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INSTITUTIONS

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The Center On Federal Financial Institutions (COFFI) is a nonprofit, nonpartisan, non-ideological policy institute focused on federal insurance and lending activities.

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PROCEEDINGS

MR. ELLIOTT: Good afternoon. Thank you for joining us here today. My name is Doug Elliott and I'm the President of the Center on Federal Financial Institutions. I have a couple of housekeeping items to start with. We'd appreciate your signing in on the sheet on the table outside, if you haven't done so already. We also have a number of our reports out there, as well, along with the biographies for our distinguished panels.

I'd also like to express my gratitude to Senators Shelby and Sarbanes for sponsoring our use of this room, and to C-SPAN for carrying this policy forum live out to the Nation.

For those who don't know us, the Center on Federal Financial Institutions is a nonpartisan and nonprofit policy institute devoted to the study of the Federal Government's insurance and lending activities. You can find out more on our web site, which is www.coffi.org. The Federal insurance program that we will focus on today is the National Flood Insurance Program.

The devastation wrought by Katrina forcibly reminded us of the importance of flood insurance. Tens of thousands of people who lost their homes were totally uninsured against floods and may face severe financial hardship on top of their other losses. At the same time, claims from those who were insured are likely to cost \$10 billion to \$30 billion according to the Director of the Office of Management and Budget.

So, we face at least two big challenges. First, we must find ways to make flood insurance more universal. In some counties hit by Katrina fewer than 15 percent of homeowners had bought flood insurance, and the average for the region appears to be under half. Nowhere are the participation rates close to those for fire insurance, even though a flood can be equally destructive.

The second challenge is financial. The Flood Insurance Program is essentially broke. It started the fiscal year with about \$1 billion, much of which was spoken for, and it raises only \$2 billion a year in premiums, which means that Katrina's \$10 billion to \$30 billion is equivalent to five to 15 years of premiums. In the short run the Flood Insurance Program will borrow what it needs from the taxpayers through the Treasury Department. Even this will require legislation to raise the program's borrowing authority, which is currently \$3.5 billion. The biggest question though is whether we expect the program to pay the entire borrowing back over time by raising future premium rates or, more likely, we choose to have the taxpayers absorb most of the cost of the flood insurance claims.

The challenges raised by Katrina make this an excellent time to review the National Flood Insurance Program from the ground up. The Center On Federal Financial Institutions issued a report this week focused on 6 key questions raised by Katrina, which I hope the panel will consider in their remarks. The paper is available on the table outside and also at www.coffi.org.

The key questions are:

- Should the Government provide flood insurance?
- Should homeowners be required to buy that insurance?
- Should there be subsidies?
- Should new development or rebuilding be restricted?
- Should the federal Government require other types of risk reduction measures?
- Finally, is the current division of public and private roles appropriate?

We will follow a traditional format today. Each of our distinguished panelists will speak for seven to 10 minutes, followed by a few questions from me, and then you in the audience get a shot for the remaining time.

Allow me to briefly introduce the panelists by name and affiliation. More detailed biographies are available outside. I will introduce them in the order in which they will speak.

We are particularly honored to have David Walker, the Comptroller General of the United States. As the head of the Government Accountability Office, he is the Nation's chief accountability officer.

Next to him, in the third chair over, is Bob Litan, Vice President of Research and Policy at the Ewing Marion Kaufmann Foundation and Senior Fellow at the Brookings Institution. In a former life, as Associate Director of the Office of Management and Budget, he was very familiar with the budget of FEMA.

Then we have Rebecca Quinn, who is here is the Legislative Officer for the Association of State Floodplain Managers. She's also an independent consultant.

Professor Mark Browne is the Gerald D. Stephens CPCU Professor of Risk Management and Insurance at the University of Wisconsin-Madison, and is Chair of his department. He is a past president of the American Risk and Insurance Association.

At the end we have Debra Ballen. She is Executive Vice President, Public Policy Management for the American Insurance Association, representing the property/casualty insurance industry.

And finally, at the start of the table, I very much appreciate the willingness of David Maurstad to rearrange a very busy schedule to join us today. David is the Acting Mitigation Division Director and Federal Insurance Administrator at FEMA, which is part of the Department of Homeland Security. In other words, he runs the Flood Insurance Program. So we're pleased to have him today.

Let me turn it over to David Walker.

MR. WALKER: Doug, let me first thank you and COFFI for having this conference. It's a very important and timely topic and I'm pleased to join my fellow panelists. What I'd like to do is to first put this issue in a somewhat broader context. I think it's important to present this as a part of the broader challenge that we face.

The Federal Government is currently running very large and imprudent deficits. These deficits will only get worse as a result of the catastrophic events that we've suffered of late, including Hurricane Katrina. Unfortunately, our deficits are likely to get even worse as the baby boomers retire. We are clearly on an imprudent and unsustainable fiscal path. Tough choices will be required. If you combine that fact -- and it is a fact -- with the observation that a vast majority of our Federal Government, whether it's spending programs or tax policies, are based upon conditions that existed in the United States and in the world in the 1950s and the 1960s and have never been subject to fundamental review, re-examination, reassessment since then. It's important that we recognize that the Flood Insurance Program is no exception and that it is but one example of an area that we need to fundamentally review and re-examine, not just in light of recent events but in light of known trends and very real fiscal realities.

A few selected comments about the Flood Insurance Program. Historically, floods have represented the greatest natural destruction that we have faced here in the United States on a recurring basis. Obviously, there are different types of floods. One type of flood, but only one type of flood, is associated with wind driven flooding. Hurricanes are the prime example of wind driven flooding, and we clearly saw what happened in New Orleans was as a result of a hurricane. The flood insurance program is not the only Federal program that is not financially sound.

Another example that has been in the news recently is the Pension Benefit Guaranty Corporation which has gone from a \$9 billion accumulated surplus in 2000 to a \$23 billion accumulated deficit in 2004 and still counting. So the program is not just financially unsound, it's not actuarially sound.

A significant percentage of the policies underlying the Flood Insurance Program are subject to possible subsidy by the taxpayer, especially in light of Hurricane Katrina. In addition to that, a significant percentage of the losses that have been incurred over the years, of which there are substantial, relate to repetitive losses associated with single properties. Some of those properties are located in fairly expensive areas that are very subject to repeated disasters. In some cases those properties are owned by very affluent individuals. At the same point in time, we do know that there are limits as to what conditions and things are insured, even if you are covered. And there are limits as to how much is insured. Occasionally there will be losses that will be incurred that will be in excess of those limits.

Last but not least, before I turn it over to my fellow panelists, there is clearly a need and Congress recognized that there is clearly a need for additional transparency and guidance as to what is covered under the National Flood Insurance Program and how best to be able to submit and process claims through the Flood Insurance Program. In fact, there was a statutory deadline of 12/31/04 that was supposed to be met, which unfortunately has not been met yet, in order to provide that type of guidance. Because of the recent events, especially the events associated with Hurricane Katrina, that type of guidance is more important than ever. Thank you.

MR. LITAN: I'm Bob Litan and I'm going to start with a couple of introductory comments and then I'm going to attempt to answer Doug's questions in order.

I want to begin, however, by personally expressing my sympathy with all those people whose lives have been devastated, if not severely interrupted by these horrific events.

I also have a caveat: what I'm about to say is tentative in nature. I hope to learn a lot from other people on this panel. And so subject to the qualification that I may retract everything I say today, I will just give you my early reactions to what Doug has asked us to talk about.

Now to begin: I couldn't agree more with what David Walker has just said. In less polite language, our budget deficit is out of control. One thing that we ought to think about in a larger framework, independent of floods, is maybe it's time that we seriously start thinking about budgeting for disasters.

The way Congress historically has treated disasters is it always adds a supplemental saying in effect, that the disaster could not have been anticipated. The fact of the matter is if you look at the historical record, there are plenty data on disasters. You can make projections, you can set aside an account and then you can have a supplemental if you go over the account. And maybe if you go under it in a particular year, you can carry the unused portion over to a future year. The bottom line is that these events can and should be budgeted, and paid for, up front, not after the fact.

One final introductory issue: should the insurance industry pay for the floods? Dickie Scruggs and the Mississippi Attorney General have filed lawsuits claiming that, notwithstanding the specific flood exclusion in the standard homeowners policy, somehow the insurance industry ought to pay for this. In my opinion this is ridiculous. This lawsuit, or these lawsuits, ought to be dismissed, and we ought to get on to more serious topics. The fact of the matter is that insurance companies have economic incentives to collect for flood insurance because, the way the program works, they get a commission when they sell the flood insurance. They don't bear the risk. The Federal Government bears the risk. But it's ludicrous, in my opinion, to claim that when something is specifically written in the policy, there's an exclusion, that somehow the insurance companies ought to pay for it.

Now I'll turn to the questions Doug has posed. First, should the Government provide flood insurance? Answer: yes. Although, as I will say at the end, not in the way I think we do it now.

Number two, should homeowners be required to buy the insurance? Yes. Currently, we require only homeowners, as I understand it, who get a loan through a Federally chartered institution to buy the insurance. I take it that's because Congress doesn't feel it has the Constitutional authority to require anything more. But given the fact that the Federal Government is about to rebuild the Gulf, I believe a good case could be made that I think Congress would have the power, and, as a condition of providing all this money to rebuild the Gulf, people and firms in flood-prone zones ought to buy flood coverage. Otherwise, if there is no insurance requirement, one ends up with a situation where a lot of people end up getting compensated who are not insured. That sends the wrong signals to people. That means that, in effect, you get too much development in the wrong places.

