Learning from the Past, Thinking About the Future—Federal Insurance Programs

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Outline

• General Thoughts
  • Why use an insurance mechanism?
  • Government tools

• Specific Programs
  • Terrorism Risk Insurance Act (2002)
  • National Flood Insurance Program (1968)
  • Federal Crop Insurance Program (1938)

• Lessons Learned?
Why Use an Insurance Mechanism?

- Pre-fund disaster costs
- Share disaster costs with program users or private sector
- Internalize risk and promote mitigation
- Use preexisting channels to more quickly provide post-disaster assistance
Addressing Insurance Market Issues

• Regulate
  • E.g., mandatory offer provisions or rate regulation
  • Mandatory consumer purchase

• Subsidize
  • Provided to consumer or insurer or both?

• Directly provide insurance
  • Continued private sector involvement?
Terrorism Risk Insurance Act (TRIA)

• Post-September 2001 attacks, insurers begin excluding terrorism coverage

• Potential economic slowdown feared
  • Especially large city construction

• Congress responds with TRIA in November 2002
How TRIA Works

• Government-provided reinsurance
  • Risk sharing with primary insurers
• Relatively little federal regulation
  • Mandatory insurer participation and offer
  • No mandatory purchase
  • Policy forms and rates under state regulation
• Indirect subsidization
  • No premiums paid
  • After the fact recoupment
TRIA Loss Sharing

$100 billion

> $100 billion: No federal assistance or private payments

$43 billion (maximum)

Individual insurer deductible = 20% of prior year premiums
(20% of premiums totaled approximately $43 billion in 2019)

$200 million

< $200 million: No federal assistance

$5 million

< $5 million: Non-certified

Created by CRS.
National Flood Insurance Program

• Private insurers withdraw flood coverage in the 1950s and 60s

• Congress responds with the National Flood Insurance Act

• Private insurers recently have begun to write more flood insurance

• NFIP still the dominant flood insurer in the United States
How the NFIP Works

• Government-provided primary insurance
  • Private insurers play significant administrative role, but bear no risk
  • Government determines policy forms and rates
  • NFIP purchases private reinsurance

• Partial mandatory purchase
  • Through the mortgage system

• Significant subsidies
  • Cross subsidization within NFIP
  • Treasury line of credit
Federal Crop Insurance Program

• Federal crop insurance dates to the Great Depression
  • Private sector abandoned attempts to provide comprehensive loss coverage prior to 1930s
  • Federal crop insurance has always coexisted in the marketplace with private sector products that provide less comprehensive loss coverage (e.g., crop hail insurance)

• Integral part of government support system for agriculture

• Policies cover the vast majority of U.S. crop acreage
How FCIP Works

- Government-provided reinsurance
  - Risk sharing by primary insurers
  - Annual appropriation ($1.4 billion average)
- Substantial federal regulation
  - Policy forms and rates
  - Mandatory offer
- Direct federal subsidization
  - Farmer purchases: annual appropriations ($7-8 billion average)
  - Insurer delivery costs: annual appropriations ($1.5 billion average)
Lessons

• Public-private partnership?
  • Government is unparalleled as a capital source
  • May not have insurance expertise
  • Private sector incentives often misaligned with social purpose

• Will people buy the insurance?
  • TRIA take-up rates vary across geography and business size
  • 5 million NFIP policies, but how many houses are there in the United States?
  • Low uptake of unsubsidized FCIP products historically; current subsidy rates of approximately 2/3 of premium
QUESTIONS?
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