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The government could scrap flood insurance



by [Caitlin Bronson](#) | May 12, 2015

There's a safe way to bridge the gap.

Lawmakers and government officials are considering the possibility of overhauling the nation's flood insurance distribution system, various news outlets are reporting.

Senator Kirsten Gillibrand of New York called to scrap the National Flood Insurance Program this week, due to allegations it underpaid and denied legitimate claims in the aftermath of Superstorm Sandy. That call was quickly echoed by other congressional democrats, including Senators Charles Schumer and Robert Menendez.

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Lawmakers have not yet proposed an alternative to the system, however, saying they want to make sure Sandy victims are properly compensated before focusing on long-term reforms. There are currently 1,800 lawsuits filed by homeowners waiting to be settled, and FEMA is in the process of

launching a process to reopen claims for the other 142,000 policyholders who were flooded in the 2012 storm.

Menendez did hint earlier this month that possible reforms could include a change in compensation for insurers servicing NFIP policies.

"They take 30 cents of every premium dollar to sell and service policies," said Menendez, publicly questioning whether insurers earned their average \$1 billion profits through the program. "Policyholders aren't always getting their money's worth."

The National Flood Insurance Program currently sells government-backed policies to home and business owners through approximately 80 insurance carriers and their affiliated agents. It was established in 1968 when

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private insurers decided writing flood coverage was too financially risky and the government began offering policies at subsidized rates.

Today, the program is slowly increasing its pricing in order to bring rates up to an actuarial sound level. As it does so, private insurers are beginning to consider reentering the market.

Gainesville, Florida-based The Flood Insurance Agency (TFIA) has been going great guns since its launch in November, operating in 15 states and backed by underwriters at Lloyd's of London.

"It's been one continuous, takeoff launch. It's like a rocket ship," said TFIA CEO Evan Hecht. "We're going to keep the [NFIP] program healthy by offering increased competition."

Hecht told *Insurance Business* in January that he "expect [s] and hope[s]" TFIA will have competition within the private flood market, allowing agents and clients more affordable solutions to their insurance needs.

It seems Hecht may get his wish. According to a *Wall Street Journal* report, at least five insurers are currently selling flood coverage to homeowners, with one major reinsurer—Berkshire Hathaway—backing some of those policies.

To dismantle the government-backed system now, however, would be a seriously negligent decision, say industry representatives.

Robert Hartwig, economist and president of the Insurance Information Institute, said scrapping NFIP would result in fewer options and less choice for consumers and an even stronger monopoly for the government.

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