Third, should there be subsidies? Answer: this is clearly a political question. But the fact is that poor people obviously cannot afford the insurance to the extent richer people can. But should poor people in low-lying areas even be allowed to return? If society says yes to that question,

then any flood insurance will have to be subsidized. And it's better to do that up front, on the budget, than through the back door of less than actuarially justified premiums.

Forth, should new development or rebuilding be limited or restricted? In a perfect world, if flood insurance were actuarially based so that those in the highest risk areas had to pay the higher rates, the answer is no, you wouldn't restrict building. People would just pay the higher cost. But if the rates are not actuarial, then I think there is a case for building restrictions, because, otherwise, you're going to get too much construction. The market will have been distorted, sending the wrong signals about the true cost of locating in a disaster-prone area.

Fifth, should the Federal Government require risk reduction measures other than rebuilding restrictions? The answer is, only after you do a cost-benefit analysis. Some things may be justified, other things may not, but at least analyze it before you do it.

And finally, and this is what I want to talk about most and then I'll quit, is the current division of public and private roles appropriate? I don't think so. As a general matter, I don't think floods should be distinguished from other kinds of catastrophes. The country is exposed to substantial risks from hurricanes and earthquakes as well. Given this, what we ought to do is treat these events somewhat alike. In particular, why not have a common "layered" approach to dealing with financial risks from these events?

Under this approach, individuals and firms would bear the first loss, or the equivalent of a deductible in an insurance policy. The insurance industry should cover the next layer. And by insurance I mean both primary insurers and also the reinsurers who stand in back of them.

States possibly should bear the risks in a third layer, But the ultimate backstop, as is true for terrorism, should be the federal government. It alone has the borrowing capacity to pay for these disasters. But borrowing should only be a last resort. To the extent possible, the federal government ought to collect for these risks by charging actuarially appropriate premiums, up front. This provides the proper incentives for cost-effective mitigation, while building insome financial responsibility for disasters up front, to be borne by those most at risk, rather than taxpayers generally.

I would treat flood as part of such a program. Flood is not treated that way now. Under the current system, if you buy flood insurance, the federal government covers the first dollar of loss. In the layered approach I have suggested, you'd have the private insurers on the hook for the first layer of coverage (after the individual deductible) and then the Feds would take responsibility for losses above some retention level.

Some people might question whether a layered approach represents a bailout of the insurance industry? The simple answer to this question or objection is no. Only the Federal Government that can really absorb the mega-catastrophe kinds of costs that we've seen in the case of Katrina. But by charging up front these costs, in the form of premiums, the government would be acting more responsibly than it has in the past, while providing better incentives for locational and loss mitigation decisions.

MR. BROWNE: I guess I'm next. I'd also like to thank Doug Elliott for the opportunity of speaking here today. I'd also, in addition to that, like to express my sympathy to the victims of Katrina and

other natural disasters. My comments aren't intended to any way affect Government policy towards them. My comments are directed towards the future.

The National Flood Insurance Program was created in 1968. I think it's probably reasonable to expect, 40 years from now, the Government of the United States will be dealing with another catastrophe of some sort. And I think our job today is to think about how best to prepare for that. It might not be 40 years out. Maybe it will be just a couple. Maybe it will be further. Let's hope for the latter.

When the National Flood Insurance Program was enacted it had three goals. One was to protect policyholders from the devastating financial consequences of flood damage. The second was to protect the lenders from potential loan defaults resulting from flood losses. And third, and perhaps most importantly of all, was to protect the Federal revenue funds of the United States by collecting money from those exposed to flood losses prior to the occurrence of the loss.

In addition, the program serves some other purposes. It facilitates real estate transactions and thus promotes homeownership, which is a societal goal. It benefits the insurance industry, as it relieves public pressure to provide flood insurance coverage which might otherwise exist and obviously currently does exist.

And third, it's worth noting that the National Flood Insurance Program is quite popular in some parts of the country and not as popular in other parts. Historically, individuals exposed to property losses resulting from floods have inadequately prepared for the financial consequences of flood. As a consequence, and as a result of the generosity that I believe is part of human nature, flood losses have been financed in large part after the fact through charity provided by either Government or philanthropic organizations, such as the American Red Cross, and the Salvation Army, and many others.

The Flood Insurance Program is one component of risk finance currently for hurricanes. The major components and the amounts expected from each to finance Katrina losses include the following:

First, private insurance. And this is mostly because of the wind storm peril covered by these policies. Estimates from the insurance industry are in the range of \$40 to \$60 billion.

The National Flood Insurance Program, which we're talking about and has been mentioned earlier. The losses are estimated in the range of \$10 to \$30 billion.

General revenue funds of the United States. We don't know to what degree this will be hit, but some estimates widely reported put this at approximately \$200 billion.

Next comes private charity. The estimates that I've seen here are \$1 billion-plus.

And finally, we have to remember the victims who have suffered in this. They have out-of-pocket expenses which I've not seen an estimate of, but I would fully expect to be as great as those that are going to come from the general revenue funds of the United States. I don't think it would be unreasonable to expect the victims to suffer out-of-pocket costs in excess of \$200 billion.

My estimates are pretty broad, but adding these up we get somewhere near \$500 billion for Katrina, which is a huge amount of money. The National Flood Insurance Program, which were

focused on, is part of this. It's maybe going to pay for 4 to 5 percent of the total losses arising from Katrina. Not really a whole lot. What's very important, I think, is that the general revenue funds of the United States are taking a major hit. This has been mentioned before, and this is perhaps our most important policy goal is thinking about how to protect the general revenue funds of the United States against future disasters, which we all know loom out there at some point in the future.

There are estimates widely reported that California will experience an earthquake within the next 50 to 75 years that will be devastating. Some put the estimated economic impact of the big one in California as being as significant to the U.S. economy as the Civil War was in its day. It's going to be a very major event, and it needs to be planned for.

Second, in all of our nightmare situations, there is the possibility of a dirty bomb going off in a major American city. Think about that. What would that do to the property values? We wouldn't have individuals on helicopters trying to save people. How would we even approach that? Fortunately, many of you are dealing with that issue. I don't know exactly how you'd go about it, but the financial losses obviously would be significant.

From the numbers that I just gave you on Hurricane Katrina, we can conclude that the costs are being spread in a number of different ways. The general revenue funds of the United States have not been protected in this situation. Does that mean that the National Flood Insurance Program has failed? No, not completely. It is paying part of the cost. It is protecting the revenue to some extent. But this is certainly less than complete, and it would be better, I believe, if the general revenue funds could be protected more fully.

When the Federal Government incurs costs through the general revenue funds for an incident such as a flood, the expenses are transferred from those in disaster's way to other taxpayers living in other parts of the country. So the costs are redistributed geographically. We also need to keep in mind, because the Federal Government is running a significant debt at this point, that the costs are being spread temporally as well to future generations. So we're spreading it geographically and temporally. The question obviously comes up, why isn't flood insurance protecting the general revenue of the United States to a greater degree? The answer, I think, many people would give, and which I agree with, is that many people are not purchasing flood insurance. Now, that wouldn't protect the revenue funds completely, but it will help.

So, many people are not purchasing flood insurance. Flood insurance is subsidized for some. For others, it's mandated. Why aren't people purchasing it? This is something that's been studied by academics. There are some ideas. One of the reasons is that it is expensive for some individuals. Low income people might find this a difficult thing to afford while they're trying to feed their families and clothe them. A second reason is that some individuals have misperceptions about the risk relative to the cost of the insurance. So they decide look, it's really not worth it. They think it's too expensive, even though for many of them, because of the way the pricing is done, they would be getting a good deal. A third reason is that some individuals may anticipate that they will receive charity care, either from philanthropic organizations or the Federal Government when disaster strikes. If they believe that, then they may think, why purchase flood insurance? I'm not arguing that aid should not be given. That's not my point. My point is, we need to understand why people don't purchase flood insurance, and that does seem to be one of the reasons.

As a general rule, it is fair to say that those who receive the benefits of an activity should also be the ones who incur the costs of the activity in a market economy. When this is the case, resources in the economy will be distributed more efficiently than when it is not true. When individuals do not bear the full costs of living in areas prone to flood and other natural disasters, they make decisions accordingly. People act rationally to the incentives that they are faced with. It is reasonable to expect that individuals would be less inclined to live in areas prone to natural disaster if they bore the full costs associated with those risks. This logic applies not only to the National Flood Insurance Program, but also to the general revenue funds of the United States that are being used to assist these individuals. What we need to do is figure out a way to get people to bear those costs before the loss, because the generosity of the people of the United States, I don't think, is going to change. The people of the United States are going to continue to want to help those in need. If we can figure a way to get people to pay ahead of time then we are going to be better off.

What choices are there to consider going forward? One would be the private market. Could the private market work? It would be hard, frankly. The reason why the National Flood Insurance Program came into place in 1968 is because there wasn't much of a private market for flood insurance. So that would be very difficult.

Why doesn't the private flood insurance market work? Well, one reason is the catastrophic nature of the risk. Insurance companies pool risks. Some of them have losses, and they're paid for by the premiums of the others. But if you wipe out the whole pool, then the insurance company goes under. So there is concern about the catastrophic nature of the risk. Granted, insurance companies do reinsure and hedge their risks in other ways, but floods can be truly catastrophic, as we all know. Another reason why private flood insurance may not be working is, again, that people anticipate assistance following a flood and, therefore, don't purchase insurance. Again, insurance may not accurately anticipate the probability of a flood or homeowners may see flood insurance as too expensive. And finally, some individuals in the insurance industry have told me that there is a concern with the way that flood losses would be reserved by insurance companies. With flood losses, as opposed to say other types of losses, there is a significant period of time potentially between events. And if you're paying a flood insurance premium on a regular basis, what an insurance company would need to be doing is establishing reserves for potential losses. And those reserves might go out 25, 50, 100 years. That's a difficult problem for the insurance industry.

