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## Stemming the Tide of the Uninsured

Brian Levy, The University of Georgia

*The federal government should provide incentives encouraging all 50 states to require that insurance companies offer flood insurance to all Americans; market competition through multiple providers will improve service and lower consumer costs.*

State Farm recently stopped offering insurance coverage for the entire state of Mississippi, and Allstate has significantly cut its policies. This represents a growing problem for flood-prone areas in our increasingly disaster-conscious world. Flood insurance is imperative for many Americans, especially those living along the Gulf Coast and other geographically vulnerable regions. Without coverage, the value of their homes plummets and their insecurity rises. Low and middle class Americans are especially susceptible to these changes because their homes tend to be their most significant investment.

Some call for the government to provide the insurance, but this is not a natural federal function. Its coverage tends to be inefficient and ineffective. Not only does the National Flood Insurance Board continually face deficits, but in the years to come its payouts will be substantially delayed. By incentivizing states to mandate private insurance through federally withholding highway funds, policymakers can maximize the utility of both insurance companies and the national government. Insurance companies are the cost-efficient, highest-quality insurer, best able to manage policies at the local level. The federal government, on the other hand, is more successful at managing large-scale disasters as opposed to micromanaging day-to-day insurance transactions. Finally, a national risk pool and market competition could maintain or even lower costs for most homeowners.

### KEY FACTS

- The proposed policy will save taxpayers more than \$1.3 billion per year by eliminating the National Flood Insurance Program.
- The federal government borrowed \$30 billion to cover Katrina costs.

### TALKING POINTS

- Just as a private monopoly is ineffective, government-run insurance is inefficient. Private flood insurance increases efficiency through market competition.
- By exiting the insurance industry, the federal government frees up additional funds for investment in disaster preparedness.
- Private insurance simplifies the complex bureaucratic process and offers insurance at a fair market rate to all Americans.

### HISTORY

America's current flood insurance system represents an inefficient patchwork of coverage. The federal government, under the management of the Federal Emergency Management Agency (FEMA), offers insurance through the National Flood Insurance Program (NFIP). Individuals



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whose communities participate in a flood prevention program can purchase policies at rates set by FEMA. Not only does this leave out citizens whose communities do not participate, but FEMA can not effectively set rates at the local level. State-mandated private insurance represents a new, simple solution to this problem. It takes flood insurance out of the public realm and places it under private control, like all other forms of homeowners insurance.

## ANALYSIS

By providing flood insurance to all individuals within participating communities, the federal government inadvertently subsidizes construction in some of the most unsafe floodplains. This policy will encourage development in safer areas, promoting sound city planning and putting a stop to current development models that relegate the poor to hazardous, flood-prone locations.

Private insurers can more effectively regulate policies and more efficiently manage the insurance market, likely at little to no loss to the company. This plan saves the federal government, on average, at least \$1.3 billion per year by eliminating current collection shortfall. However, this number excludes the catastrophic scenario of another Katrina, which would cost approximately \$40 billion in insured losses alone. On the conservative estimate of \$1.3 billion in savings per year, the government could completely pay for private losses from a Hurricane Andrew-level disaster every sixteen years.

## NEXT STEPS

With the government no longer offering inefficient insurance, it can divert the resources and infrastructure to alternative programs. The logical venue for these supplies is the mega-disaster response and underwriting program of the NFIP. Re-investment will offer greater support for this division, which is already in need of significant overhaul. Not only is this cost-effective, but it also simplifies the difficult, circuitous process of navigating the flood insurance system.

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## SOURCES

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