REMARKS BY
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NATIONAL FLOOD CONFERENCE
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Welcome and thank you for being here this morning.

Today, I want to reinforce the property casualty industry's commitment to improving the flood insurance system—for families, business owners, communities, and taxpayers… It's an important job because in the last five years, flooding has cost Americans $34 billion.

We want to help Americans get back in their homes…and back to work as quickly as possible after a natural disaster. That means preparation and mitigation…are EQUALLY important as the post-catastrophe response…

Now, as an industry, we have a great story to tell about the work we do… but we cannot tell that story with numbers alone. While the numbers reinforce the industry's commitment and integrity…behind the numbers are people…the people we are…and the people we help… Emergency managers who are always on call…the agents who help families with the right coverages and assist them after a loss…the mobile claims teams who are first on the scene to write checks.

That is why it is so important that we are all gathered this week…to share our experiences…as partners in recovery.

We talk a lot about statistics and trends. While it's true that we have witnessed a historic lull over the last ten years when it comes to major CAT 3 or higher hurricanes making landfall… that rings cold to the thousands of families who were displaced during Superstorm Sandy…

Focusing only on big, named Hurricanes also ignores the devastation felt by families affected by un-named storms… Like recent flood victims in Houston, Texas … or those in Columbia, South Carolina last year. Named or un-named, it's all about the response. And, the P&C industry has a strong record of claims response to policy-holders in the wake of natural disasters of massive scale.

One year after Katrina, nearly 95 percent of homeowners claims and 99 percent of auto insurance claims were settled.

Sandy was the second most expensive storm and 93 percent of claims were settled in the first six months, but the industry continually strives to improve response. And response improvement depends on multiple stakeholders.

How can companies…and agents…and the federal government work together to better educate Americans about how their policy protects them…and where it does not?

How can we better spread awareness about fraud? Can we enact reforms that identify and remove the bad players…so that a family is not victimized by fraud during a time of great vulnerability?

How can we make the system more understandable…and more accountable…and ensure that every policy-holder is served expeditiously and every claim is settled fairly—to get families and businesses back on their feet? And, how can we improve the "take-up" rate of people who have flood insurance?

Like any good enterprise, we all need to embrace the lessons-learned from past disasters and response. This conference is an opportunity to reaffirm our commitment to making the flood insurance program work better—and continue to be a part of the solution.

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Someone once said…"Those who don't study history are doomed to repeat it…And those who do study history are doomed to stand by helplessly while those who don't study history repeat it."

I don't want to repeat history…or just stand by while others do so either… The important question is…what can we learn from the past that will constructively inform how we should move forward, when it comes to flood insurance…?

The first observation I would make is that it seems clear that we are moving in the direction of more private sector participation. And more competition and more choices will benefit consumers.

Last month, the House unanimously passed the Flood Insurance Market Parity and Modernization Act—sponsored by Florida Representatives Dennis Ross and Patrick Murphy. Unanimous support is a powerful statement in such a polarized political environment.

State lawmakers and insurance commissioners have similarly expressed interest in developing a stronger private sector flood insurance market, as has FEMA.

In the Senate, it's a little more challenging. While many in the Senate favor a shift to the private sector, there is less interest in re-visiting flood reform this year. There are others who have been very critical of the private and public insurance response following Superstorm Sandy and have favored increasing regulatory controls…potentially reducing—rather than increasing—private participation.

This brings me back to our core challenge. We—as stakeholders in the flood program—need to come together and better tell our story…where we have been…what we have accomplished together…and how we're working together to build a stronger flood insurance system. We agree that changes need to be made…let's make sure any changes are appropriately tailored to get us there.

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There are certainly opportunities to expand the public-private partnership in the flood market and increasing flood exposure demands it.

President Obama's most recent budget—issued earlier this year—predicts that population and coastal migration to flood hazard areas will nearly double the number of flood insurance policies by the year 2100. The total marketplace of homeowners in flood zones and homeowners currently purchasing policies outside of a flood zone is roughly 12.4 million consumers … around 14 million potential customers by 2020 … and 28 million by the year 2100.

The president's budget also forecasts that flood losses will increase in real terms by 50-90% this century with a 10-15% increase over the next four years alone.

While these estimates are very long term … and are predicated in part on other climate-related assumptions … the essential conclusion is that flood risk IS sizable and GROWING.

