



## **United States House of Representatives**

### **House Financial Services Committee**

“Preparing for the Storm:

Reauthorization of the National Flood Insurance Program”

March 13, 2019

Statement of the American Property Casualty Insurance Association

#### **Introduction**

The American Property Casualty Insurance Association (APCIA) respectfully submits this statement to the House Financial Services Committee for its hearing entitled “Preparing for the Storm: Reauthorization of the National Flood Insurance Program.” Flooding has long been, and continues to be, the most significant cause of property damage resulting from natural disasters in the United States. Yet, time and time again following natural disasters, we find that a majority of Americans are uninsured or underinsured as it relates to flood damage.

APCIA represents nearly 60 percent of the U.S. property casualty insurance and reinsurance market with the broadest cross-section of home, auto, and business insurers of any national trade association. APCIA members protect families, communities, and businesses in the U.S. and across the globe. Our members write 91 percent of the private flood insurance in the U.S. and 76 percent of the flood insurance provided by companies through the Write-Your-Own (WYO) program, in partnership with the Federal Government. APCIA offers a unique perspective on these important issues; and we look forward to working with this Committee as it considers reauthorization and reform legislation.

The National Flood Insurance Program (NFIP) is an important component of a broader strategy to address the nation’s needs with regards to flood prevention and flood insurance. APCIA strongly supports a long-term reauthorization of the NFIP and we are pleased that the Chairwoman’s draft would provide the benefit of stability through a five-year reauthorization of the NFIP. Additionally, we appreciate the focus that the Chairwoman has shined on the important issues of mapping, mitigation, and resiliency; efforts that have proven to protect lives and property as well as save taxpayers and policyholders money.

While APCIA continues to review many of the specific proposals contained in the draft bills released March 8, we offer the following general comments on the important issues that were addressed and provide additional views on how to achieve the goals of improving resiliency and increasing the number of consumers that are insured against devastating flooding. We anticipate

providing additional comments on several of the specific proposals after we have been able to discuss the language with our membership.

### **Improve the NFIP for Policyholders, Taxpayers, and Industry Partners**

A long-term reauthorization of the NFIP is essential to provide stability and certainty to NFIP policyholders and industry partners. A lapse in reauthorization of the NFIP has caused significant economic damage as it prevents many real estate closings, while presenting policyholders with few choices to protect their largest financial asset. A long-term reauthorization allows the NFIP to continue to provide uninterrupted service to over five million flood insurance policyholders and provides stability and predictability for consumers, WYO insurance companies, and the real estate market.

The NFIP is an important program; however, APCIA does understand that there is room for reforms. We welcome these conversations and recognize that while FEMA has made significant strides since the last long-term reauthorization to improve the program through administrative reforms, there is still some work that needs to be done through legislation. Among the APCIA supported administrative changes FEMA has undertaken is the transferring of a portion of its risk to the reinsurance and capital markets.

One area where FEMA continues to make improvements is the underwriting of flood insurance risk. APCIA supports more accurate risk-based rating for flood insurance as being developed in FEMA's "Risk Rating 2.0" program. The pricing of risk is vital to managing that risk and communicating exposure to loss to market participants and consumers. Thus, communicating true risk through accurate pricing is essential. That said, as our members are the companies on the ground working with consumers, they are mindful that affordability is a paramount concern for some consumers, and we look forward to working with Congress to address the issue.

Along these lines, improving and strengthening the WYO program will allow the insurance companies that are on the ground administering this program to better educate consumers and market NFIP policies. This growth in the engagement of the private sector will result in increasing take-up rates and closing the uninsured gap that is evidenced time and again after a major storm.

Unfortunately, over the last several years, we have seen a steady and dramatic decrease in the number of private insurers willing to participate in the WYO program due to burdensome requirements, and an increase in reputational risk due to government action. In order to continue to encourage private sector delivery of NFIP policies, it is important that WYO companies not face any additional cuts to the reimbursement rate or increased litigation risk. As the Committee is aware, FEMA, via the WYO arrangement, cut the WYO reimbursement rate for 2019, and APCIA was pleased to see that the draft reform and reauthorization legislation does not include any additional cuts.

