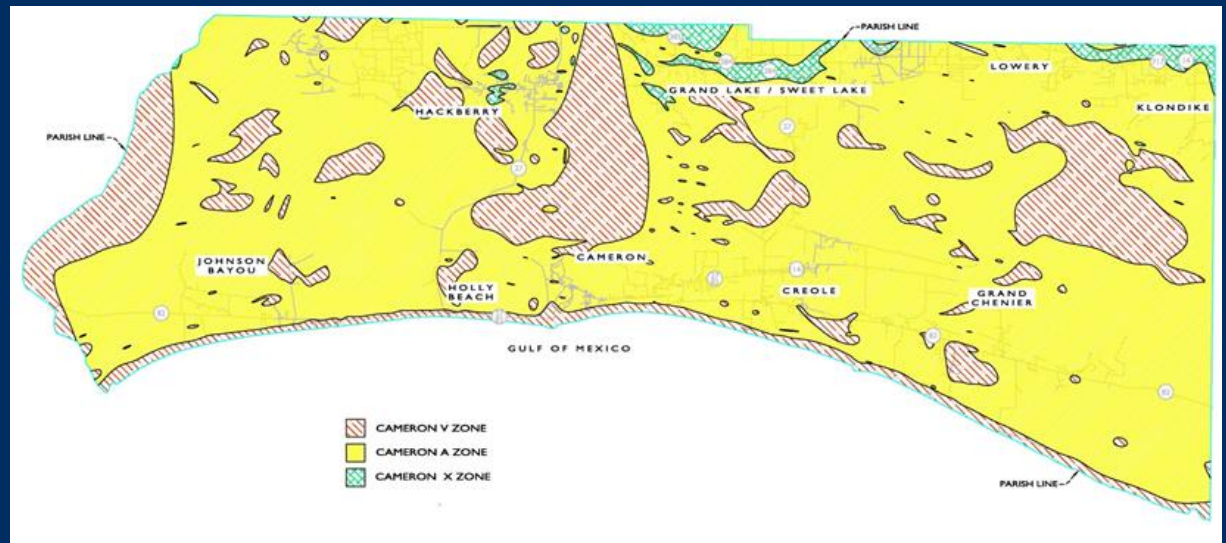


Parish hired consultants and engineers to challenge maps

DFIRM



Consultant
Map





Mapping Reform

- FEMA developing series of targeted modeling approaches to replace “without levees” policy
- Aware that riverine approach used does not conform to coastal levees such as those in southern Louisiana
- Working well with FEMA but still very much a work in progress



Mapping Challenges

- Between 40,000 and 60,000 miles of levees in the U.S.
 - So many levees in the U.S. that we do not know where they all are.
 - Concentrated in the California central valley (high value fruits and vegetables) and the Mississippi River.
- FEMA oversees 30,000 miles of levee
- USACE oversees around 14,500 miles
- Only 12,000 miles are in common
- Only 3,400 miles of USACE levees and 1,700 miles of non-Corps levees are in the NFIP



No Accurate Assessment of Risk or Policyholder Characteristics

- Not actuarially sound rates if true risk level is not known.
 - Pumps, local levees, and proper elevation not factored in.
- Rates of \$10,000 and \$20,000 per year tell residents they should expect total losses every ten years.
 - Communities that have never flooded



Punishes Rule Abiders

- Coastal Louisiana residents did not move to danger zones, the danger moved to them when the wetland buffer was lost to the encroaching Gulf
- Primary residences and businesses will be hurt (not mansions)
 - Max structural coverage is \$250,000
 - Max contents coverage is \$100,000
- Those who built to FEMA specifications deemed “grandfathered” and losing subsidies because FEMA changed the rules



Economic Ripple Effects

- Astronomical flood insurance premium hike tied to sale of home
- Homes values already being lowered in St. Charles Parish (down 18-30%)
- Drop in home values impacts individual home owners for whom it may be their largest investment



Economic Ripple Effects

- Drop in home sales and value can create...
 - Neighborhood-wide decrease in property values
 - Professionals depending on housing market
 - Real estate agents
 - Home remodeling/repair
 - Local Banks and mortgage lenders
 - What community can survive if homes are no longer affordable?



