



Observations on Flood Insurance Reform: A Response to the FEMA Review Council's Recommendations

Executive Summary

Flood risk remains one of the nation's largest and most underinsured perils. Tens of millions of properties face significant flood exposure, yet only a small fraction carry any flood insurance. The [FEMA Review Council's May 2026 final report](#) recognizes this reality and recommends reforms that could meaningfully close the coverage gap, strengthen resilience, expand consumer choice, and reduce long-term taxpayer exposure.

The Neptune Research Group views the Council's recommendations as directionally sound. Effective reform should be measured not only by its effect on federal finances, but by whether it expands access to coverage, improves consumer understanding of risk, and helps close the nation's flood insurance protection gap.

The [National Flood Insurance Program \(NFIP\)](#) remains an essential component of the nation's flood insurance framework. The path forward is not eliminating the NFIP. Rather, Neptune supports a modernized public-private system in which the NFIP continues serving as a critical backstop while private insurers assume a greater role where capacity already exists.

A practical implementation roadmap centers on five executable priorities:

1. Improve risk transparency through modernized flood mapping.
2. Launch a voluntary NFIP take-out process open to qualified flood insurers, including E&S markets.
3. Transition new NFIP business toward a residual-market framework that directs applicants to private flood insurance when coverage is available.
4. Leverage existing state-regulated insurance infrastructure rather than creating a new federal market infrastructure.
5. Focus federal resources on mitigation, resilience, affordability assistance, and repetitive-loss properties.

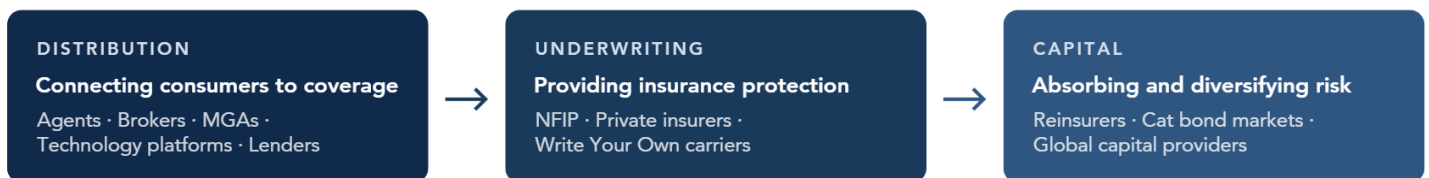


Background

The FEMA Review Council correctly recognizes that flood insurance reform should improve financial stability, strengthen resilience, increase insurance availability, and encourage greater participation by private capital.

The modern flood insurance system operates through a partnership of distribution, underwriting, and capital. Agents and technology platforms help consumers access coverage; the NFIP and private insurers provide insurance protection; and reinsurers and capital providers absorb and diversify risk. Effective reform should strengthen each part of that system and encourage greater coordination among public and private participants.

Chart 1. The Modern Flood Insurance System



Recent experience, including the 2025 federal government shutdown, demonstrated that the private flood insurance infrastructure can continue operating effectively even when federal program operations are disrupted, providing additional evidence of the market's maturity and resilience.

The policy question is no longer whether private flood insurance can exist at scale. Neptune's experience, including more than 300k policies and \$400 million of premium in force (as of May 2026), demonstrates that private flood insurance can operate successfully at meaningful scale. The better question is how public policy can encourage greater private-sector participation, allowing the NFIP to evolve toward the residual-market role for which it is best suited.

Implementation Principles

Five principles should guide reform across all five priorities.

- Improve risk transparency. Reform should be guided by the principle that homeowners, lenders, insurers, and communities deserve access to the best available information regarding actual flood risk.
- Move quickly using existing distribution and regulatory frameworks.
- Reduce unnecessary federal intermediation.
- Respect the existing state-based insurance framework.
- Preserve public-private partnership and collaboration among FEMA, regulators, insurers, reinsurers, agents, and technology providers.



1. Improve Risk Transparency Through Modernized Flood Mapping

FEMA's flood maps remain one of the most important tools used by homeowners, lenders, builders, local governments, insurers, and policymakers to understand and manage flood risk. However, as Neptune Research Group's [Deep Dive into FEMA Flood Maps](#) found, FEMA maps do not fully reflect the actual flood risk facing property owners in many parts of the country.

Advances in catastrophe modeling, elevation data, rainfall analysis, hydrology, and property-level risk assessment have significantly improved the industry's ability to evaluate flood exposure. FEMA should continue modernizing its mapping program and make updating flood-risk information a national priority.

