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STATEMENT BEFORE THE U.S. HOUSE OF REPRESENTATIVES
FINANCIAL SERVICES COMMITTEE HEARING ON
“PREPARING FOR THE STORM: REAUTHORIZATION OF THE
NATIONAL FLOOD INSURANCE PROGRAM”

March 13, 2019

Founded in 1931, the National Association of Professional Insurance Agents (PIA National) is a national trade association that represents independent insurance agencies and their employees who sell and service all kinds of insurance but specialize in coverage of automobiles, homes, and businesses. PIA National represents independent insurance agents in all 50 states, Puerto Rico, and the District of Columbia. They operate cutting-edge agencies and treat their customers like neighbors, providing personal support and service. PIA National members are *Local Agents Serving Main Street AmericaSM*.

Background

The National Flood Insurance Program (NFIP) was created in 1968 to provide property owners in the U.S. a chance to secure flood insurance coverage for their homes. At the time, the private insurance market viewed flood as an uninsurable risk, and flood insurance coverage was cost-prohibitive or unavailable. The NFIP has long been effectively the only means by which people can protect their financial interests against the risks posed by floods. PIA National supports the reauthorization of the NFIP.

The NFIP’s five-year reauthorization expired on September 30, 2017. Leading up to that deadline, Congress was unable to agree on reforms to the program. As a result, the NFIP lapsed briefly three times and has been subject to a total of nine extensions since the 2017 deadline. The program is now set to expire on May 31, 2019. While a long-term reauthorization of the program is PIA National’s priority, we also ask that Congress not allow it to lapse. Any lapse, regardless of length, is disruptive to independent agents helping policyholders in buying or renewing policies, purchasing homes, and submitting claims. A short-term extension is preferable to a lapse.

As Congress works to reauthorize the program, we would like to highlight the opportunities and challenges for the NFIP going forward.

Preserve the Critical Role of the Independent Agent

Independent insurance agents are representatives of the consumer in navigating this complicated program. Independent agents are vital in ensuring that property owners make educated choices about the purchase of flood insurance policies for their homes and businesses. Agents generally serve as the first point of contact for a potential consumer inquiring about a flood policy or when it comes time for a policyholder to file a claim. Assisting a consumer in purchasing an NFIP policy is a difficult

process requiring specialized knowledge, and the purchasing process is very different from that of a standard homeowners' or auto policy. Agents provide consumers with the expertise they need to find and purchase the right coverage. Agents must be familiar with flood zones, specialized terminology, and maps for the geographic areas in which they write, and they must be comfortable walking their customers through the lengthy and often bureaucratic process of obtaining an Elevation Certificate (EC). Agents are the backbone of the NFIP Write Your Own (WYO) system.

PIA National supports increased educational resources to make sure agents can speak fluently about the NFIP program. Agents have the expertise to advise consumers on the program, but as the program changes, and with continuous rulemaking by FEMA, agents need educational resources to ensure they are up to date on all aspects of the NFIP.

Congress should keep in mind the agent's key role in supporting the program when considering the reauthorization of the NFIP. Agents are concerned about changes that would hinder an agent's ability to fulfill their role in the program or that would negatively affect their ability to earn fair compensation for doing so. Effectively lowering compensation for NFIP agents could lead some agents to leave the NFIP, which would create a void for consumers.

Recommended provisions in reauthorization:

Keep the WYO rate at its current level

The WYO rate was developed by FEMA and is derived from an average of various private industry property and casualty expense ratios for the following five lines of business: Fire, Allied Lines, Farmowners Multiple Peril, Homeowners Multiple Peril, and Commercial Multiple Peril (non-liability portion). The current rate is 29.9 percent, which reflects a reduction of one percent made by FEMA that went into effect as of the October 2018 Arrangement.

PIA National asks that the WYO rate remain the same. Any reduction in the WYO rate could mean more WYO carriers leave the program. The fewer the WYOs there are in the program, the more limited the consumer options. With about 60 WYOs participating in the program, any WYO rate reduction will lead many more to leave. Currently, WYOs administer over 85 percent of NFIP policies. NFIP Direct does not have the capacity to administer most claims, and PIA National agents who work with both WYOs and NFIP Direct prefer working with the WYOs due to their better customer service and faster response time.

If Congress passes a WYO rate reduction, to remain in the program, WYOs may be forced to pass that reduction on to agents through their commissions. This in turn could result in an exodus of qualified independent agents selling flood insurance, which would devastate the program. For a program in need of more, not fewer, NFIP policies, Congress should not take actions that would harm agents and consumers. The NFIP is a complicated program compared to other lines of insurance. Independent agents, who are small business owners, may decide that a reduction in commissions makes selling and servicing NFIP policies not worth the reputational risk and expenditure of agency resources. The people hurt most by this will be NFIP policyholders and potential policyholders, who will lose the experienced, independent agents they trust to walk them through every aspect of the NFIP.

If the WYO rate is to be lowered at all, PIA National asks for a package of robust protections for agent commissions. PIA National can provide a list of agent commission protections at the request of any member of the committee. PIA National will oppose any legislation that reduces the WYO rate and does not include a strong package of agent protections.

Create an Agent Advisory Council

PIA National recommends the creation of an Agent Advisory Council housed within, but independent of, FEMA. This Council would make recommendations to FEMA on improving the customer experience, including but not limited to the applications and claims process, communication of changes made to the NFIP, and provision of input on agent training needs and means of delivery. The SAFE NFIP Act (H.R. 3285, introduced in 115th Congress) included such a council. An Agent Advisory Council should include independent agents who are experts on flood insurance and routinely sell NFIP policies. PIA has many agent members whose expertise would serve such an advisory council well, and we ask that PIA National receive a seat on the Council.

