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TESTIMONY OF PATTY TEMPLETON-JONES
EXECUTIVE VICE PRESIDENT AND
CHIEF PROGRAM ADVOCATE
WRIGHT NATIONAL FLOOD INSURANCE COMPANY
ON BEHALF OF THE
PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA

"Opportunities and Challenges Facing the National Flood Insurance Program"

HOUSE FINANCIAL SERVICES SUBCOMMITTEE
ON HOUSING AND INSURANCE

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Introduction

Chairman Luetkemeyer, Ranking Member Cleaver, and members of the Subcommittee, my name is Patty Templeton-Jones and I am the Executive Vice President and Chief Program Advocate of Wright National Flood Insurance Company, based in Florida. Thank you for the opportunity to testify. Wright National Flood Insurance Company (WNFIC) is a "Write-Your-Own" (WYO) flood insurance partner with the National Flood Insurance Program (NFIP) and through the WYO program, WNFIC is the largest writer of flood insurance in the nation. Wright National Flood Insurance Services (WNFIS), our processing center, is also active in the private flood insurance market growing outside of the NFIP.

Wright National Flood is a member of the Property Casualty Insurers Association of America (PCI) which is composed of nearly 1,000 member companies, representing the broadest cross section of insurers of any national trade association. PCI members write more than $195 billion in annual premium and 35% of the nation's home, auto and business insurance, with a membership epitomizing the diversity and strength of the U.S. and global insurance markets. PCI members also include two thirds of the WYO insurers that partner with the NFIP to administer the flood insurance program. My testimony today is provided on behalf of PCI and its nearly 1,000 member companies.

As a company also active in the private flood insurance market, Wright National is uniquely positioned to assist the Subcommittee as you start deliberations on flood insurance reforms well before the September 30, 2017 NFIP expiration. PCI and my company look forward to helping the Subcommittee balance the continued development of opportunities for private capital to provide flood coverage outside of the NFIP while maintaining stability and certainty within the NFIP for consumers and the marketplace.

Attached to my testimony is previously submitted written testimony that, while addressing Superstorm Sandy claims oversight, includes a summary of the evolution of the NFIP that describes previous Congressional consideration of restructuring the public and private roles in providing flood insurance (entitled, "The National Flood Insurance Program: Oversight of Superstorm Sandy Claims").

Today, I would like to: (1) draw your attention to the dramatic increase in private capital available to underwrite flood coverage outside of the NFIP; (2) underscore the importance of consensus for long term reforms needed to provide stability in the NFIP throughout the lengthy transition period necessary for a significant market for flood coverage to develop outside the NFIP; (3) highlight several key issues policymakers need to consider before any period of transition begins; and (4) suggest several broad categories on which such long term, consensus reforms should focus.

Availability of Private Capital

Without question, the biggest change in the flood insurance landscape since Congress last reauthorized the NFIP is that now, for the first time in a generation, substantial sources of private capital are available and actively interested in writing primary flood insurance coverage. Previously in the flood insurance market, private insurance capital focused on providing gap, excess or reinsurance coverage beyond the limited flood insurance coverage available through the NFIP. Today, both because of the Biggert-Waters Flood Insurance Reform Act (BW-12) and despite some unintended regulatory confusion created by BW-12, an increasing number of private insurers, including WNFIS, have entered or are planning to enter the primary flood insurance market. In response, state insurance regulators, like those from Florida and Pennsylvania, are engaging insurers with the intention of fully incorporating flood insurance into the U.S. state system of insurance regulation.

NFIP Stability

The 48-year old NFIP has experienced significant turmoil over its history, particularly in 2005 following the effects of Hurricanes Katrina, Rita & Wilma. Program uncertainty and confusion perhaps peaked between 2008 and 2012 as the NFIP suffered through a period of more than a dozen short-term program lapses and extensions. Some stability returned to the program in 2012 with the passage of BW-12, but was suspended as unintended consequences from BW-12 implementation led to the March 2014 passage of the Homeowners Flood Insurance Affordability Act (HFIAA).