APCIA does have some concerns about the draft proposals that make significant changes to the NFIP claims handling process. APCIA appreciates the need for a transparent, efficient claims

handling and appeals process. However, we fear the proposed legislative changes, as drafted, would likely result in an increase in litigation, increasing costs under the program and directly discourage private insurers from participating in the WYO program. That said, we look forward to working with the members of this Committee, including the legislation's sponsor, to try to find an appropriate balance between the need for transparency and the practical implication of proposed reforms.

### **Improve Flood Resilience**

The importance of mitigation cannot be understated when it comes to addressing our nation's risk for flood-related property damage. The National Institute of Building Sciences (NIBS) recently issued the Natural Hazard Mitigation Saves: 2018 Interim Report. Generally, the report found a benefit cost ratio of "\$6 for every \$1 spent through mitigation grants funded through select federal agencies."<sup>1</sup> When it comes to flooding the benefit cost ratio could be as high as 7:1.

In order to effectively mitigate against a particular risk, that risk needs to be clearly identified. When it comes to flooding, accurate flood insurance maps are critical not only for risk assessment for property owners, but tools that communities rely upon in establishing smart floodplain management through zoning and building codes.

Reliable, up-to-date and accurate maps are a foundational component of risk identification, communication and pricing. As such, FEMA should update flood maps expeditiously, and timely communicate those changes. Using modern methods to ensure accurate mapping continues to be a goal of FEMA; and APCIA strongly believes that Congress should appropriate the necessary funds for this purpose. APCIA is encouraged by the focus that the Committee's draft places on the accurate flood maps, including the use of technologies such as Light Detection and Ranging (LIDAR) surveys, which can produce high-resolution accurate maps. In addition to the mapping provisions released by this Committee, APCIA appreciates the focus that Rep. Gonzalez and Rep. Mooney have placed on this issue in the past.

Once we have current and reliable flood insurance maps, the Federal Government and communities must use these to prioritize the limited resources they have to ensure a resilient and protected community. As the NIBS data shows, mitigating on the front end can save lives, reduce property damage, and limit taxpayer exposure in terms of disaster relief spending after a catastrophe strikes. Money spent on mitigation is money well spent and for that reason, APCIA is encouraged by the Committee's attention to mitigation.

In addition to mitigation efforts by individual property owners, two of the most effective tools to increase the overall resiliency of a community are strong, uniform building codes and responsible land use policies that promote public safety and reduce the severity of property damage. The Insurance Institute for Business and Home Safety (IBHS) conducted a study following Hurricane Charley in 2004. IBHS found that homes impacted by Hurricane Charley

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<sup>1</sup> National Institute of Building Sciences, "Natural Hazard Mitigation Saves: 2018 Interim Report," (2018) Page 1. [https://cdn.ymaws.com/www.nibs.org/resource/resmgr/mmc/NIBS\\_MSv2-2018\\_Interim-Report.pdf](https://cdn.ymaws.com/www.nibs.org/resource/resmgr/mmc/NIBS_MSv2-2018_Interim-Report.pdf)

that were built to the most modern standard of the building code incurred a 40% reduction in the frequency and a 60% reduction in the severity of property damage compared to homes constructed to older building code standards.<sup>2</sup>

More recently, the Florida Department of Business and Professional Regulations did a comprehensive investigation of building damage after hurricane Irma struck in 2017. That report concluded, in part, that:

“Since Hurricane Irma was not a design-level hurricane, few structural failures should be expected in code-compliant houses. In our assessments we found no systemic failures of structural systems in single-family houses built in accordance to the 2001 Florida Building Code (i.e. houses built after March 2002). Conversely, we observed many structural failures in the pre-Florida building code houses (i.e. homes built before March 2002). Nearly 40% of the pre-2002 houses surveyed in the Florida Keys had structural damage (defined as damage to roof or wall structural members and roof sheathing). ...”<sup>3</sup>

That same report went on to note that “[e]levated houses generally performed well against storm surge and flood inundation. Breakaway walls in lower enclosures were often damaged as expected.” There should be no doubt that strong building codes and mitigation work to make communities and individuals more resilient. One of the key issues following every major event is making sure that properties are then reconstructed or built to new standards, and that those standards are up-to-date due to the adoption of current building codes and accurate flood maps.