What can we do to improve the working of the private insurance market? One possibility is to mandate coverage. Tell everybody that they need to buy it. If we did that, though, we would need to think, is there enough capacity in the insurance industry? It's one thing to tell everybody to buy it. But would the insurance companies be able to have the capacity to bear this risk? I'm not sure. I imagine the people in the insurance industry would have a better answer for that than I do.

A second possibility is, maybe we could improve the National Flood Insurance Program. How could we do that? Again, we could mandate that people purchase it. Another possibility might be some sort of policy innovation. So instead of something that more or less looks like a homeowner's policy and you pay a premium and it covers a certain peril -- in this case flood -- maybe we could have a policy. And this is just an idea that hasn't been fully worked out. But

perhaps what we could have is something like a cash value policy similar to a whole life insurance policy that you are forced to purchase at the time that you close on your home. So you pay your premium every year, and you build a cash account. At some point that cash account will be fully paid up and you'll have the money in case there's a future loss. That's a security, then, that could perhaps be bought and sold when you sell the property.

A third idea would be that, perhaps what you could do is have the banking industry bear this risk to some extent. The way that this proposal would work is, you would pass a law that, if there was flood damage to a property, that mortgage would be immediately forgiven by the bank. Now for the bank to take on that risk, they would need to charge higher interest rates. However, that's something the banks could do. They could adjust their interest levels. An advantage to having the banking industry bear this would be that banks put together their mortgage portfolios and resell them. So, basically, what you'd be doing is securitizing the flood risk, and there's greater capacity to bear this sort of a risk, I believe, in the financial markets as opposed to the insurance industry.

Finally, another option which we'll be talking about today, and we already have to some extent, is we can work on controlling the risk to a greater extent. This involves such things as restricting development, building levees and having disaster plans in place. One final note before I conclude is that, in the area of risk management, there are many different tools. One tool is risk finance. Another tool is risk control. We need to think about both of these together. They're both complements and substitutes for each other. And the Federal Government of the United States needs to think jointly about how it's financing risk and it's controlling risks. Thank you.

MS. QUINN: Thank you. Before I start, I have a handout that I'm going to refer to. If someone could check the table and bring in any that were left over, I'd greatly appreciate it. Given today's focus, you might ask, as I did, why is someone from the floodplain management community represented on this panel? You might even ask who are floodplain managers and what do they do? I'm going to assume that some people here may need a little bit of background. You may be more focused on the financial aspects, so I want to give you some basics.

But first I know we're all really busy, but I urge you to read the two COFFI pieces that Doug said were outside and on their web page, because they will answer some of the questions that have been raised here. For example, I beg to differ with some previous speakers. The Flood Insurance Program is not subsidized in the way you might think it is. It's not subsidized by taxpayers under the current rate structure. There is a subsidy built in for some buildings, for older buildings, and there is a subsidy given that Congress requires only that the program capitalize for the average loss year. The program has authority to borrow from the Treasury.

Since the late 1980s the program has been self-supporting. What that means is very important to understand, as well. How many other federal programs do you know that pay the salaries and expenses of not only 200-and-some Federal employees, but quite a number of contractors doing a great deal of work for the program? This program has not received taxpayer funding for a long time. Katrina, Rita, as well as Florida hurricanes, and who knows what the rest of the year may bring, could change that history quite a bit. But I think the program deserves a great deal of credit for the last 15 years or so.

So back to floodplain management and why we're here. I have a few basics to go over. One, given the recent experience that everybody has seen, I want us to be clear what we mean when we use the word *flood*. Floods are part of the natural cycle. So we shouldn't be surprised when they occur. The only problem is when people and the things we build get in the way. And in this respect, floods have been influencing people and what we do since the beginning of time, long before Government was involved.

The word *floodplain* is even more complicated because we use it in two senses. Very broadly, the floodplain is any normally dry land that gets inundated by overflowing waters. That's easy enough. But for the purposes of the National Flood Insurance Program and what we do, representing state and local floodplain managers, it is the floodplain that's shown on the FEMA maps. That floodplain is a very specific animal. It is either approximated or delineated using engineering methods, and it is based on the 1 percent annual chance flood. Now you know part of the reason why people don't understand floodplains. Because our terminology is more complicated than, "*it's a flood*".

The common term *100-year flood* is probably one of the most misleading terms that we kick around because all too many people do not understand it. I've have gone face-to-face with people who literally say, "*I'm safe for 99 years*". The areas that are shown on the flood insurance rate maps are called special flood hazard areas. So when we, the floodplain managers and the Flood Insurance Program, refer to floodplains, we're really talking about that very specific probability event.

The reason we need to be careful, though, is, obviously, hurricanes and floods have demonstrated there are significant differences between that specific flood and what we experience on a fairly regular basis. You cannot look at the flood insurance rate maps and say, "*That's flooding from a category three or a category four hurricane*". You really have to understand how coastal flooding is determined and the modeling that goes into the surge models before you can say that a particular flood has a frequency assigned to it. But this does not mean that those storms revealed that the maps are wrong. We do know that many of the maps are old, and FEMA and its state and local partners and others are in the midst of a multi-year program to revise and modernize the maps. And I do understand that, just by happenstance, some of the flood maps in the Mississippi Gulf Coast are going to show that the one percent annual chance flood is deeper than what we had thought it was just a few years ago.

So really what I'm trying to say is that we make these maps, but Mother Nature doesn't read them. The line we draw on the map is not magic. I have debated this with property owners and developers. We draw a line and if you look on one of the graphics, you can see, a line that has a width. Although, mathematicians will tell you lines don't have width, when we put our pencil to the map, it has a width. I have debated with people placing their houses in or out of the floodplain, how wide is that line? Well, I can tell you, as good an engineer as I and my colleagues all over the country may be, we're not that good. That line on the map is simply a statement of probability. Bigger floods that don't always make the national news happen all the time.

So back to floodplain management. For many years, most states and communities have had an explicit role managing the mapped floodplains in ways that are consistent with the Federal requirements of the National Flood Insurance Program. In our lingo, the word *community* means any jurisdiction that has land-use authority, be it county, borough, parish, town, city, Indian tribe,

you name it. In 1968, the NFIP came into being, and the governors of every state designated an office to serve the coordinating function between the Feds and the communities. Why? Well, there are over 80,000 local jurisdictions in the country. Over 20,000 of them participate in the Flood Insurance Program. A small agency like FEMA (and it is small) simply doesn't have the capacity to deal with every one of them. So the states have a very active role. Every single local jurisdiction that participates in the NFIP has adopted an ordinance or some form of regulations, and many states have also regulated floodplains. Some have programs that were established long before 1968. So we're not new to the game.

The nexus with today's topic is that managing floodplains reduces damage and reduces the financial impact on the nation and on the NFIP. We see evidence of this after nearly every flood. The basic standard is that if you're going to build or rebuild, you have to elevate your house or building to be at or above that 1 percent annual chance flood elevation. So not only do we debate how wide the line is in the horizontal, but I have engineers say, "*Oh, you mean it's 13.1 feet?*" Well, Mother Nature doesn't stop at the 0.1. So we have a lot of interesting situations to deal with.

The Flood Insurance Program does report that buildings built to the standards, as a class, sustained 70 percent less damage than the older buildings that were not built to recognize floods. So that means we are saving a lot of money. The exact numbers I can't quote you. Some information is in the COFFI write-up. Many states and communities are more restrictive than the NFIP minimums. We do recognize the risk. A lot of states and communities require that you build higher. Some lucky communities even can say don't build. But we cannot say that to many communities, especially communities say in Louisiana or even -- I'm from Maryland, some of our Maryland Eastern Shore committees that are 100 percent or 50 percent coastal floodplain. We can't say don't build. What we can say is we need to do a better job of building smarter. So when rare events occur and cause the kind of physical damage we've seen, and I can quote you lots of them, we see less damage. We go back to Hurricane Camille (1968) and Tropical Storm David (1972) and Hurricane Hugo (1989) and the Mississippi River floods (1993 and 1995) and the Estes Park Dam failure. They're all over the place. We're reminded that when an event that generates flooding that exceeds the one percent annual chance event that shows on the map, or when a non-probabilistic event occurs like a dam failure or levee flooding, that there are some parts of this concept of *flood* we are not dealing with adequately.

Now the handout, I want to refer to a couple of graphics so you have a better feel. There's a little graph in the upper right. That shows that a building that is in the mapped floodplain, that 100-year floodplain, has a 26 percent probability of being touched by flood waters during a 30-year period. I'm told that's about five times the likelihood of having a major fire during the same period. So we ask, who would go without fire insurance? Well, looking at this, who would go without flood if you're in a floodplain? Few people, though, are aware of this difference in risk. We call it the *It won't happen to me* syndrome. They just think floods are something that happen in Biloxi, not in Baltimore, Maryland or somewhere close by.

In the middle is a little clip of a coastal flood insurance rate map. If you look closely, you can see there are different zones, and you'll also see that line I was referring to. Along the open coast is what we call the VE Zone, where wave energies are expected to contribute to damage and the program requires a higher standard for development. But a vivid lesson learned, a lot from

Hurricane Ivan last year but also the recent hurricanes, is that well, Mother Nature doesn't read the maps. Those waves don't magically stop at the line between the A Zone and the VE Zone. And we've learned that even small waves can chew up buildings.

