Independent Insurance Agents
& Brokers of America.

STATEMENT OF THE INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA

U.S. House Financial Services Committee, Subcommittee on Housing, Community Development and Insurance

Reauthorization and Reform of the National Flood Insurance Program

May 25, 2022

Founded in 1896, the Independent Insurance Agents & Brokers of America (IIABA or the Big "I") is the nation's oldest and largest association of independent insurance agents and brokers, representing more than 25,000 agency locations united under the Trusted Choice brand. Trusted Choice independent agents offer consumers all types of insurance—property, casualty, life, health, employee benefit plans and retirement products—from a variety of insurance companies. As explained further below, the Big "I" supports a long-term reauthorization of a modernized and transparent NFIP that would increase take-up rates for flood insurance, both in the NFIP and the private market, and calls on Congress to extend the NFIP before it expires on September 30, 2022.

I. The Big "I" supports passage of a long-term extension of the NFIP before the program expires on September 30, 2022.

The last long-term reauthorization of the NFIP occurred a decade ago when Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters), which reauthorized the program through September 30, 2017. Since then, Congress has debated how to best reform the program and the NFIP has seen numerous short-term extensions as well as a few brief lapses. Most recently, in March of 2022, Congress acted to extend the program through September 30, 2022. The Big "I" commends Congress for their recent efforts to extend the program without allowing a lapse. In doing this, Congress recognized the critical role the NFIP plays in the U.S. housing market and the overall economy. As such, the Big "I" urges Congress to yet again extend the program before it expires on September 30, to avoid unnecessary economic disruption.

While it is most important that the NFIP does not lapse, the Big "I" also implores Congress to work to pass a long-term reauthorization of the program. Every time the program is set to expire, the private companies that partner with the NFIP to administer the program must send notices to consumers, agents must work with clients to explain the ramifications of a potential expiration, and realtors and mortgage lenders must decide how to proceed when issuing and servicing mortgages that require flood insurance, all in an unsettled regulatory environment.

Additionally, NFIP staff are forced to shift limited resources to deal with potential program lapses and divert attention away from other important initiatives they are working on. Lapses and near lapses of the NFIP are also heavily covered by the news media. The public instability and uncertainty created by continual short-term extensions cannot only lead to concrete damages in the real estate and development market as well as the country's economy overall, but it also hinders the ability of the NFIP to successfully meet policyholder needs and ultimately undermines overall consumer confidence in the NFIP. Furthermore, this legislating by emergency distracts from the ultimate goal of reforming the NFIP.

II. The Big "I" supports policies to increase take-up rates for flood insurance, whether in the NFIP or the private market, because an insured disaster survivor recovers more quickly.

As Congress deliberates how best to make reforms to the NFIP, the Big "I" urges Congress to consider policies that would help more Americans obtain flood insurance coverage through the NFIP and the private market. Several severe storms in recent years have devastated multiple U.S. states and territories. Yet most of the Americans impacted by these storms were uninsured or underinsured. Furthermore, flooding caused by hurricanes and coastal events is only part of the story. A significant portion of flooding occurs outside of perceived high-risk areas from localized rain events for those living inland near rivers, creeks, and other bodies of water, or in low lying areas. Flooding is the most common and costly natural disaster and not enough property owners are insured against it. Put simply, where it rains it can flood.

While instituting policies to encourage property owners and communities to mitigate risk before disaster strikes and enforcing floodplain management standards and building codes in high-risk areas will go a long way in minimizing risk, flood insurance will always remain a necessary safety net for property owners. In that regard the NFIP is a vital government program as it is the primary source of flood insurance for U.S. property owners.

Outside of the NFIP there is a small but growing private insurance market. Historically, flooding has been a difficult risk to underwrite in the private market; however, advances in modeling and underwriting technology have contributed to market growth in recent years. Yet to date, the private insurance market covers only a small portion of flood risk nationally. While commercial flood insurance markets are more developed, private flood insurance on residential properties remains less common. Nonetheless, even FEMA has publicly acknowledged on multiple occasions that we need both the NFIP and an expanded private market if we want to noticeably increase flood insurance coverage for the country because an insured survivor–regardless of how they purchase their coverage–will recover more quickly and fully.

