

family residential properties (and their contents), insurance against flood damage would be made available through private insurers in amounts up to \$15,000 per dwelling unit, subject to an aggregate liability of \$30,000 on structures with more than one unit. Contents could be insured for an additional \$5,000 per dwelling unit, subject to an appropriate deductible. The program would be administered by the Department of Housing and Urban Development which, after analysis of pertinent data and consultation with appropriate agencies, would promulgate two scales of premium rates. The first scale, called "risk premiums" and computed on the basis of actuarial estimates of the risk and expenses involved, would be pitched at a level believed to be adequate to cover all valid claims plus allowances for expenses, contingencies, and profits. The second scale would set forth the rates that would actually be charged for the coverage, and these "chargeable" premium rates would reflect consideration of many factors, including land use controls, flood proofing, and flood forecasting. The Secretary of HUD would be authorized to prescribe chargeable rates lower than those computed on the above bases in order to encourage the purchase of flood insurance. In low-risk areas, the chargeable premium rates for existing properties would be the same as, or only slightly less than, the full-cost rates, but in high-risk areas the chargeable premiums would always be lower, the disparity growing greater with the increase in risk.¹³ The chargeable premium for insurance on a structure that was started or substantially improved within 60 days after flood insurance became available in the area would be identical with the risk premium (full cost) rate.

The protection would be provided through a pool of private insurers, to which all but the smallest companies could belong. The pool would in all cases receive the full-risk premium, with the Federal Government, through the National Flood Insurance Fund, paying the difference, if any, between the risk premium and the premium paid by the policyholder. The National Flood Insurance Fund would enter into an excess loss type of reinsurance agreement with the insurance pool, in accordance with which the Fund would bear all losses in excess of a stipulated amount per year.¹⁴ The pool would pay a reinsurance premium on a basis as yet undetermined.¹⁵

The aspects of this proposed program which might be considered by those studying the feasibility of a pension guaranty fund are (1) close cooperation between the Government and the insurance industry in the planning stages of the program; (2) the concept of a premium rate lower than the actuarial value of the risk, with the difference being borne by the Federal Government in the form of premium equalization payments; (3) assumption by the Government of all claims in excess of a stipulated amount per year; and (4) emphasis on loss prevention.

¹³ Under the tentative scale of *net* risk premiums currently being considered, the rates would range from 2 cents to \$5 per \$100 of coverage. The maximum rate that would be charged any policyholder (with respect to existing properties) would be 50 cents per \$100, plus an allowance for expenses, contingencies, and profits.

¹⁴ It is proposed that the Government pay all claims in any year that exceed \$50 million or 35 percent of the risk premiums earned by the insurance pool, whichever is the lesser.

¹⁵ A proposal under consideration would link the reinsurance premium to the gross profit of the insurance pool on the flood insurance business. In other words, the pool would pay to the National Flood Insurance Fund, as a reinsurance premium, the excess of premiums earned over expenses and claims incurred, less a specified percentage for profit.