Unfortunately, a decade of program uncertainty, lapses and mid-stream operational changes have not only caused numerous insurers to leave the WYO program but have repeatedly disrupted the housing market and caused ripple effects throughout the larger economy. Appropriate and timely long-term reforms could improve both the private and public protections provided to consumers. Developing consensus on long-term reforms, then restructuring and reauthorizing the NFIP well before its September 2017 expiration is the single most important thing Congress can do to foster certainty in the flood insurance marketplace and encourage the continued development of market-oriented solutions in flood risk management.

Transition Period

The availability and interest of significant sources of private capital to provide primary flood insurance coverage outside the NFIP represents a paradigm shift. It presents the opportunity for a gradual transition towards a flood insurance marketplace in which an increasing share of risk is borne by private capital. However, the growth of a private, primary flood insurance market does not mean the elimination of the need for a national NFIP – particularly as the private market will not be willing to assume all flood risks or be acceptable to all buyers. A successful transition to a more private-based flood insurance market also presents several critical questions policymakers must address as they consider various restructuring options.

In advance of any significant transition in the flood insurance market, topics policymakers need to consider are: (1) should the NFIP become a national residual market, or market of last resort, for the substantial number of properties the private market will be unable and unwilling to insure? (2) how should such a residual market be structured and funded? (3) how is the NFIP's mission to encourage the purchase of flood insurance by providing 'affordable' coverage impacted by the growth of the private insurance market? and, (4) how will the NFIP's mapping and flood mitigation functions be funded if policyholders leave the NFIP and purchase private flood insurance?

Another key variable important to any such discussion is the alarming drop in the number of flood insurance policies in force in the United States. Although coastal population density continues to increase, since 2013, the number of NFIP policies in force has dropped from an eight-year sustained level in excess of 5.5 million policies to just over 5 million policies at the end of 2015. While some of this change represents NFIP participants entering the private marketplace for coverage, data suggests that a majority of policyholders leaving the NFIP are simply going without flood insurance. Further, anecdotal evidence shows that the $250 HFIAA surcharge on second homes and businesses is disproportionately driving relatively low risk, voluntary participants from the NFIP. How best to increase the take-up rate for flood insurance may be a subject worthy of its own hearing.

Operational and Long Term Consensus Reforms

There are a number of immediate, operational reforms that FEMA could take up on its own and that the Subcommittee may wish to consider in its oversight role, including: (1) release of FEMA flood claims data that would immediately and significantly enhance private market development; (2) elimination of the WYO non-compete clause that prevents the insurers with the most experience serving flood consumers to better provide options to their customers; (3) simplification of the NFIP underwriting and rating process; (4) increasing transparency and consistency in NFIP claims processing; (5) reviewing of the NFIP appeals process; (6) targeting mitigation towards the highest risk properties; and (7) identifying and implementing mapping methodologies best suited to identify and mitigate actual risk. These reforms need not require Congressional action and would improve the efficiency and effectiveness of the program for consumers and the marketplace in addition to larger public-private rebalancing.

In the immediate, Congress could and should bolster the development of a robust private flood insurance market by passing the bi-partisan, bi-cameral, Ross-Murphy, Heller-Tester Flood Insurance Market Parity and Modernization Act of 2015 (H.R. 2901). This straight-forward legislation addresses the post-BW-12 regulatory confusion referenced earlier in my testimony and provide homeowners greater coverage options and pricing.

Conclusion

PCI and Wright National support the Subcommittee's review of potential restructuring of the NFIP and consideration of how to encourage additional private participation in flood underwriting and accordingly limit taxpayer risk. We would also suggest that even if the Subcommittee and Congress ultimately reshape the marketplace there will be a necessary long-term transition. Given the NFIP's important role in the lives of so many Americans, it is critical to develop a strong bipartisan consensus for stable long-term reform in advance of the program's September 2017 expiration. PCI and Wright National stand fully ready to help the Subcommittee in this endeavor to protect consumers and create a stronger foundation for the private and public marketplaces that serve consumers.

I thank the members of the Subcommittee for this thoughtful, proactive and timely start to reimagining flood risk management in advance of the September 2017 reform and reauthorization of the NFIP. I am happy to address any questions and look forward to working with the Subcommittee throughout this process.