

Dissenting Views on H.R. 1264, the "Multiple Peril Insurance Act of 2009"

H.R. 1264, the Multiple Peril Insurance Act of 2009, proposes to expand the federal government's role in the private insurance market by creating a massive new program to offer government-provided coverage backed by taxpayer dollars against property losses from hurricanes that could shift enormous costs onto American taxpayers. This unwarranted and ill-advised legislation would amend the National Flood Insurance Act of 1968, which created the National Flood Insurance Program (NFIP), by adding windstorm insurance to the scope of insurance coverage offered by the federal government, obligating it to pay potentially billions of dollars in property damage claims resulting from windstorms in addition to flooding.

We strongly oppose the expansion of the National Flood Insurance Program to include windstorm damage. Transferring these liabilities from the private sector to the NFIP would be fiscally irresponsible. Federal government insurance would supplant insurance that is already provided by the private market. Expansion of the NFIP would also undermine economic incentives to mitigate risks because the program would likely distort rates from their market-determined values. Individuals would be encouraged to take on risks that are imprudent, putting themselves in harm's way because they would not have to bear the full costs of any subsequent damages. Finally, the inclusion of windstorm damage insurance in the NFIP would mean that all taxpayers would be subsidizing insurance rates for the benefit of those people in high-risk areas.

The NFIP currently owes the U.S. Treasury \$18.75 billion, the amount it has been forced to borrow from taxpayers to pay claims and expenses in excess of premiums collected. Since 2006, the Government Accountability Office (GAO) has included the NFIP on its list of 'high-risk' federal government programs in need of comprehensive reforms. By its own account, the NFIP will likely never be able to repay its debt to taxpayers. For this reason alone, H.R. 1264 is unworthy of support.

It is our view that fundamental reform of the National Flood Insurance Program should be the priority of this Congress, including the removal of subsidies over time to improve the long-term solvency of the program. In contrast, H.R. 1264 would dramatically increase the scope of the NFIP at a time when the program is essentially insolvent and remains grossly underfunded.

During the recent debate on H.R. 5114, the Flood Insurance Priorities Act of 2010, which passed the House on July 15th, there was bipartisan consensus on the need for major reform of the NFIP. As approved by the House, H.R. 5114 would phase out several categories of subsidies, but many Republicans believed the reforms did not go far enough to put the program on a solid path to self-sufficiency. We reiterate that the chief objective for this Congress should be achieving fundamental reform of the current flood insurance program, rather than embarking on a massive expansion by the federal government into the wind insurance business.

We are convinced that H.R. 1264 represents a poor public policy choice for America, even if the NFIP were able to pay back its debt and function as a self-sustaining program. If H.R. 1264 were enacted, for example, it could result in significant adverse selection for the multiple-peril program. Because wind is a standard component of most private homeowners' insurance policies, the initial demand for government-backed wind coverage would most likely be concentrated in regions where the risk of windstorm damage is the greatest. As a result, if there was another large hurricane or storm that caused both flood and wind losses, the cost to taxpayers would be enormous and the NFIP's debt would increase exponentially.

Obama Administration officials have echoed these concerns. Last year, Secretary of Homeland Security Janet Napolitano, wrote to Chairman Frank stating the Administration's opposition to the expansion of the NFIP contemplated by H.R. 1264:

The Administration strongly opposes the provision in the House bill establishing insurance coverage for multiple perils. The Administration objects to this coverage for a number of reasons. Coverage is available in the private sector and through state wind pools. Property owners are served by the private market, which provides catastrophic windstorm coverage without the need for Federal aid. The Administration, opposes extending the Federal Government's role and increasing its liability for an insurance program that is readily available in the private sector and through state insurance plans . . . Wind coverage would greatly increase the NFIP's exposure to catastrophic risks at a time when the program has a growing debt and accrued interest of over \$19 billion . . .

More recently, in testimony before the Subcommittee on Housing and Community Opportunity on April 21, 2010, the top Administration official responsible for our nation's emergency preparedness and management of major catastrophic events such as floods and hurricanes reiterated the Administration's strong opposition to H.R. 1264. In the words of Craig Fugate, Administrator of the Federal Emergency Management Agency:

We are concerned that under a multi-peril Federal program, the liability for multi-peril insurance, which is currently absorbed by the private property insurance market, would be transferred to the U.S. Treasury and, ultimately, to the American taxpayer. Notwithstanding the bill's language, a Federal program will face pressures to set aside risk-based pricing and offer subsidized government insurance. If it lowered insurance prices below the actuarially-fair value, a Federal program would encourage people to take on more risk than if they faced the full expected costs of damages. In addition to the riskier behavior, Federal Government participation in the wind insurance market would displace private markets, and mandate an unfair cross-subsidy burden on taxpayers.

At that same hearing, a representative of the Association of State Flood Plain Managers (ASFPM), the nationwide network of state and local officials who manage activities in floodplains to protect our communities against natural disasters, also criticized H.R. 1264:

The ASFPM has testified in the past to voice its strong opposition to proposals that would add the unknown exposure of an optional wind and flood policy to the NFIP. While intended to benefit the narrow strip of properties subject to both hurricane storm surge and wind damage, this proposed policy change could conceivably result in coverage of a property in a flood zone that was destroyed by winds elsewhere in the nation. While it is true that many Americans live in coastal counties, relatively few of those are subject to both storm surge and wind damage, so this concept would involve a major cross subsidy of a small group at risk of both wind and flood damage by policy holders throughout the nation.

While Congress should examine market-based initiatives to encourage more competitive markets for private property insurance in high-risk areas, it would be fiscally irresponsible to force the NFIP to take on new risks for wind insurance, as it could expose taxpayers to further losses and add billions of dollars to the Federal budget deficit. Accordingly, we join the Obama Administration in strongly opposing H.R. 1264.

Erik Paulsen.

Randy Neugebauer.

Mike Castle.

Judy Biggert.

Spencer Bachus.

Jeb Hensarling.

Patrick T. McHenry.

Ron Paul.

Scott Garrett.

Donald A. Manzullo

Thaddeus G. McCotter.

Michele Bachmann.

Shelley Moore Capito.

Peter T. King.

John Campbell.