

Roundtable on Privatizing Flood Insurance

U.S. Government Accountability Office
Staats Briefing Room
441 G Street, NW
Washington, DC 20548

Thursday, August 1, 2013

8:15 a.m.	Check-in and Reception
8:45 a.m.	Introduction
9:15 a.m.	Session 1: Policy Goals Framework
10:15 a.m.	Break
10:30 a.m.	Session 2: Barriers to Private Sector Involvement
11:45 a.m.	Lunch
12:30 p.m.	Session 3: Options for Privatization
1:45 p.m.	Break
2:00 p.m.	Session 4: Roles for the Federal Government
3:15 p.m.	Wrap-up
3:45 p.m.	Adjourn

Introduction

This roundtable will inform potential findings for GAO's review of options for increasing private sector involvement in flood insurance. Congress mandated this work under Section 100232 of the Biggert-Waters Act of 2012.

The roundtable will provide an opportunity for an interactive discussion about flood insurance privatization issues among a diversity of experts and industry participants. Our agenda and questions for the roundtable are based on our initial findings from interviews with a broad range of organizations related to the flood insurance market as well as our previous reports on the National Flood Insurance Program (NFIP).

Previous GAO NFIP Work

GAO has long been involved in reviewing the National Flood Insurance Program. Several recent reports related to issues concerning privatization are provided below.

- *Flood Insurance: More Information Needed on Subsidized Properties.* [GAO-13-607](#). Washington, D.C.: July 3, 2013.
- *FEMA: Action Needed to Improve Administration of the National Flood Insurance Program.* [GAO-11-297](#). Washington, D.C.: June 9, 2011.
- *Flood Insurance: FEMA's Rate-Setting Process Warrants Attention.* [GAO-09-12](#). Washington, D.C.: October 31, 2008.

Roundtable Sessions and Topics for Discussion

The Roundtable consists of four sessions structured to address issues related to privatizing flood insurance. The first session focuses on developing a framework that Congress can use to evaluate privatization proposals. The second session focuses on barriers to privatization and what would be needed to overcome them. The third session focuses on identifying options for privatization and their potential benefits and challenges, and the fourth and last session focuses on the potential roles for the federal government and others if flood insurance would be privatized.

Session 1: Policy Goals Framework

GAO is developing a framework that Congress can use to evaluate privatization proposals and would like to discuss the policy goals identified through our initial audit work. See Appendix I for a list of the policy goals and potential aspects of a privatization proposal that could help achieve each goal.

- a. Minimize property owners' exposure to flood risk**
- b. Minimize costs to the federal government/taxpayers**
- c. Maximize affordability for property owners**
- d. Maximize availability of coverage**

Key questions:

- What policy goals should Congress use to evaluate proposals for privatizing flood insurance?
- How valid is each policy goal?
- What other policy goals should be used?
- Are any policy goals more important than others?

Session 2: Barriers to Private Sector involvement

Many industry participants have identified barriers and challenges to private sector involvement in flood insurance. We would like to discuss such barriers to their involvement, the significance of these barriers, and ways to overcome them.

Key questions:

- What are the barriers to private sector involvement in flood insurance?
 - Ability to charge an adequate rate
 - Political considerations (i.e. possibility that laws will change)
 - Different insurance regulations across states
 - Adverse selection
 - Current private risk modeling capability
 - Access to FEMA flood data
 - Others?
- How significant is each barrier?
- How could these barriers be overcome?

Session 3: Options for Privatization

Several options have been mentioned as ways to increase private sector involvement in flood insurance. We would like to discuss the potential benefits and challenges associated with these options, and how the options could be structured and implemented.

- a. **Federal government as backstop to private insurers (reinsurance, coverage for uninsurable, etc.)**
- b. **Risk sharing agreement between federal government and private insurers (pooling, etc.)**
- c. **Other options**

Key questions:

- What are the options for privatization?

- What are the benefits and challenges of each option?
- What specific elements should the options include?
- How would each option be implemented and what would the phase-in period look like?

Session 4: Roles for the Federal Government

Possible options for privatization have raised questions about what functions the federal government would provide related to flood insurance and NFIP. We would like to discuss the potential roles for the federal government on these activities, as well as the potential roles for state and local governments.

Key questions:

- What should be the federal government's role in a privatized flood insurance market?
 - Mitigation programs
 - Floodplain mapping
 - Building codes
 - Insurance standards
 - Disaster assistance
 - Risk awareness
 - Enforcement
 - Other roles?
- What are the roles for state and local governments?

Appendix I: Policy Goals for Evaluating Proposals to Privatize Flood Insurance

Policy Goal	Potential Aspects of a Privatization Proposal that Could Help Achieve the Goal
Minimize property owners' exposure to flood risk	<ul style="list-style-type: none"> • Allow for charging rates that reflect the full risk of loss, which can cause property owners to take actions to avoid those risks • Create incentives for mitigation • Encourage adherence to appropriate construction and development standards in flood prone areas
Minimize costs to the federal government/ taxpayers	<ul style="list-style-type: none"> • Allow for charging rates that reflect full risk of loss, which could reduce need for government support of private insurers • Eliminate or reduce federal premium rate subsidies • Transfer risk of loss to private sector insurers • Coordinate with federal disaster assistance programs so as to increase participation in private insurance and reduce potential moral hazard (property owners not purchasing insurance because they believe they will receive federal assistance)
Maximize affordability for property owners	<ul style="list-style-type: none"> • Encourage broad participation by homeowners • Allow for phase in of premium rate increases • Create a means to provide targeted assistance to property owners for paying flood insurance premiums • Create a competitive market for flood insurance
Maximize availability of coverage	<ul style="list-style-type: none"> • Allow for charging rates that reflect full risk of loss • Encourage participation by private insurers • Encourage a stable operating environment for private flood insurers • Encourage development of flood risk models and maps