At the bottom is one of my favorite graphics. It shows estimates of the annual premium for new construction for four building scenarios. Look at line A on the right. People who build beach front homes do not get a ride out of this program. That line is for a \$150,000 structure coverage and \$60,000 contents coverage. And if you know anything about the seductive nature of the coast, you know that a lot of the new buildings are not \$150,000 houses. The premium for that building, built to the minimum requirement, is \$3,000 a year. I don't know about you, but for me that wouldn't be real affordable. And that house, of course, is built properly.

Because the NFIP coverage is limited by Congress to \$250,000, those really expensive houses are not covered. Look again at Line A and you'll see one of the magic things about flood insurance because it is, for new construction, it is actuarially rated for the average loss year. What that means is, if you build your house higher, just two feet higher, that house can save \$1,500 a year. A lot of people would be glad to save \$1,500 year, but I can't tell you how difficult it is to convince people to invest the up front cost to build a little higher.

Finally, the photographs on the other side. These were taken about two weeks ago in Pascagoula, Mississippi by my colleague, the State Coordinator of the program in Mississippi. At the top you'll see a home that had been damaged by a flood, and then, using what is called increased cost of construction or mitigation insurance, it was physically lifted above the flood level. That coverage, by the way, is part of every policy on a building within a mapped floodplain. If a covered building sustains substantial damage, then they can get that mitigation insurance claim payment. We don't know what Katrina's flood level was at this location, where was it relative to that magic number shown on the flood maps, but clearly mitigation works. When you look at the damage at the bottom, the stairs were washed away and maybe a little railing damage.

Now, onto the six questions. I always have a hard time talking within limits because I live and breath this stuff. But Doug posed some good questions, and I appreciate hearing the perspectives of other panel members. I will tell you that my association's members are on the ground. We don't have the economic and financial expertise, but we do have a good feel for what works and what doesn't.

One: should the Government provide flood insurance? Our concern is that if you separate insurance from risk reduction mechanisms we could lose land-use management at the local level. We know that there needs to be a strong link. We need to recognize flood risks and guide development. So that would be a challenge if flood insurance was privatized. Our fast answer, our short answer to that would be yes, the Government should stay in the flood insurance business until, and unless, you can demonstrate to us that we can keep the land-use link.

Two: should homeowners be required to buy flood insurance? Yes, if they're in the mapped floodplain, of course they should. They are required to today through what appears to be an imperfect mechanism. But we also need to expand the areas where insurance is required. We need to show areas protected by levees. Levees are like anything else made by man. We design them to a certain level. It's may seem a bit shocking but someone actually could say that,

if a levee is overtopped by a bigger flood than it was designed for, it's functioning the way it was designed. We don't build levees for the maximum possible flood. We build them to provide a certain level of protection. The association that I represent believes that areas behind levees have a risk. They have a residual risk. And they should be shown on the flood insurance rate maps, and some kind of insurance should be required. Another benefit about having residual risks shown on the Government-produced maps, is the maps are in public domain. You can do look ups for many communities, type in your address and see what your risk is. But back to residual risk. We think this concept applies not only to areas behind levees and flood walls, but also downstream of dams and to the area that is subject to hurricane surge flooding that exceeds the one percent annual chance flood.

Third question: should there be subsidies? We need to be very clear that it's not a taxpayer subsidy, except for perhaps during extraordinary circumstances if Treasury borrowing is forgiven. So our position is yes, the cross-subsidy on older buildings should be continued. Let's remember the stock of older buildings is fairly finite. After a community adopts the maps and the regulations, new construction and significant reconstruction have to meet the regulations. Over time the stock of older buildings will diminish. It just hasn't diminished nearly as quickly as the framers of the original legislation anticipated. The inherent subsidy in basing the rates on the average loss year, we also believe should be continued although clearly there is a call to examine the degree of that subsidy. The country, as a whole, benefits from floodplain management, and so we think that that's another reason why we need to continue some degree of subsidy on these older buildings.

Four and five I'll put together, dealing with new development. Should it be limited or restricted? And should the Government require some other measures? At a minimum, the minimum requirements must be reinforced and enforced in the communities affected by damaging floods. We often hear communities want to drop out of the program or grant waivers right after disasters to put people back the way they were. You know, if I just had a flood, I'm not sure I'd want to go back flat on the ground. I'm pleased to say though, in Mississippi there are many coastal communities that are already, given everything else they're doing, they are adopting an extra factor of safety and saying if you rebuild you not only have to build one or two but maybe as high as four feet above the flood level.

Regarding other risk measures, we know that mitigation works. That photograph on the handout is only one example. Every single state can show you flood mitigation projects that have worked and we have plenty of them that have been tested by subsequent floods. What we tend to do is not to go back after a flood and compute damage that didn't occur. When I was Maryland State Floodplain Manager, and we had a program to help local jurisdictions buy out and return floodplains to natural functions, I can tell you nobody called me and said, "*Guess what, we had a flood and nobody got hurt.*" That's just not the way human nature is-- we tend to focus on the damages.

We anticipate that FEMA will release a study very soon that, rumor has it, will show the benefits of mitigation are for every dollar invested we avoid four dollars in future losses and damage. That's a pretty significant return. We're pleased that we heard that yesterday the appropriations for FEMA were approved to include funding for an NFIP-funded program focused on a very small part of the NFIP policy base called the repetitive loss problem. One of the previous speakers

referred to these buildings that get multiple claims. Something like one percent of the total policy base, about 50,000 buildings, account for about 30 percent of the dollars paid out. While 50,000 buildings is a lot, in the face of what we're dealing with, it's a manageable problem. In addition, we urge Congress to refer the 15 percent formula funding for Post-disaster Hazard Mitigation Grant Program, which is under the Disaster Relief Act.

A reminder to those who are cautious about investing a lot in mitigation, and that's that finite stock of buildings. FEMA and the states and communities are doing a lot to improve what we know about these buildings. We're gathering data. Communities are developing mitigation plans that examine alternatives. There are more and more communities that have looked at what they will do when the big one hits. And we need to recognize that they are also interested in cost-effective investments.

And question six, the last one, is the current division of public/private roles appropriate, and I'm assuming this refers to the roles in the insurance side of the Program. Floodplain managers care less about who does which part of the job. We care about the bottom line. More at-risk home and business owners need to understand their risk and more of them need to be covered by flood insurance so that they don't have to cross their fingers and hope that it won't happen to them. Thank you.

MS. BALLEEN: Thank you very much. I'm Debra Ballen with the American insurance Association. And when I say I'm from the insurance industry, I hope you all realize that that means I'm here to help. I do want to express sympathy for the victims of both Hurricane Katrina and Rita, but also emphasize the insurance industry's commitments to honor its obligations to policyholders throughout the region. I think it's a sad commentary, based on some recent litigation, that that has been called into question.

The reality is that Katrina in particular has posed unprecedented challenges for insurance companies both because of the magnitude of the losses, because of the scale of destruction, and because of simple logistics of getting in and beginning the process of settling claims. But wherever they can get in, insurance companies are there now. They're working directly with policyholders. And in fact, I think their challenge is making sure the policyholders know where to find them because sometimes that's difficult for displaced policyholders, particularly those working with independent agents, to know how to find their insurance companies. The insurance companies are out there in the shelters. They're posting signs. They're posting all sorts of 800 numbers, and they're really there to make sure that the policyholders can find them and begin that process.

The reality, as I said before, is that this litigation has raised some questions about the industry's commitment. It's also provided a little bit of the parameters of what I'd like to talk about in these brief introductory remarks. There was a recent column in the *Wall Street Journal* by Walter Olson. It was entitled *Katrina Ravages Mississippi, Contracts Badly Hit*. I think that summarizes the difficulty that we're facing right now, in terms of litigation, that's really challenging the basic distinctions between what is wind damage and what is flood damage, and why it is that insurance companies should not be forced to pay for flood damage that rightly falls outside of the scope of very explicit contracts that have been in place for years, and also that falls very explicitly within

the Federal Flood Insurance Program, also according to explicit contracts and I think explicit advertising by the Flood Insurance Program about what it covers and what private insurers don't cover.

I'm not going to talk today about what is wind and what is water damage or what is flood damage. I'm not going to talk about the merits of the individual suits other than to quote a recent article in the *Baltimore Sun* who called the evidence that the Attorney General of Mississippi had put together in filing these lawsuits, I think the term that they used, a very technical term, was malarkey. I think Bob Litan used a similar term in calling it ridiculous. My dictionary calls it nonsense, but they all basically mean the same thing, which is that these lawsuits have no merit. They ought to be dismissed. And the insurance companies ought to be able to focus their full attention on servicing the needs of their policyholders within their contracts.

The background, I think everybody knows, is that we're now about a month after Hurricane Katrina. Because of the logistical challenges that have been facing insurers, we still really don't have a firm estimate of the insured loss damages. I've seen lows of 15 to highs of 60 billion dollars. I think the lows have pretty much been discounted by now, but they are still out there. But regardless of where we are in this particular framework, I think it's fairly apparent that this will be the largest insured loss in our nation's history. That applies for natural catastrophe, and it's even larger than the 9/11 terrorists attack.