As such, our strong partnership—the private sector and FEMA—is more important than ever.

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In advance of the 2017 expiration of NFIP, the House Financial Services Committee has sought proposals from stakeholders on a transition to private flood insurance.

PCI established a CEO Working Group—representing a range of companies, WYO and non-WYO—to develop a thoughtful response, with a broader vision for flood insurance. Our CEOs developed four core principles for a long-term vision:

1. The private sector can model and price flood risk—and in fact, many of our members are now entering the marketplace.
2. Secondly, increasing private flood capital will need to happen gradually.
3. Private insurance requires rate adequacy and many NFIP consumers are being either explicitly or implicitly subsidized with rates below what the private market would require.
4. A continuing government program will be necessary, and that program should be serviced by private Write Your Owns.

Our CEO working group also recommended several immediate steps that could be taken to improve the program, including;

- Eliminating the Write Your Own non-compete clause;
- Making more flood loss and pricing data available to insurers;
- Avoiding further program complexity and compliance burdens; and
- Further considering whether there are some categories of risk--such as some commercial properties, second homes, and the very most expensive primary residences—that perhaps do not have as great of need for federal assistance.

PCI and our CEOs also strongly support creating opportunities for the flood reinsurance marketplace. In addition to the robust interest among some of our members who are primary insurers, PCI agrees with the Reinsurance Association of America in strongly supporting the federal flood program purchasing reinsurance as authorized in their statute. Not only will private flood reinsurance better protect federal taxpayers, but it will also help establish important benchmarks for private market rate requirements and underscore strong interest in private capital to fill the growing need for flood risk protection.

Additionally, PCI, the American Insurance Association, the National Association of Mutual Insurance Companies, and the Financial Services Roundtable, have all been working together on consensus reforms to improve the existing program, including:

- Seeking a longer-term extension of the NFIP before its expiration;

- Improving the customer experience, including better disclosures and simplified underwriting and claims handling;
- Developing solutions to increase flood insurance coverage;
- Fostering more market-oriented solutions;
- Increasing mitigation; and
- Making sure the country has accurate flood maps.

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The greatest challenge that policymakers have wrestled with since the 1960s is…how to make flood insurance "affordable" and "attainable"…while providing transparent, risk-based price signals that minimize taxpayer subsidies.

Whether through additional reforms or natural attrition as federal rates increase, flood policies will predictably continue to migrate to the private sector. Contraction of the NFIP will result in fewer policies to spread the costs of mapping and mitigation—and make repayment of the program's debt even less plausible.

Potential adverse selection may make the NFIP look increasingly like various state residual markets that focus on serving the riskier consumers who have no--or fewer available coverage options in the private sector.

Conversely, federal flood insurance subsidies can also increase moral hazards, by encouraging excessive building in environmentally sensitive areas.

Current mitigation efforts are clearly insufficient and policymakers need—at all levels—to continue addressing the challenge of high risk and repetitive loss properties.

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This is more than an academic debate about how to reform a 48-year old government program…this is about how to best protect the millions of Americans who rely on … and need peace of mind and a promise from us to be by their side in case of disaster.

We are an industry in the business of managing risk, but we are also an industry focused on protecting American families, businesses, and communities. In the floods in my home state of Texas last year, fewer than half of the residents affected by the storms had flood insurance. Too many families and businesses were not protected…and will not be able to fully rebuild … or recapture what they lost. That is tragic for the victims, but it also weakens our communities…and our society. We need to do the best job we can—and support reforms to protect more Americans. That is likely to require innovation by both the NFIP and private insurers and agenda.

At the end of the day, this is really not about profits, privatization, or process…it's about people. And that needs to be an underlying foundation throughout the conference.

And now, I would like to introduce Roy Wright, who serves as FEMA's deputy associate administrator for insurance and mitigation. Roy directs the NFIP and leads FEMA's risk management, risk reduction, and flood insurance programs and his mission is to promote a risk-conscious culture, enable faster recovery from flood disasters, and address long-term vulnerabilities in communities across the U.S. He's in charge of FEMA's Stafford Act authorities, the National Earthquake Hazards Reduction Program, and the National Dam Safety Program as well as compliance across all FEMA programs. Roy also chairs the inter-agency Mitigation Framework Leadership Group, which coordinates mitigation and resilience efforts between federal, state and local authorities-- and the private sector.

Welcome … Roy …