Americans deserve accurate, transparent, and timely information about the risks they face. Too many property owners mistakenly believe they have little or no flood risk simply because they are located outside a Special Flood Hazard Area – the high-risk zones FEMA maps as having at least a 1% chance of flooding in any given year (often called the "100-year floodplain"), where flood insurance is required for federally backed mortgages. In reality, a substantial share of flood losses occur outside mapped high-risk zones.

The goal of flood mapping should not be to satisfy regulatory requirements alone. It should be to provide property owners, communities, lenders, insurers, and policymakers with the best available understanding of actual flood risk so they can make informed decisions regarding insurance, mitigation, development, and resilience investments.

Improving flood maps and flood-risk communication may be the single most effective long-term action FEMA can take to reduce the nation's flood insurance protection gap, strengthen resilience, and improve consumer decision-making. Americans cannot protect themselves from risks they do not understand.

2. Launch a Voluntary NFIP Take-Out Process

Create a pilot program that allows qualified participants to assume eligible existing NFIP policies as long as they meet standards set by FEMA that demonstrate their financial strength, claims-paying ability, regulatory compliance, consumer protection, and service capability.

The program should prioritize policyholder protections, continuity of coverage, transparency, and consumer choice. Participation should be open to qualified providers in both the admitted and excess and surplus lines markets.

3. Transition New Business Toward a Residual-Market Framework

Applicants should first seek coverage through qualified private flood insurance providers and access the NFIP when private capacity is unavailable.

Over time, this approach would allow the NFIP to increasingly focus on risks that lack sufficient private-market capacity while expanding consumer choice and reducing federal balance sheet exposure. As Neptune



Research Group outlined in a previous report, [A Private Market Solution to Flood Insurance](#), the goal is not to eliminate the NFIP, but to strengthen its role as a true residual market and backstop.

FEMA and Congress should also remove barriers that discourage movement between private flood insurance and the NFIP, including rules that penalize consumers for exploring private-market alternatives.

Chart 2. Private-First Framework



4. Leverage Existing State-Regulated Insurance Infrastructure Rather Than Creating New Federal Market Infrastructure

The flood insurance marketplace already operates through a mature network of agents, brokers, insurers, MGAs, technology platforms, lenders, and state insurance regulators. FEMA should build upon this existing infrastructure rather than creating a new federal marketplace or clearinghouse for policy placement.

State insurance markets already provide examples of how residual-market mechanisms can operate without a centralized government-run clearinghouse. In Florida, for example, applicants generally must demonstrate that private-market coverage is unavailable before obtaining coverage through Citizens Property Insurance Corporation, the state's insurer of last resort. Similar approaches could be adapted for flood insurance using existing agent, broker, and insurer workflows rather than creating new federal infrastructure.

A government-run clearinghouse could introduce additional administrative complexity and duplicate capabilities that already exist within the private market. FEMA should rely on existing state-regulated distribution systems and market infrastructure whenever possible, including both admitted and excess and surplus lines market participants.

The long-term objective should be to reduce federal involvement in ordinary insurance transactions while preserving access to the NFIP when private coverage is unavailable.

5. Focus Federal Resources on Mitigation and Repetitive-Loss Properties

Federal resources should prioritize repetitive-loss properties, mitigation investments, resilient rebuilding, and targeted affordability assistance. The case for concentration is clear: repetitive-loss properties (two or more losses) represent approximately 2.5% of NFIP policies yet account for [48% of all claims paid by dollar value](#).

As private markets assume a greater share of insurable flood risk, FEMA should devote increasing attention to the properties and communities that create the greatest long-term taxpayer exposure. Investments in



mitigation, elevation, floodproofing, resilient construction, and buyouts (where appropriate) can reduce future losses while improving community resilience.

Neptune supports affordability assistance for households that genuinely require support. Such assistance should be transparent, targeted, and separate from underlying risk-based pricing. Maintaining accurate risk signals while providing direct assistance to those in need is a more sustainable approach than broadly subsidizing risk through insurance pricing.

Conclusion

Neptune appreciates the Council's extensive stakeholder engagement and its recognition that resilience depends on effective collaboration among federal agencies, state regulators, insurers, reinsurers, technology providers, lenders, agents, and consumers.

A practical roadmap centered on public-private partnership, risk-based pricing, consumer choice, mitigation, and market participation can strengthen resilience, reduce taxpayer exposure, expand coverage availability, protect property owners, and allow the NFIP to evolve into a stronger and more sustainable residual market while preserving its essential public mission.