I think it's also fair to say that from a non-insurance perspective, Hurricane Katrina relief may dwarf Federal aid following any other catastrophe. Professor Browne, I think, estimated \$200 billion, bringing the total up to probably \$500 billion when all sources are in there. That's a lot of money. That probably amounts to close to \$1 million for each of the displaced families. And I think it just really, again, underscores the magnitude and unprecedented nature of what we have recently faced, and, I think, questions about where do we go from a public policy perspective based on the particular event, a particular moment in time, the data point, that certainly was unprecedented.

I think a lot of work needs to be done to say what do we work toward the next time. As far as this litigation is concerned, about three weeks after the hurricane made landfall we got the first lawsuit. It was filed by Mississippi Attorney General Jim Hood. He filed a lawsuit against the major insurers operating in his state seeking to invalidate as "unconscionable" -- his word -- "and contrary to public policy" the standard flood exclusions that had been used for every homeowner's policy that had been approved by the state regulator in his state, also in every homeowner's insurance policy that's been approved in every other state where homeowners insurance is sold, which is to say all states in the United States. This is a heavily regulated industry, and these exclusions have been fully vetted and again worked in coordination with the Federal Flood Insurance Program. Of course, not to miss a beat private class-action lawsuits were filed, I think the same day. Maybe some of them even a little bit earlier, but certainly by the end of that week there were private class-actions that were filed which also seek to invalidate flood exclusions and force insurers to pay losses that fell outside of the scope of their contracts.

This is an issue that relates to who's responsible for payment and it also relates to the amount of payment. Because, as has been mentioned, there are very explicit caps in the Federal Flood Insurance Program. It's not really designed for the million-dollar home. It's designed for much more modest homes. Of course, private insurance has much higher limits. So it's really not even

a question of whether a policy is insured by the Federal Flood Insurance Program, whether that homeowner has had the foresight to buy it, but also how much they ought to recover. So the stakes really are enormous here.

I'd like to talk about the public policy concerns that arise when insurance companies are being sued on the basis of retroactively doing away with the flood insurance exclusions that they have. There are several issues that are at stake and they really are important, not only for insurers, but for the public throughout the country that relies on insurance.

The first one is insurance industry solvency. And that is something that ought to matter, not only to the people here who care about insurance, but really for all policyholders of all lines of business. As I said, apart from this litigation, Hurricane Katrina is likely to be the costliest natural disaster on record for insurers. And to add flood insurance losses that are clearly outside of the scope of the contract will add tens of billions of dollars to this loss. So again, we're still trying to define that loss, but certainly it would go up by 50 percent and perhaps even more than that if full flood insurance losses were included there. This would seriously undercut a surplus that insurance companies need, not only to pay those claims that are now stemming from Hurricanes Katrina and Rita, but also all of their other obligations to all of their policyholders throughout the United States. We're not through with the hurricane season. Another one could come. We could have an earthquake in California. We could have a terrorist attack. There are lots of things that call upon insurance companies' surplus. It's not really surplus. It's the money that's there that hasn't been specifically allocated to a claim. And to require that insurance companies go clearly outside the scope of existing contracts would tamp it down in a way that would threaten the solvency of many individual carriers. And it would also stress the entire industry because there's an obligation in the insurance industry to guarantee funds to pay when another company goes insolvent. So there would be a ripple effect that would have serious repercussions for policyholders all over the country.

Besides insurance companies, this type of lawsuit really raises the specter of the wholesale abandonment of contract law. The flood exclusion itself is one of the clearest and most visible parts of an insurance contract. The Federal Flood Insurance Program, through its own advertising, I think further underscores for the public that flood insurance is not part of the standard policy. You have to buy it through the Federal Flood Insurance Program. To ignore this just because a lot of people have suffered losses would be a complete abandonment of contract law. And, beyond the financial implications of that for insurance companies, doing this sets a very dangerous precedent that would be looked upon with horror by all businesses, certainly all businesses that are contemplating doing any type of business in Mississippi or Louisiana, but those who rely on contracts for their very survival. The idea that a loss comes and an Attorney General can simply ignore the contract and make one party pay is frightening from the perspective of businesses. It really underscores that sense of where the judicial hell holes are in this country, as identified by the U.S. Chamber of Commerce. And that is a distinction, by the way, that they use to describe Mississippi, Louisiana and Alabama, as well as Texas in terms of Hurricane Rita. So you understand that there is a real concern that businesses generally have when they look at this kind of lawsuit and realize what they are putting at risk in doing business in a state that has such an attitude toward contracts by their Attorney General.

There's also concern about abandoning some of the basic principles of the Flood Insurance Program that were talked about today. The Flood Insurance Program was created because flood insurance is an uninsurable risk in the private sector. I think Professor Browne did a good job of explaining why that is the case. It's simply too big. It's too unpredictable. It's too amenable to adverse selection. There are aspects of flood that need to be regulated that cannot be done through a private-sector solution itself. To force these losses back on the private sector after a hurricane comes, just because it's convenient to do--that really would call into question why anyone in the future would choose to buy flood insurance if they can get the same or better coverage for free just because an Attorney General files a lawsuit. The result would be a massive shifting from the program we have now to the private sector. But I think it would be an abandonment of some of the basic principles of the Flood Insurance Program that have been talked about as really necessary, the floodplain management, the mitigation. If you didn't have a public program that could provide those things, your losses would be bigger, and, in the future, we'd be talking about really a system that would be untenable from the perspective not only of private sector insurance but also from the perspective of how do we manage floods in this country.

Finally, the simple principle of fairness demands that policyholders who bought flood insurance should not be treated the same as those who did not buy flood insurance, again simply because a lawsuit has been brought. Policyholders in low hazard areas beyond the floodplain should not be forced to subsidize losses that would be paid out to those who didn't buy flood insurance but suffered a flood in these events, through higher insurance prices, through higher insurance rates that would ultimately result if insurance companies no longer had any faith in their flood insurance exclusions. So this is a litigation tax that I think we have to understand would add greatly to the massive Federal amount of aid that's probably going to flow from this hurricane, and it would burden, I think, people throughout the country.

I was asked to comment a little bit about why flood insurance is an uninsurable risk, as well. I think some of the panelists have really done a good job of that, in terms of explaining the rationale for the Flood Insurance Program itself. There's the adverse selection issue, the catastrophic nature of severe flooding, the fact that mitigation must be mandatory or at least quasi-mandatory to work. The success that has been shown in mitigation by the Federal Flood Insurance effort is simply not something that insurance companies can manage on their own. The simple lack of capacity to handle the types of catastrophic floods that are certainly possible we now know, and can be expected, I think, with more frequency than other types of natural catastrophes, as some of the data that the other panelists have sent forth are correct. And finally, the state regulatory mandates. I mentioned before that insurance is a highly regulated industry. The policies as well as the rates themselves are highly regulated at the state level. And I think there was a little bit of discussion about some of the parameters of the Federal Flood Insurance Program.

I'm not going to comment on what is or is not a subsidy other than to say that once state insurance regulators get a hold of flood insurance rates, it's certainly not beyond the pale that we will have some evidence of real subsidy, as the rates become what is politically correct as opposed to what is actuarially correct. So it's an issue today. I think it would be much more of an issue if this were cast back on the private insurance sector, because the idea often seems to be

that if a loss comes we don't really need to worry about what the rates were ex ante, whether they were adequate. This is just a real concern that we have.

I think the other panelists did an excellent job of explaining a lot, not only about Federal Flood Insurance but about private insurance. I just wanted to comment on one thing that Professor Browne said, and that's with regard to the issue of reserving. It certainly is a challenge to try to figure out what you would be able to set reserves at. But beyond, sort of, what the actuarial challenge is, the fact is that current accounting standards prohibit insurance companies from setting aside reserves for future events. That's not limited to floods. That also applies to other natural catastrophes, as well as terroristic catastrophic events. Insurance companies, through both GAAP accounting and state accounting, are prohibited from doing that. That's an issue that I think needs to be talked about as we're talking about the future of natural catastrophe risk in the country, but I did want to say that it is a little bit broader than flood insurance. And we can certainly talk about that during our question and answer session. But thank you for inviting me and thank you for your time and attention.

MR. MAURSTAD: Doug, I also want to extend my appreciation and thank you and COFFI for hosting this discussion. Certainly, NFIP faces significant challenges as a result of Katrina and Rita. In my visits to Alabama, Mississippi, Louisiana, the devastation is unimaginable--the context and the extent of the damage. But even so, as FEMA and the Department of Homeland Security continues to respond to the needs of the people in those areas, I felt it was very important to participate in this discussion, if for no other reason than to emphasize and make it clear that the department, FEMA, National Flood Insurance Program and the Administration are actively engaged in assessing what changes need to occur, if any, to the National Flood Insurance Program to continue to be an effective program as we move from this point forward. And yet also, as the discussion began, to have the least amount of risk that is reasonable to the Federal Treasury and to move forward with all of our active participants in working with Congress in making sure that we can have a NFIP program that serves us well in the future.

Being the sixth panelist on a panel, I'm certainly not going to try to be redundant with what's already been discussed. So I'm going to hopefully navigate through my comments in somewhat of an orderly fashion.

But to the extent that the program has been effective in the past is because of the cooperation of all of the actors. This is truly a collaborative effort on the part of our nation to try to address a multi-pronged approach. It takes, of course, the active involvement of the state, of local communities, families, small business owners, the insurance industry in all of its parts, whether it be agents, adjusters and companies, for this program to work. I believe it is a public-private partnership that we can, in fact, point to as being successful. What many times occurs though is that the NFIP program is thought of only in the insurance context. It is more than that. It was intended to be more than that. It's about flood hazard identification. It's about flood hazard reduction and flood hazard insurance. It's a program that is, by principal, one of shared responsibility, of shared risk, designed to provide against the risk of flood with a community and its citizens. So it's a program that certainly needs to seek and balance competing demands. We certainly want to discourage unwise development through community building codes and standards yet provide affordable, as directed by Congress, affordable insurance to offset individual property owner risks.