PIA National supports the effort to increase the availability of training for insurance agents, and, via the Advisory Council, independent agents should have a role in developing the training by collaborating with FEMA on the development of courses. FEMA need not host or sponsor all courses; instead, FEMA can set minimum standards that WYO insurers, agent associations, etc. must meet. The Agent Advisory Council should play a key role in the development of continuing education courses offered to independent agents on topics like changes to the Flood Insurance Manual, obtaining an Elevation Certificate, Increased Cost of Compliance, mapping, and any other modifications to the NFIP.

Risk-Based Rates and Affordability

The Biggert-Waters Act of 2012 sought to put the program on a path toward fiscal stability by introducing a gradual move toward imposing actuarially sound premium rates on policyholders, while continuing to provide necessary coverage. Together with the Homeowners Flood Insurance Affordability Act of 2014 (HFIAA), which provided an even more gradual path to risk-based rates, the NFIP is presently on a trajectory toward fiscal strength.

In addition, HFIAA reinstated grandfathered rates, allowing properties to be transferred between owners without coverage disruption or surprise. This is a common-sense provision that should be maintained to prevent sudden chaos for consumers.

The gradual implementation of actuarially sound rates is the only realistic way of accomplishing the twin goals of developing a financially sound program along with maintaining policyholder capacity. Risk-based rates are essential for putting the NFIP on the path to fiscal stability, but they must be implemented gradually over time, with clear and frequent communication from FEMA. Further, increases in rates should be capped to prevent them from going up too much too soon. Otherwise, consumers will be left bewildered and alarmed by sudden increases in their premiums.

Recommended provisions in reauthorization:

Maintain grandfathering

Continue capping the percentage increase in rates while moving toward actuarially sound rates

Mitigation and Mapping

Mitigation is one area that could help control costs for the NFIP. Success in this area allows communities, homeowners, and businesses to resume normal activity more quickly after a disaster. Both Biggert-Waters and the HFIAA tasked FEMA with researching mitigation methods (other than elevation of a home) for property owners to reduce flood risk. The HFIAA also authorized FEMA to

consider and incorporate various flood mitigation activities when estimating and calculating premium rates.

Future flood-related legislation should incentivize homeowners to mitigate loss to their homes by making it easier and more affordable to do so. Further, Congress should increase the incentives for communities to participate in the NFIP and to continue participation by keeping up to date with their land-use, mitigation, and building code requirements. This would assure that communities implement and continue to maintain and upgrade necessary land-use restrictions and mitigation methods.

Clear and accurate mapping is essential for consumers and something that should be improved upon in an NFIP reauthorization. Mapping is critical for rating, land use, and construction purposes.

Recommended provisions in reauthorization:

Provisions to incentivize communities to participate with the NFIP

Provisions to invest in mapping

Community mapping legislation (like the Community Mapping Act, H.R. 472, introduced by Rep. Blaine Luetkemeyer) that allows local communities to develop alternative flood maps

Cultivating the Private Market with Consumer Protections

The cultivation of deliberate, responsible growth in the private flood insurance market could be a complement to the NFIP. PIA National continues to support the engagement of private sector insurers in offering flood insurance policies and endorsement coverages. In previous Congresses, PIA National heled develop legislation to address this issue, the Flood Insurance Market Parity and Modernization Act. With the issuance of a final rule for lender-approved private flood insurance, however, the private insurance sector largely has what it needs to grow the private flood market.

PIA National was pleased when the five federal agencies that oversee mortgage lenders, Treasury; FDIC; the Federal Reserve; the Farm Credit Administration; and the NCUA, issued a [final rule](#) on private flood insurance, effective July 1, 2018. The development of the rule was required by a provision in the Biggert-Waters Act, which reauthorized and reformed the National Flood Insurance Program (NFIP). PIA National has [actively urged Congress](#) and the [involved federal agencies](#) to comprehensively address this private flood issue.

While this rule answers some questions about flood insurance policies issued by private insurers, it does not answer all of them—most significantly, the issue of continuous coverage. A top priority for PIA National is the pressing need for the inclusion of a **continuous coverage** provision so that policyholders can move between the private market and the NFIP without penalty. Currently, consumers may be left in an untenable financial position if, for example, their private flood policy is cancelled for reasons outside their control. Continuous coverage would allow a former NFIP consumer who purchased a private flood policy to return to the NFIP at the same premium rate they were paying before they left. Without continuous coverage, consumers with grandfathered NFIP policies are effectively penalized with higher rates for attempting to purchase an NFIP policy after leaving it for the private market.

With the recent guidance on private flood policies set to take effect July 1, 2019, PIA National asks that continuous coverage, a vital consumer protection provision, be included in the NFIP reauthorization legislation.

Recommended provision in reauthorization:

A provision to ensure continuous coverage for policyholders

Additional Consumer-Friendly Provisions

PIA National would support other provisions not included above, such as, but not limited to: allowing policyholders to purchase additional increased cost of compliance (ICC) coverage to encourage pre-flood mitigation; including post-Sandy claim remedies, including changes to proof of loss and notice of damage deadlines; and allowing an appeals process if FEMA denies requests to update a flood map. Many of these items will benefit consumers and strengthen the future viability of the program.

Conclusion

PIA National supports the NFIP, as it provides critical flood coverage that the private market is presently unable to supply. PIA National remains concerned that delaying the implementation of risk-based rates, while providing needed economic relief for many homeowners, ignores the underlying long-term problems continuing to threaten the stability of the program.

The highlighted issues in this submission are our key reform concerns. PIA National urges Congress to work towards a long-term reauthorization of the program to provide it with more stability and attract independent agents, policyholders, and private insurers.