Recap

- NFIP is a huge and important federal program
- NFIP is broken and the changes in BW-12 are not even close to what is needed
- Mapping data and process is inadequate
- Risk is not being properly assessed or communicated
- NFIP should review how premium dollars are used
- Katrina anomaly unfairly and improperly used against all policy holders
- Rule-abiding citizens punished for USACE failures and wetland loss
- Implications for economy of south Louisiana under BW-12 are vast and dangerous
- Need an entire re-do of NFIP reform a delay is not enough
- When transitioning to ACTUARIAL RATES, hold those that are "ACTUALLY" responsible for increased vulnerability

Action Items

1) Repeal Biggert –Waters

-There are too many unanswered questions to enact “informed” reform.

- is program truly insolvent?
- what is gap, if any, to achieve solvency?
- would raising the \$250k cap help to improve solvency?
- is providing one-third to two-thirds of premiums to insurance agents excessive?
- how would higher participation from floodplain structures affect solvency?
- should NFIP policyholders be held liable for Corps of Engineers' levee failures?
- should policyholders for Corps' river management that is primary cause of increased vulnerability in Louisiana?
- does the devaluation of homes constitute a takings?
- what does an economic/affordability analysis of reform show?
- what is an appropriate threshold of economic impact (if any)?

Even the author of legislation, Cong. Waters, opposes implementation of the law.

Action Items

2) Establish inextricable link between NFIP reform and aggressive disaster mitigation strategy (water resources reform)

- Congressional Budget Office (CBO) and FEMA studies show \$3-4 in cost savings for every \$1 invested in disaster prevention (i.e. levees, floodwalls, pumps)
 - current strategy is backwards and wastes money
 - 1st component of federal strategy should be to prevent flood/disasters of homes/businesses rather than NFIP reforms
 - 2nd component is addressing residual risk through NFIP reforms
 - most cost-effective investment would be a comprehensive approach to disaster management, mitigation, response & recovery that is proactive (prevention/mitigation) rather than reactive (response/recovery)
 - fundamental changes to federal water resources project program are required and should be part of comprehensive overhaul package
 - current Corps of Engineers' project process takes 40+ years – incapable of responding to threats
 - expand upon pre-disaster mitigation program?

Action Items

3) Develop new mapping strategy to establish accurate determination of risk (prior to implementing reforms)

-existing mapping approach is fundamentally flawed

- what standards will be used?
- how can state/local governments get involved in mapping (CTP program?)
- where are levees?
- who is responsible for levees?
- how will non-federal and other levees be accounted?
- how will benefits of pumping stations be quantified?
- what role will investments in natural features such as barrier islands, ridges, dunes, marsh creation, beach nourishment and other strategies play in mitigation vulnerabilities?

Action Items

4) Consider cumulative impact of federal policies on communities

-policies forcing relocation/redistribution of communities. If redrawing population maps makes sense, do it proactively. Need dialogue.

- Biggert-Waters devalues homes/tax revenues
- new “IPET” levee standards price communities out of protection (i.e. cost went from \$800M to over \$10B for Morganza to the Gulf project?)
- V-zones effectively prevented rebuilding in some hurricane-impacted areas
- Corps’ new MCM standards triple or more cost of mitigating for flood protection projects
- continued unsustainable river management practices of federal government will continue to INCREASE vulnerability (i.e. cost) of living in south Louisiana
- lack of federal funding/Corps’ progress results in shifting financial burden to state/locals for hurricane/flood protection projects
- Rebranding river levees, hurricane protection levees (non-federal responsibility)
- Corps overtly walking away from projects and leaving state/parishes/counties left to fund