The Federal Government, of course, assumes a significant portion of this risk by managing the National Flood Insurance Fund, establishing premium rates, claim reimbursement processes and the like, while the insured still retains a portion of the risk through deductibles and in coverage limitations.

But in identifying the hazard, the mapping initiative that was mentioned earlier, we provide those maps to communities so that they can help make sound decisions relative to the growth of their community, smart growth, so that individuals have that information available to them to be able to assess what their individual risks are. And clearly, over a period of time, those maps did not keep up with the growth of our Nation.

As a result the Administration and Congress began the Flood Map Modernization Program, a program of \$1 billion over five years to modernize the maps, make them geospatial flood instruments for people to use, and to also make sure that that risk that we're identifying is current. That is a critical part of the flood hazard identification component. The private NFIP community floodplain management that was mentioned earlier was not a common practice back in the late 1960s when the program began. Now there are over 20,118 participating communities that make a conscious decision to become a part of the National Flood Insurance Program so that flood insurance is made available to their residents. But also, equally as important, they agree to adopt and enforce construction standards that have saved over \$1 billion annually in avoided flood damages each year. So in addition to that, for those communities that wish to exceed the minimum requirements of the program, we created the Community Rating System which provides incentives for communities, through insurance premium discounts, to take meaningful steps to further reduce their risk by flood. Currently 66 percent of the NFIP's policy base is a part of those communities, CRS communities that go beyond the minimum standards, providing about \$150 million in discounts to 3.1 million policyholders.

In addition to that, we are integrating within the Mitigation Division of FEMA the mitigation practices that were discussed earlier and making sure that that is in sync with our NFIP program by aggressive encouragement of local adoption of mitigation plans that identify, certainly, their flood risk along with other risks that they need to face--state mitigation planning, in addition to grant programs to help deal with those risks that they identify, of course most being flood risk, and being able to utilize those grant programs, both pre-disaster and post-disaster to address the repetitive loss issue that was raised earlier.

The issue of the purchasing of flood insurance, and how effective the mandatory purchase requirement is, is certainly one that needs to be examined very closely. We, for the past close to two years now, have a new public awareness tool within the NFIP program called FloodSmart. We have a web site that I would encourage all of you to go and look at, floodsmart.gov, which provides a wealth of information about the NFIP program. Plus you can drill down and figure out what your individual risk is, finding an agent in your area that can help you address that risk, and an agent that can help you secure the necessary coverage.

But that public awareness campaign is really to try to get at this issue of needing to expanded the policy base of the program, trying to address those commonly held perceptions as to why people don't have a flood policy that are in harm's way. They think it's covered by their homeowners policy. We address that very clearly, and one of the two main objectives of our public awareness campaign is to make sure that people know that your homeowner policy does not provide

coverage for flood. You have to buy a policy through the National Flood Insurance Program to protect you from the risk of flood. And secondly, that a flood can happen to you. It doesn't just happen to the people on the coast or the people that are right next to a river or a stream. And that, every year, \$200 million worth of losses occur in areas that are not at high risk.

So to convince people that they have this need and they need to approach it, as was mentioned earlier, as they would fire insurance or as they would buying car insurance. And what do we need to do to culturally make the changes so that there's a greater acceptance on a personal level of the need to buy flood insurance? We're going to continue to work in that vein. Of course Government is needed in the provision of flood insurance, as has been articulated as to the availability, the unaffordability back in the late 1950s and early 1960s, but also to try to address the increasing reliance on disaster relief funds when floods occur.

And so now, of course, we have 4.7 million policyholders across the country that have about \$780 billion of protection provided by those policies through the National Flood Insurance Program. The spread of risk, the adverse selection are real. And, although we're going into this certainly with an open mind, I have yet to hear a strong argument that there are different circumstances today than there were four decades ago as to the reason why the National Flood Insurance Program became a part of our public policy.

The subsidy question I'm not going to spend a great deal of time on, but just to make sure that the program has been, in fact, self-sufficient since the mid-1980s. There certainly is a subsidization of those pre-flood insurance rate map properties that were in a particular area when the risk was identified. And of course, that gets back to a very strong recognition that the economic dislocation that would occur by not providing that type of a subsidy to those pre-firm properties would be not acceptable. Now having said that, there's been a program, and in fact it's been a part of the National Flood Insurance Program, to over time reduce that subsidy and make it more actuarially based, as those policies are that are post-flood map determinations so that we can have a better balance. And of course over time, as repetitive loss properties go by the way and the older construction goes by the way, then we will have more of our housing stock that will, in fact, be built at base flood elevation or higher, have better construction, and have less losses into the future.

Let me wrap up my comments just by addressing a few of the issues relative to Katrina, and put it somewhat in perspective as succinctly as I can. In 2004, the program had about 74,000 claims which is the highest number of claims in any single year in the National Flood Insurance Program, paying out a little bit more than \$2.1 billion in losses, also a record year for the program. But on the heels of that, in our initial informal polling that we're doing with the major insurance companies that we have arrangements with down in the area, we're in the neighborhood now of over 170,000 claims, more than 100,000 claims more than before. That 170,000 claims is going to put a stress on the program which some are probably saying is an understatement. We're looking at fivefold or more losses than previously recognized by the program. One last comparison. In the entire length of the program since 1968, 37 years, there's only been \$15 billion paid out throughout the period of time. And so we certainly are looking at, in this one year, of maybe facing those types of losses to the program. Program changes made in the 1980s, and the continued revision of the rates and the coverages have allowed the NFIP to operate with the \$1.5 billion borrowing authority that was in place prior to Katrina. And like I said

before, the program has been self-supporting since 1986. My point is this. The infusion of capital at this time is not an indication of program failure but, in fact, part of the overall design of the program that you would have this borrowing authority to take care of the ups and downs from an average loss year to the next. But that with \$780 billion of potential obligation out there, that in a year like we are now experiencing where there are such extraordinary measures that, of course, the Treasury would be called upon to assist the program.

I would conclude by saying the program has never been capitalized and the intent was not, in fact -- it was not conceived that there would be a need for capitalization, but instead to have the backstop of the Federal Treasury to take care of this extraordinary circumstance. Again, it's been very helpful to me to listen to the discussion of all of the panelists and further emphasize that we are going to do everything we can to work with our partners, all of our stakeholders to assess the NFIP and what changes need to be made and then work towards those ends. Thank you Doug.

MR. ELLIOTT: Thank you all. Did you have a comment?

MR. WALKER: First, a personal and then a professional point. From a personal standpoint, I lived in Houston, Texas from 1978 to 1981. I lived on a 100-year floodplain. It flooded twice in the two-and-a-half years that I lived there. Fortunately, the water didn't go into our house but it come onto our property.

I lived in Atlanta in the 1990s but not on a floodplain. We had flood problems that were not insured because they weren't covered by our homeowners policy. I knew that's the way it is. Those things happen.

In D.C., I live 100 yards from the Potomac River, so I'm going to check my policy when I get back.

But my point is this. There's no question that we're going to have federal flood insurance. But, as has been discussed by the panelists, the current program is based upon 1950s and 1960s. Now the need is still there, but we need to be informed by what has happened in the intervening time and decide how we should design this program going forward.

Let's not kid ourselves. The way the Government keeps score is not the way you would keep score in the private sector. I'm going to predict to you that when the financial statements come out for September 30, the financial statements for this program are going to probably look very similar to the PBGC. Who's got the contingent liability for this? The contingent liability is the taxpayer. Let's not kid ourselves. This is not a financially sound program. There are subsidies in this program. It's a matter of the nature of the subsidies and the timing of when they might ultimately be called.

So yes, we need flood insurance. Yes, we need mitigation. Yes, the Federal Government has to be involved. But let's recognize reality. We need to be informed by the past and figure what makes sense going forward.

In the end, the Government is going to take whatever it takes for Katrina and Rita victims. But the Government also has no money. The Government taxes people, takes a haircut for

administrative expenses, and then spends. It's spending at \$500 billion a year more than it's taking in now. That's unsustainable.

MR. ELLIOTT: Thank you, David. I have a few questions I'm going to hold in reserve but given we've gone a little over, I'd like to go directly to the audience. Bert?

QUESTION: Bert Ely. I've spent a lot of years looking at insurance issues like the cost of insurance and have kind of some of the same reaction with regard to Federal Flood Insurance, that it has bad pricing. Mr. Maurstad, you spoke in terms of having affordable flood insurance. That strikes me as something that's really highly unrealistic and bad public policy. If the flood insurance is not affordable to the property owner who is in a flood zone, then they should move themselves or their activity out of the flood zone. It would seem to me that if we had a mandatory program, possibly through the property assessments collected by the Federal Government, on areas in flood zones and really hit the areas for what would include catastrophic, potential catastrophic losses, that what that would do over time is shift a lot of economic activity and a lot of residential activity away from the most vulnerable areas, and that that is far better for the economy than having taxpayer subsidies -- and I agree with Mr. Walker on that point with regard to the Flood Insurance Program as well as just the general bailout -- that that would be far better for the economy over the long term than continuing to tolerate the level of economic activity we have in known danger areas as we do under the present program of underpriced flood insurance, plus the periodic use of taxpayer funds to cover losses. I'd be interested in your thoughts about again the notion of affordable flood insurance. Is that a term we ought to get away from?

