# Phase Out the National Flood Insurance Program

Since it emerged in its current form in 1973, the National Flood Insurance Program (NFIP) has done little to meet its supposed purpose of protecting the nation from flood damage. Instead, it has encouraged development in flood-prone areas, endangered lives, and damaged the environment. Moreover, the program's existence has retarded the emergence of purely private flood insurance and imposed billions of dollars in costs. As of late 2008, the program was almost $18 billion in debt to the U.S. Treasury and had no feasible way to pay it back. Partial privatization of the program would require three steps: improved flood mapping, rate changes, and a free market auction of policies within the current program.

***Improved flood mapping***. Writing flood insurance coverage requires complex rate maps that make probabilistic determinations of the risk of flooding in various areas. The current maps that underlie the flood program are out of date and, despite hundreds of millions of dollars spent modernizing them, still are not very good. Good maps would make it possible for private companies to write practical, affordable insurance on a large scale. Because flooding involves so many unknowns, it makes the most sense to allow multiple players to develop flood maps in a competitive market.

***Rate adjustment***. New improved maps would allow companies that want to write flood policies to adjust rates to make them accurately reflect the risk involved. Some rates would go up based on new data while others would fall. In time, a large portion of the NFIP flood policies could be taken over by private insurers.

***Auction of remaining NFIP policies***. Following a period under this quasi-private system, the National Flood Insurance Program could auction off its remaining portfolio of policies. Certain high-risk areas would likely be rendered not insurable at rates that would offer any real value to those purchasing insurance, which would discourage building in the highest risk areas—a desirable outcome in terms of both costs and safety.

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