Federal Government Shutdown Insurance Impact

The federal government shutdown has impacts all over the place. One place it won't impact is flood insurance. The Federal Emergency Management Agency (FEMA) managed National Flood Insurance Program (NFIP) is allowed by law to continue activities because the NFIP is funded by sources other than annual appropriations. So during the shutdown it will maintain daily operations.

FEMA issued a statement on October 1, 2013 instructing WYO Companies and insurance agents to continue all NFIP functions as normal.

Letter of Credit (LOC) functions will be handled as usual. NFIP contractors should function as usual, too, and key contracts that support FEMA will also continue their regular work schedule, including the NFIP Legacy Systems Services, the NFIP iService Bureau & Statistical Agent, and the NFIP Direct Servicing Agent.

One impact of the shutdown that involves flood insurance has to do with bipartisan legislation working its way through Congress to put off the flood insurance increases that went into effect last Tuesday, October 1 as part of the Biggert-Waters Act.

The bill is supported by Democrats Florida Sen. Bill Nelson, Sen. Robert Menendez of New Jersey, Sen. Mary Landrieu of Louisiana, Massachusetts Sen. Elizabeth Warren and Sen. Brian Schatz of Hawaii. They are joined by Republican colleague Sen. David Vitter of Louisiana.

Nelson said, "My legislation to fix this is being blocked right now by partisan politics and those who continue to oppose the existing health care law. So what we're trying to do is to get bipartisan support to join us to pass a clean bill as soon as we can delay those rate increases."

Meanwhile, the Mississippi Department of Insurance filed a lawsuit last week against the Department of Homeland Security and FEMA. The suit is trying to force the federal government to stop the increases.

No decision on that yet.

The Department of Agriculture will be impacted because of involvement with the crop insurance program.

Mark Garbowski of the law firm Anderson Kill's New York office wrote an article for ***Insurance Journal*** on the shutdown impact on insurance. His expertise is in professional liability insurance, directors and officers insurance, fidelity and crime-loss policies, and Internet and high-tech liability insurance issues.

He wrote in the publication, "While this partial shutdown does not threaten the validity of federal debt, some fear that a similar impasse regarding the debt ceiling could trigger a partial or full federal default. These events pose varied risks for businesses. A variety of insurance and other risk mitigation products may cover some losses."

While it is too late for this shutdown, Garbowski suggests government contractors may want to have insurance to cover future disruptions. "For example, if a company is going to spend significant sums for a project whose only potential client is the government — building, for example, an aerospace vehicle — it may be possible to purchase a specialized policy that would protect the company in the event that the government cancels the program," he wrote.

Those doing business that involves government but not direct involvement can also suffer losses. "For example, the closing of National Parks will affect tour companies, hotels and other travel businesses. The most likely source of coverage here would be contingent business interruption insurance, but again, there are obstacles to coverage," he said.

Normally, Garbowski writes, such interruptions are caused by property damage so it's unlikely that these policies will apply. However, contingent business interruption coverage may. "Typically, that party must suffer a physical loss that would be covered if it happened to the business. For example, if an earthquake incapacitates a company's key supplier, contingent business interruption may kick in if the company in question itself has earthquake coverage."

And there is political risk insurance. "In fact, the U.S. government has an agency that sells insurance to U.S. businesses and other entities covering investments and activities in 150 developing countries. These overseas political risk policies, whether sold by this government agency or in the private insurance market, usually cover risks such as limits on currency conversion, appropriation of cash or assets, and political violence."