MR. MAURSTAD: The term is one of public policy as a stated objective and criteria by which the program is held to by Congress. I want to again just accentuate that it is not, since 1986, has not been taxpayer subsidized. There is the borrowing authority which allows us to get through the ups and downs of a non-average claim year, but the Treasury is repaid that amount of borrowing along with interest to the program. So certainly a part of the discussion that is going to occur, and I agree with David's assessment on how we need to approach this going forward in the future, is whether or not that component of the authorization of the program that it be affordable may be continued. There also is a limit of a 10 percent increase a year on the pre-firm properties. So there is an additional limit on our ability to increase the premiums on that component of our policy base. And of course, the whole issue then also focuses on, to the extent that premiums are increased, what occurs to your policy count? Does that encourage more participation in the program or less? But the point being, as I tried to make sure that again everyone takes away from here, is that as the administrator of the program, we are looking at all of this and are going to work with stakeholders to make sure that we've got an even stronger Flood Insurance Program in the future than we have today.

MS. QUINN: Doug, if I might, a part of your question really is should we let the property owners bear the risk, and as it's been vividly demonstrated people don't understand that risk. We don't have a perfect world out there. But we do have a little bit of experience with what happens if Federal flood insurance is not available. There are certain parts of the coastal barrier resource

system called undeveloped COBRA areas where Federal investment is not allowed. It's not just Federal Flood Insurance but investment in infrastructure and other aspects. For the most part, those areas aren't seeing a lot of development. But there are places where extremely expensive, privately supported development is going on and Federal Flood Insurance is not available. This raises one of my favorite topics, and I thank you for the entire here, because there is part of the taxpayer subsidy that is rarely on the table. And that's the casualty loss deduction. When I looked at the tax, my tax booklet, casualty losses for unanticipated loss. Well, when the flood maps are in the public domain and have been in the public domain for 30 years, I question how, gee, I had a flood, that's an unanticipated loss. I question whether that's really appropriate. I have long wondered exactly how much of a burden this places, and would love to hear someone from Treasury address the question. But the short answer is it's not a perfect world. People don't understand the risk.

MR. ELLIOTT: I'm pleased to say that we have the Government's Chief Auditing Officer here, available to talk about the issue.

MR. WALKER: Well, I think you raise an excellent point. One of the things we have to realize is that in engaging in a fundamental review and reassessment of the base of Government, it's not just looking at spending programs and insurance programs. It's also looking at tax policies.

Foregone revenues affects the bottom line. To what extent are tax expenditures exacerbating our bottom line? Do the types of provisions we have in the code right now make sense from a broader public policy standpoint? We need to look at this in a much more integrated fashion. I think you raise a legitimate question about how should that be handled because the taxpayers obviously do bear the burden to the extent that we don't have adequate revenues to pay our current expenses. And we don't. And which taxpayers? It's our kids and our grandkids. That's who's going to pay the price.

MR. ELLIOTT: Susan?

QUESTION: I'm Susan Cornwell with Reuters. I have a question for both Mr. Maurstad and Mr. Walker. I wondered what you think of the proposals, there is a proposal in Congress to retroactively extend flood insurance to some or, I don't know, maybe all, some of the victims of the hurricanes who didn't have it. I'd just like to hear what you think about that. The other question is I'm wondering okay, I know you've got to work out long-term public versus private, but short-term I'm wondering, Mr. Maurstad, what is your next step when you know that you're going to have \$15 billion in claims coming in, or you think, and your borrowing limit right now is \$3.5 billion. Are you going to soon have to come back in and ask for more borrowing? Is that what you're planning on doing? More borrowing authority? Or maybe in the next Katrina supplemental where you'll ask for, I don't know, an outright grant? I was just wondering.

MR. MAURSTAD: Let me address the last part and I'll let David address the policy question that's before Congress. Clearly, we are in active discussion with the Department of Homeland Security and with the Office of Management and Budget and the Administration on how we need to make sure that we, as Director Bolton indicated, will make sure that all claims are paid to the policyholders affected by Katrina. So we have active discussion going on. We're watching the National Flood Insurance Fund on a daily basis. We are in constant communication with our companies as they report claims, and we've provided a streamlined basis by which they can get claims that are exceeding policy limits closed so that people can have those proceeds and move on with rebuilding their lives. So it's all of the things that you mentioned.

MR. WALKER: I would say that Congress needs to consider how much money that would cost. Congress needs to consider what perverse incentives that that might result in. And Congress needs to consider what type of reforms should be made to the program in any event, but especially if it decides to do something retroactively.

MR. ELLIOTT: In the back.

QUESTION: John Rasmus with the American Bankers Association here in Washington. Yesterday the FDIC had an excellent program on short-term responsible lending. And one of the areas of discussion is short-term lending after Katrina, because a lot of people are going to need to have ready funds available through the financial institutions. One of the issues that came up during that discussion was whether or not the mortgage should be the trigger for coverage under the mandatory requirements of the current program, and whether it might better serve public policy interest to have that responsibility rest with the taxing authorities so more homes, more residences, et cetera, would be covered in floodplain areas because so many people were not covered in Katrina because they didn't have a mortgage.

MR. BROWNE: I just simply wanted to state that to me, the crux of this whole issue is how do we get people to bear the costs of the risks that they're taking prior to the time of the loss? Because again, I think that the generosity of Americans will be to help people out. And if we can devise ways, whatever they might be, a property tax, something through the banking system, National Flood Insurance Program, that can get more people to participate, all of these maybe together, maybe one is the best way, I don't know. But the ability to get more people to bear the cost of the risk prior to the time of the loss will lead to a better allocation of resources in our economy and be beneficial for all of us. So I think it's good to consider different ideas and to be open-minded about this and to be forward thinking.

MR. WALKER: I would agree with that. In addition to that, I would say that Federal Flood Insurance is a subset of a number of other insurance challenges that we face as a Nation. I think

one of the things that we need to do is to step back and figure out what's an appropriate division of responsibilities for different levels of insurance.

I would also respectfully suggest that health care is an example of this. We have an unsustainable system in health care. What's the proper division of responsibilities between individuals, employers, and the Government? I think one of the things that we need to focus on more is that the Government arguably is in the best position to deal with catastrophic loss because it can create the biggest pool. We might end up having a tiered approach and a different division of responsibilities in these other areas going forward, based on the lessons of the past.

MR. ELLIOTT: I do want to say I think that's a good general point. But I think John Rasmus has an excellent specific question. I know one study I read said that 34 percent of coastal properties don't have a mortgage. So using the mortgage system as the only way to enforce mandatory coverage wouldn't work. So there was a more general question I wanted to ask. There seemed to be a broad consensus here that we're going to have to require people in the floodplain to have flood insurance, that voluntary methods will not get you to nearly the level you need. First of all, is there anyone who disagrees with that?

MS. BALLEEN: I don't disagree with that, but I will say from an insurance perspective there are really no precedents for the requirement of mandatory coverages to protect yourself. When we look at state worker's compensation laws, when we look at state automobile insurance laws, the requirements for mandatory coverages are things that I get in an accident and I hit you, I have a mandate that I have coverage so that you are protected in the event that I injure you in a loss. There's a requirement that employers purchase workers compensation coverage so that if their employees get injured on the job there is money to pay for them. So I don't have a position as to whether it ought to be mandatory or it ought not to be mandatory. But I think if you ask people throughout the country, there tends to be a lot of people who don't think that I ought to be required to purchase insurance if I choose to manage my risk in a different way. So I just throw that out there as a little noise in the system without saying yes, it's a good thing or it's a bad thing. But it would be unprecedented from the point of view of truly a mandate. And then you get to the question of we're talking about the floodplain, but there was some talk that he lived in Atlanta and he had a flood and he wasn't in the floodplain. So how far do you extend that requirement.

MR. ELLIOTT: Mark, and then David.

MR. BROWNE: There are two notable examples where we require insurance, not on the property and casualty side but on the life and health side, which is a standard distinction in the insurance industry for regulatory purposes. The first that I can think of is Medicare. The health insurance market for elderly Americans had pretty much collapsed in the late 1950s and early 1960s due to severe adverse selection problems. The Government's response was the Medicare program, which basically is a forced purchase through an employment tax.

The other example is Social Security, the risk of super-annuation, living beyond your years, enacted in 1935 obviously. So those are the two examples. They are from the life and health side, as opposed to the property and casualty.

MR. WALKER: The only footnote I would give on that is -- if you have a situation that there could be a direct or indirect subsidy or guarantee by the taxpayers, either through the tax code, spending or whatever else, then I think in that circumstance you can think about a mandatory approach. On the other hand, if people are going to assume their own risk and there's not going to be a direct or indirect subsidy, then I don't know that you would necessarily want to mandate it. In some circumstances I think you have to think about what you can do to minimize the possibility and to provide disincentives for people to build in places where they shouldn't build.

MR. MAURSTAD: I would just indicate, to follow up, that this discussion is going on within the Department as to the effectiveness of the current mandatory purchase arrangement and what alternatives may be there that could be considered that could prove to have a better result than what currently exists.

MR. ELLIOTT: You don't want to give us any preview of those discussions?

MR. MAURSTAD: No.

MR. ELLIOTT: Okay. I had to ask.

QUESTION: [Inaudible] with the Congressional Budget Office. Ms. Quinn, are you and your fellow engineers who manage the floodplain seeing that when FEMA revisits the old maps the risks are systematically higher? Or is it a mix of higher and lower?