### **Expand and Enhance Consumer Options**

Far too few property owners purchase flood insurance. FEMA estimates that more than 40 million properties may be at risk of flooding. Yet, there are just over five million NFIP policyholders in the U.S. In 2016, the United States experienced 19 major flooding events, with total losses estimated at \$15 billion of which only \$4.3 billion was insured.<sup>4</sup> It is clear that a protection gap exists when it comes to flood insurance.

Increasing the number of homeowners and business owners that purchase flood insurance is an important objective for APCIA that we believe could be addressed by promoting ways to give consumers more options when it comes to flood insurance. That includes encouraging the growth of the private flood insurance market to compliment the NFIP by providing tailored coverage to property owners. Additionally, more competition provides more product choices (e.g., coverages, limits, deductibles), and eventually lower premiums for consumers and businesses as more companies vie for flood insurance business.

For this reason, APCIA was encouraged by the final rule that the five federal lending regulators recently published that clarified the acceptance of private flood insurance and implemented the requirement that lenders accept certain private flood insurance policies. Unfortunately, APCIA is concerned that regulations imposed by FEMA regarding continuous coverage could suppress the

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<sup>2</sup> Insurance Institute for Business & Home Safety, <https://disastersafety.org/ibhs-public-policy/building-codes/>

<sup>3</sup> [http://www.floridabuilding.org/fbc/publications/PrevattUF\\_FBC\\_2017\\_2018\\_FinalReport-Irma.pdf](http://www.floridabuilding.org/fbc/publications/PrevattUF_FBC_2017_2018_FinalReport-Irma.pdf)

<sup>4</sup> <http://www.iii.org/fact-statistic/catastrophes-us>

benefits that consumers would receive under this new rule. To that end, APCIA fully supports the legislation recently introduced by Rep. Castor and Rep. Luetkemeyer to ensure that consumers who choose to exercise their right to explore the private sector flood insurance marketplace are not unfairly punished if they decide to later re-purchase an NFIP policy. While APCIA believes that the growth in the private sector will ultimately be gradual, the marketplace is already responding as evidenced by the experience in Pennsylvania.

Recently the Pennsylvania insurance commissioner, Jessica Altman, announced that the number of private market flood insurance policies in Pennsylvania has risen significantly. The Governor directed the insurance department to educate consumers about the increasing availability of private flood coverage in February 2016, and since then there has been continued urging homeowners, business owners, and renters to shop around in the increasingly competitive flood insurance market to protect their homes, businesses, and properties. As a result, the number of private flood policies has grown to nearly one in seven flood insurance policies in the state.

Encouraging property owners to purchase flood is an important component to strengthening not only their own, but also the nation's resistance and resiliency due to flooding. It is through the prism of the potential impact on the growth of the private flood insurance market that APCIA is carefully reviewing provisions such as changes to the NFIP coverage limits and eliminating fee and surcharges for particular properties.

### **Conclusion**

A stable NFIP will benefit all interested stakeholders including: policyholders, taxpayers, WYO companies, and the real estate market. A long-term reauthorization of the program is key to the program's stability, along with increased investments in accurate mapping and mitigation. Accurate maps are a critical component in the proper assessment of risk and will indirectly encourage more private market participation in flood insurance. Mitigation investments clearly pay dividends by promoting public safety and reducing property damage following flood events. APCIA appreciates the opportunity to submit these comments for the House Financial Services Committee hearing on "Preparing for the Storm: Reauthorization of the National Flood Insurance Program." APCIA is ready and willing to provide any assistance to today's hearing participants on flood insurance issues.