

June 30, 2016

The Honorable David Vitter
Chairman
U.S. Senate Committee on
Small Business & Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

The Honorable Jeanne Shaheen
Ranking Member
U.S. Senate Committee on
Small Business & Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Chairman Vitter and Ranking Member Shaheen:

In advance of the September 2017 expiration of the current authorization for the National Flood Insurance Program, the Property Casualty Insurers Association of America (PCI) and its member companies applaud you and the committee for taking a proactive role in examining the flood insurance marketplace, National Flood Insurance Program and their impact on small businesses. The recent, tragic loss of life and extensive destruction caused by flooding in West Virginia unfortunately makes today's hearing all the more relevant. PCI and its member companies have already begun assisting West Virginians and FEMA as communities work together to recover as quickly as possible from this horrible, unwelcome tragedy that reminds us of the impact flooding can have on any part of our country.

As the second in the committee's series of hearings on these important topics, today's hearing entitled, "No More Hikes: Small Business Survival Amidst Unaffordable Flood Insurance Rate Increases" is a welcomed additional step toward informing the debate on reauthorizing the NFIP as well as highlighting ways in which the increased availability of private capital can provide small businesses with access to more options due to increased competition in the flood insurance marketplace.

PCI 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.

As the committee considers the interrelationship between flood insurance rates and small business survival, PCI would like to: (1) draw the committee's attention to the dramatic increase in private capital available to underwrite flood coverage outside the NFIP, particularly the commercial flood coverage important to small businesses; (2) underscore the importance of consensus for long term reforms needed to provide stability in the NFIP throughout the lengthy transition period that would be necessary for a significant market for flood coverage to develop outside the NFIP; (3) suggest several broad categories on which such long term, consensus reforms

should focus in order to best serve the needs of small businesses; and (4) encourage you to work with Senators Heller and Tester to provide small business owners greater coverage and pricing options by helping to enact the Heller-Tester Flood Insurance Market Parity and Modernization Act of 2015 (S. 1679 and H.R. 2901).

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 have entered or are planning to enter the primary flood insurance market. This is particularly true with regard to the commercial flood insurance coverage that is most important to small businesses. In response to this paradigm shift in the flood insurance marketplace, 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 for small businesses and encourage the continued development of market-oriented solutions in flood risk management.

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 committee may wish to examine while looking for real-time ways to help small businesses cope with the expense of flood insurance, 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 other flood insurance options to their customers; (3) underwriting and program eligibility for those properties where there is no real need for a government subsidy; (4) simplification of the NFIP underwriting and rating process; (5) increasing transparency and consistency in NFIP claims processing; (6) reviewing of the NFIP appeals process; (7) targeting mitigation towards the highest risk properties; and (8) identifying and implementing mapping methodologies best suited to accurately identify and mitigate actual risk. Many of these reforms would not require congressional action and would improve the efficiency and effectiveness of the program for consumers and the marketplace.

Heller-Tester Flood Insurance Market Parity and Modernization Act

In the immediate term, the single most important thing Congress could and should do to bolster small businesses' flood coverage and pricing options through the development of a robust private flood insurance market is passing the bi-partisan, bi-cameral, Heller-Tester Flood Insurance Market Parity and Modernization Act of 2015 (H.R. 2901 and S. 1679). This straight-forward legislation addresses the post-BW-12 regulatory confusion referenced earlier in this letter and would provide small business owners greater coverage and pricing options. The House version, H.R. 2901 passed the House unanimously (419-0) on April 28th. PCI strongly encourages committee members to consider co-sponsoring S. 1679 and to contact Senators Heller and Tester to lend support as they press for Senate action on the House-passed version of their bill.

Conclusion

PCI supports the committee's continued focus on the importance of the flood insurance marketplace to small businesses across the country. Given the important protection flood insurance provides for American small businesses, it is critical for Congress to develop a strong bipartisan consensus for stable long-term reform in advance of the program's September 2017 expiration. PCI and its member companies stand fully ready to help the committee in this endeavor to protect small businesses and create a stronger foundation for the private and public marketplaces that serve small business consumers.

Respectfully,

A handwritten signature in black ink, appearing to read "Nathaniel Wienecke". The signature is fluid and cursive, with a long horizontal stroke at the end.

Nathaniel Wienecke