MS. QUINN: Let me speak from my own experience. When I was with Maryland and occasionally a community would come in to us and say they needed a new map because their current map overstated the floodplain. And I would always say be careful what you ask for because sometimes, especially if we take into account upland development that isn't shown on the 30-year-old map, sometimes your floodplain gets wider. My experience is it's about half and half. We need to do a complete re-study, sometimes it gets wider, sometimes it gets narrower. One of the important things, though, is that as we start putting the newer maps on a digital base map, then we have a more precisely delineated floodplain. So it's not just a question of whether it might get bigger or smaller, but we're seeing better mapping coming out of the program. I don't know if David would be able to share whether there's a trend for more or bigger floodplains or not.

MR. MAURSTAD: No, I would agree with your comments.

MR. ELLIOTT: I would just add one technical matter for people who haven't really looked at this. Floodplains change not just because nature changes from time to time, but also -- and probably more of the time -- human development changes the way that the water runs off or builds up or whatever. So that's one reason that you need to keep re-examining things you might think were stable.

MR. ELLIOTT: Over there.

QUESTION: Professor Browne suggested this principle of getting people to bear the costs of the risks they're taking. I think the Comptroller General agreed with that explicitly and others seemed to tacitly. I want to pursue that though. Is this a principle you think our society is really willing to accept in toto? We seem not to be willing to want to limit development in New Orleans or along the coast. The Speaker of the House was roundly criticized when he suggested that. Similarly, is this a principle we would extend to say earthquakes or terrorism? Do we want to discourage people from living in California, New York, or Washington, D.C.?

MR. BROWNE: I think that risk is a cost and that individuals who derive the benefits from activities should bear the costs, so that they should bear that cost. In theory, if we could get people to bear that cost prior to the time of the loss, my personal feeling would be to let them live wherever they want, as long as they are bearing those costs.

MS. QUINN: And as the practitioner, I would say that theory just doesn't bear out. Two things in terms of where people decide to build. One is we have this thing called the Constitution, where it's very difficult for Government to say you can't build. What we do say, with respect to building in the floodplain, we do define two subsets of the floodplain that we recognize, because the physical conditions are both dangerous and difficult to build with adequate resistance. That's the area right along rivers, which are called floodways. It's very difficult to meet the standard to build in those areas. We don't say you can't build. We just say you have to meet certain engineering standards. And the other high risk area is on the open coast, where you've got three, four or five foot waves. I expect that FEMA, as well as all of the engineers who do this kind of design work, and researchers will look at the aftermath of these recent hurricanes and say is the math working? Are we able to build to withstand those kinds of forces? But again, in practice, if you've ever had a teenager, you know they think they will never have an accident. Right? It's the same thing. Most people who build in floodplains think it will not happen to them. So the theory is great but the practice of internalizing and fully realizing that risk just doesn't work. In terms of the mandatory purchase, it was set up the way it is set up because there is Federal regulatory

involvement of the banking industry. Any other mechanism, like adding to property taxes, sounds good. But there is lack of uniformity across the country, and in fact aren't there some states that don't even have property taxes? There would be a lot of issues that would have to be examined before you could wholesale launch into a scheme like that. But we certainly endorse anything that will encourage or require more people to adequately cover themselves for this kind of risk.

MS. BALLEEN: I think when you go beyond flood insurance and you look at other types of insurance that are handled by the private insurance industry, state regulation plays an enormous role in limiting the extent to which the insurance companies can charge actuarial rates. And when you look at wind pools, state residual markets that have been put in place in a number of states, one of the reasons is that companies can't get the rates that would be actuarially required in the higher risk areas. So you have to take all of that into account in designing a policy.

QUESTION: I would like to confirm the situation in New Orleans because, as I understand it, because of the levee parts of New Orleans were not in the floodplain. Therefore there was no mandatory purchase. So if you had a mortgage there you did not have to buy flood insurance. Is that correct?

MS. QUINN: Yes, that's partially correct. New Orleans, not surprisingly, has a very complex floodplain. The levees are designed to protect against a certain level of flooding from the Mississippi River or from storm surges. But interior to the levees, there are floodplains mapped. but these areas are not where hurricanes surges overtops the levees. They are where heavy rains (8-12 inches in a couple of hours) cause drainage problems. But yes, shortly after Hurricane Katrina hit, someone said that they had looked at the maps for New Orleans and Orleans Parish, which is one jurisdiction, and something like 80 percent of the whole area is within the mapped floodplain (one percent-annual chance of flood). There are portions of the city that are not subject to that frequency flooding.

MR. ELLIOTT: Bert.

QUESTION: Let me ask you a question. Is it possible that we have a terminology problem here? We call this flood insurance and it really isn't, because the taxpayer stands in the wings. It did before 1960 and it's obviously going to do so this year. Shouldn't we possibly call it a user-financed program funded by mandatory assessments, and take the word insurance out of it? Might not that make it easier to deal with what we're talking about here?

MR. ELLIOTT: I'll tell you what, I don't think that's really a question, Bert, but I'm glad you had the chance to bring it up. Sir.

QUESTION: It is a question.

MR. ELLIOTT: You're serious?

QUESTION: I'm serious, it's a question. Is it right to call this insurance?

MR. BROWNE: I'd be happy to give my thoughts on that. I think it's probably insurance. I like insurance more than your name because I have a little bit of trouble with that. But I think the main point is that it's protecting the general revenue funds of the United States more than it's protecting the property holders, particularly if we retroactively grant everyone flood insurance. I think that's the issue. And I think your point is well taken.

MR. ELLIOTT: Sir, in the back.

QUESTION: Just from the perspective of good budgeting, if we do like the program as it is I just believe that we should set rates -- instead of just what we expect in an average loss year, but perhaps some ratio where it's a percentage of total contracts, total value of the contracts enforced. Does anyone have any -- would anyone like to give any perspective on what they would consider to be fair budgeting, that actually have a sense of the sort of reserves, whether in special obligation bonds or whatever, that the fund should actually hold?

MR. BROWNE: Let me just respond to that, also. If we increase the premiums, then it's likely that fewer people will participate. What we really need to do is get more people to fund their risk prior to the loss. So that's an issue. We've talked a lot about whether the premiums are subsidized or not. I think that's a complex issue, and there are problems with language with that, also. But in general, if we increase the premiums I do think fewer people will participate. There is pretty good econometric evidence of that.

MR. MAURSTAD: There was also a study that was done a few years ago to try to determine whether or not the reinsurance mechanisms should be used for this program like a regular insurance company would utilize reinsurance. The results of that particular study at that time were that it would actually cost the Treasury more over a period of time than this reliance that we have now on the Treasury for this catastrophic event that one hoped would never occur. Again, one of those things that we will certainly have to look at today, as David pointed out, and not just try to operate in the 1950s or the 1960s or the mid-1990s when this evaluation was done.

MR. ELLIOTT: I just want to jump in. And I'm not making a value judgment here, but just so we're not confused, isn't it clearly true that in the aggregate we know the system is subsidized because the target for the total level of premiums is intended to roughly cover an average historical loss year when it's acknowledged that the average historical loss year from the start of the program until recently hasn't included anything remotely like a Katrina-like the event, yet there's some chance of it happening? I'm not saying that's wrong, but there is an aggregate subsidy in the system; right?

MR. MAURSTAD: I'm certainly not an actuary but I would suffice it to say that the premise is accurate if, in fact, you were to look at it over whatever the period of time is that you want to evaluate the strength of the program. But from an actuarial point of view, as I understand it, you have an average loss year. Up to this point in time the \$1.5 billion borrowing authority has been adequate to be able to get you through the ups and downs of that average loss year, \$900 million. And so up until this point in time that scheme has been effective.

MS. QUINN: I think part of the question though was should we be adjusting the basis for pricing the insurance, not pricing it for the average loss year but for something bigger.

QUESTION: Instead of pricing for the average loss year, shouldn't a better metric to use is maybe a percentage of the total exposure, which if it's \$780 billion, maybe you think it should be 1 percent, so it would be under \$8 billion in reserves and probably special obligation bonds. But just something there to actually account for the total amount of coverage that wasn't underwritten as the Government and not to peg it at the previous \$3.5 billion or an average loss year, because it is the statutory exposure. It's obviously very different.

MR. MAURSTAD: The amount of the exposure is a part of the actuarial calculation of determining what, in fact, needs to be generated in premium to make this work up until this catastrophic event, pre-Katrina. So that certainly is a part of that calculation.

MS. QUINN: I think we also need to be careful and remember some history, and that is there are many years where we don't have big flood disasters. The decade of the 1980s was a relatively dry decade. If we increased the basis for premiums, some people might be concerned that during those dry years how much are we taking out of the economy and putting in this pot? And then there are some people who say you put all of those premiums in a pot and if we don't have fairly high outlays, that becomes a pretty juicy target. And yet it's money that is collected from only 4.6 million or 4.7 million property owners. We need to be careful that those funds are not used for other purposes. There are concerns that doing that could expose these people to further outlays.

MR. ELLIOTT: I think we're going to have to wrap it up, but did I see you moving towards the mike, David?

MR. MAURSTAD: I was just going to suggest that Tom Hayes, one of the actuaries with the NFIF Fund is here. I would just suggest you maybe try to hook up with him afterwards, and he maybe can better address your question than the elementary attempt that I gave.

MR. ELLIOTT: Maybe you can identify yourself, so he knows. Again, I'm sorry but in the interest of time, we should cut it off at this point. Thank you all very much. Thank you, panelists.

[Applause.]

[Whereupon, at 4:05 p.m., the forum was concluded.]