While some have expressed concern that a growing private market will harm the NFIP because private insurers will select the best risks from the NFIP, the Big "I" like FEMA believes that there is a necessary role for both the NFIP and the private market. As the private flood insurance market has grown in recent years—particularly in states where certain state level policies have encouraged market growth—there have not been significant decreases in NFIP policy counts. State regulated insurers have different ways of selecting and pricing risks via underwriting, meaning that a "good risk" to one insurer may be a "bad risk" to another insurer, depending on the insurer's overall risk portfolio.

Furthermore, there are over 125 million households in the U.S., but only five million of these households participate in the NFIP. Every year many homes that do not have flood insurance are flooded, and more

Americans need protection. Consequently, the Big "I" would be concerned with any policies that could impede the overall long-term growth of the private market and supports making legislative or regulatory changes to some aspects of the NFIP to facilitate immediate private market growth in high-risk flood zones, protect consumers, and help ensure consumers have affordable insurance choices.

For example, the Big "I" strongly supports H.R. 4699, the Continuous Coverage for Flood Insurance Act, introduced by Reps. Kathy Castor (D-FL) and Blaine Luetkemeyer (R-MO) which would clarify that private flood insurance can satisfy NFIP continuous coverage requirements. Under the NFIP's current system for underwriting flood insurance policies, for properties that were built to comply with or surpass the appropriate floodplain management standards in place at the time of construction only later to become subject to higher standards making the property no longer in compliance with minimum elevation requirements, the policyholder is eligible to maintain a preferred rate if continuous coverage is maintained. This is an important consumer protection and affordability measure to ensure that homeowners are not unfairly penalized with increased flood insurance rates due to changes in circumstance that are beyond their control if the homeowner has otherwise followed all appropriate regulations and guidelines.

However, under current NFIP rules it is not clear that private flood insurance could be used to satisfy these continuous coverage requirements. In some cases, the different underwriting guidelines followed by private insurance companies mean that even with grandfathered rates a consumer may find a less expensive policy in the private market. However, the risk of a substantial NFIP rate increase should the consumer later wish to return to the NFIP often makes insurance agents and brokers hesitant to recommend private flood insurance policies. As such, the Big "I" supports Congress passing legislation to clarify that if a consumer leaves the NFIP for the private market and conditions change such that the consumer must return to the NFIP they can do so without penalty.

The Big "I" also supports allowing refunds for unearned premiums for the mid-term cancelation of NFIP policies if a consumer elects to purchase a policy from the private flood insurance market. In the private property insurance market if a consumer cancels an insurance policy because they obtained insurance elsewhere that better meets their needs, they are generally entitled to a refund for any unearned premiums remaining on the term of the policy. However, under current NFIP guidance and regulations it is unclear if and when policy holders can obtain such refunds. This is also an important consumer protection and affordability issue. In fact, a November 2018 report by researchers at Wharton-U Penn identified NFIP regulations that only allowed policyholders to switch insurance providers at the time of their annual renewal as a barrier to more affordable private market policies for some consumers.

Making statutory and regulatory reforms to better allow consumers to utilize private market polices when such policies can provide more robust coverage than the NFIP at more affordable rates is only part of the efforts that are needed to increase take-up rates for flood insurance. Considering how the NFIP can better serve consumers is also important. As explained further below, the NFIP has recently changed how policies are rated in hopes of making policies more consumer friendly. The Big "I" hopes that this process will eventually help drive consumer understanding about flood risk and ultimately lead to more consumers seeking to purchase flood insurance.

Finally, FEMA created the Write Your Own (WYO) Program to increase the NFIP's policy base and geographic distribution of policies; improve service to NFIP policyholders through infusion of insurance industry knowledge and capacity; and provide the insurance industry with direct operating experience with flood insurance. This WYO Program operates as a partnership between FEMA and participating insurance companies that are reimbursed to write and service NFIP policies and 87% of policies are offered through this program. In order to determine that reimbursement, FEMA currently uses what the Big “I” believes is an appropriate proxy ratio based on five private market property/casualty expense ratios to determine reimbursement rates for companies. The WYO Program is a necessary component of the NFIP and the Big “I” opposes any policies that would harm the WYO Program, make it more complex, or otherwise place limits on the program in a manner that could negatively impact NFIP take-up rates.

III. The Big “I” appreciates efforts to modernize and simplify the NFIP for the approximately five million property owners that rely on the program.

The NFIP was originally created in 1968, and while many changes to the program have occurred since then it is important that steps are taken to continue to modernize the NFIP to ensure that it works for consumers in 2022. In addition to continuing efforts to implement changes to the program put in place by Congress in 2012 and 2014, FEMA is currently working on several initiatives to simplify the program.

