Memorandum on Proposed Federal Flood Insurance Bill

From: Senators John F. Kennedy and Leverett Saltonstall

1. Background:

The businessmen, home owners, actuaries and insurance experts with whom I have been in touch, generally agree upon the following facts:

a. Flood insurance, while sorely needed in practically every state, is not available today.

b. The insurance industry is not to be criticized for its failure to offer flood insurance. The prudence owed their other policyholders prevents insurance companies from embarking alone on a program where they are unable to (1) be assured of a broad base on which to spread the risk, as a guarantee against early bankruptcy, (2) foresee with any certainty a reasonable profit within a reasonable period of time, (3) expend funds necessary for prediction and measurement of floods and flood damage, in order to make possible some actuarial estimate of the risk involved in each policy issued, (4) maintain the financial reserve necessary to meet claims arising out of a heavy flood early in the program and (5) cope with 48 different state insurance laws in attempting to fix varying rates and conditions for property in different areas.

c. Only a Federally sponsored program, drawing upon the facilities and services of the private insurance industry, can overcome these obstacles. Neither insurance nor floods are new subjects for Congressional action.

2. Features of the Proposed Kennedy-Saltonstall Bill:

a. The Bill is based primarily upon three generally accepted and very successful Federal insurance and reinsurance programs, which proved to be financially sound and immensely helpful after Federal action had been required because of the understandable unwillingness of private industry to handle the problem: (1) War Damage Insurance, (2) Maritime War Risk Insurance and (3) Crop Insurance.
b. Although it has been suggested that a new agency be established, to insure the risk of hurricanes, nuclear warfare and other catastrophes, this bill deals only with the one problem which cannot be met in any other way--floods.

c. The attached draft places this program under the Small Business Administration, which is presently in touch with both homeowners and businessmen in case of disaster, and which succeeded the RFC under whose jurisdiction was placed the War Risk Insurance Program. Suggestions from those who feel another agency might be more suitable are welcome.

d. Cooperation of the private insurance industries is especially emphasized:

1. Insurance and reinsurance would not be available under this bill except when they were not available from private sources.

2. The administrator is specifically directed to utilize the facilities and services of private insurance companies to the maximum extent, to permit their financial participation in the underwriting of risks and to exchange loss experience and similar information with them.

3. Federal reinsurance is authorized for companies willing to offer flood insurance on a private basis.

4. An insurance advisory committee is established to assist in the administration of the act.

e. Flood Insurance would not be compulsory, although other Federal agencies would be authorized to require buildings on which they make, insure, or guarantee loans to carry such insurance.

f. Flood Insurance would not be free; and to the extent possible premium rates shall be based upon the risks involved, and adequate to cover all expenses.

g. Beginning on a limited scale, insurance would be available only for real property privately owned; and the administrator may decline such applications or risks as are necessary for the purposes of the act.