For example, in recent years FEMA has managed current risk exposure and enhanced the future viability of the NFIP through the transfer of risk to private reinsurance companies and capital markets investors. Under current law, FEMA has the flexibility to shift an appropriate level of risk from the federal government to the private market through the NFIP Reinsurance Program by securing reinsurance at a fair and reasonable cost. This provides FEMA with an additional method to fund the payment of flood claims after catastrophic flood events.

Additionally, as of April 1, 2022, FEMA’s new rating methodology, dubbed Risk Rating 2.0, is now in effect for all policies. Risk Rating 2.0 is the result of several years of FEMA working within their statutory authority toward modernizing the insurance products the NFIP offers to consumers in an effort to better reflect new technologies, current underwriting methodologies, and insurance industry best practices. The Big “I” understands the intent of Risk Rating 2.0 is to improve the experience that policyholders have with FEMA by (1) eventually making the rating process more transparent so that it is easier to understand a property’s individual flood risk; (2) modeling rates to appropriately reflect the varying types of flood risk (e.g. heavy rain fall vs. storm surge); and (3) using more intuitive rating variables to streamline what is currently an unnecessarily complex underwriting process for consumers and agents. With this information, the Big “I” hopes that FEMA will have a better understanding of the NFIP’s risk portfolio and how that portfolio is impacted by Congressional mandates, to best serve consumers.

The Big “I” is hopeful that these steps being taken to modernize NFIP underwriting via Risk Rating 2.0, including using advanced mapping and probabilistic modeling technologies, will eventually yield better risk communication for consumers helping to drive increases in take-up rates. However, the Big “I" also believes that the implementation of Risk Rating 2.0 will be critical to the program’s success and that FEMA must work hand in hand with the WYO carriers and agents in order for the program’s implementation to be successful. <u>As of now, the Big “I” believes that FEMA needs to do more to make the rating process more transparent as agents are having difficulty providing the reasoning as to why consumers rates are changing.</u> Moving forward, it is extremely important that FEMA communicates this information to WYO companies and insurance agents so that they can help consumers understand their flood insurance rates.

Successful implementation of Risk Rating 2.0 and simplification of the NFIP’s complex underwriting process would have a positive impact for both consumers and agents. Not only would this help to drive consumer understanding of rates but the Big “I” is hopeful it will result in more agents being willing to partner with the NFIP. Despite the need for flood insurance, purchasing flood insurance can be a daunting and complex process, especially within the Special Flood Hazard Area (SFHA). Flood insurance can be one of the hardest products for an insurance agent to sell due to its complexity and current misperceptions about flood risk. As such, the Big “I” hopes that the Risk Rating 2.0 process will ultimately result in more insurance agent engagement with the NFIP.

Furthermore, by ensuring that the new rates better reflect individualized risk and rebuilding costs, the new rating structure should deliver more equitable rates for low-value homes. Rating for low-value homes was an issue flagged in the Affordability Framework that FEMA released in April 2018. Lastly, it is important to note that FEMA is working on Risk Rating 2.0 within their current statutory framework, meaning that these rates are still subject to the statutory caps on rate increases ensuring that affordability remains a priority. The Big “I” encourages Congress to work constructively with FEMA on these and other innovative approaches to modernizing the NFIP within the program’s current statutory framework.

IV. Conclusion

In conclusion, the Big “I” supports a long-term reauthorization of a transparent and modernized NFIP that would increase take-up rates for flood insurance, both in the NFIP and the private market, and urges Congress to extend the NFIP before it expires on September 30, 2021. Specifically, the Big “I” urges Congress to consider modest policy changes that could help grow the private market and protect consumers, such as clarifying requirements related to continuous coverage and mid-term cancellations. The Big “I” would also be concerned with any policies that could impede the overall long-term growth of the private market and any policies that would harm the WYO Program, make it more complex, or otherwise place limits on the program in a manner that could negatively impact NFIP take-up rates. The Big “I” believes these policies will help more Americans obtain flood insurance coverage through the NFIP and the private market. Finally, the Big “I" believes that Risk Rating 2.0, if properly implemented, has the potential to improve the NFIP experience for consumers, but better communication is necessary between FEMA and carriers/agents to ensure its success. The Big “I” thanks Congress for considering the important viewpoint of independent insurance agents and brokers on the NFIP and looks forward to continuing to work with Congress to close the flood insurance gap.