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August 17, 2016

Commissioner Teresa D. Miller, Chair
Property and Casualty (C) Committee
NAIC Central Office
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Attn: Tiffany Fosgate
Via email to *tfosgate@naic.org*

Re: NFIP Reauthorization Recommendations

Dear Commissioner Miller:

The National Association of Mutual Insurance Companies (NAMIC)[1] appreciates the opportunity to provide comments to the Property and Casualty Insurance (C) Committee in regard to the Committee's draft recommendations to the Government Relations (EX) Leadership Council on the important subject of reforming the National Flood Insurance Program (NFIP). NAMIC has long recognized the importance of the NFIP in protecting Americans from the peril of flood while also recognizing that substantial incremental reforms have the potential to make the program more sustainable while also promoting increased private-sector involvement in addressing the risk of flood. We commend the NAIC for engaging proactively on this important program and, as discussed below, note that the draft recommendations are largely consistent with NAMIC's policy positions.

NAMIC believes that successful reform of the NFIP needs to focus on a number of elements addressed in the C Committee's recommendations as follows:

Long-Term Reauthorization

Prior to passage of the Biggert-Waters Flood Insurance Reform Act of 2012, which reauthorized the NFIP for five years and made significant changes to increase the NFIP's financial solvency, the reauthorization of the NFIP required a lamentable string of 17 temporary extensions to ensure the program's funding. The uncertainty surrounding looming deadlines created unnecessary complications and made it challenging to work towards positive public policy goals. In addition to the multiple short-term extensions, the NFIP actually lapsed in coverage for a limited time, creating consternation among Write Your Own (WYO) carriers that administered the NFIP's policies and had to pay out claims during the lapse. Due to the politicization of the reauthorization of the NFIP, a number of large national WYO insurance carriers decided to withdrawal from the NFIP's WYO program. In order to ensure insurance company participation

in the NFIP, as well as promote private sector participation in underwriting flood risks, the NFIP must be reauthorized long term prior to September 30, 2017. A long-term reauthorization is also necessary as many of the provisions within the Biggert-Waters Flood Insurance Reform Act and the Homeowners Flood Insurance Affordability Act that have not yet been implemented. With the NFIP being the primary source offering protection against the risk of flood at a national level, Congress should maintain its commitment to a long-term reauthorization of the NFIP. We commend the C Committee for recommending that the NFIP be extended for a minimum of ten years.

Growth in the Private Flood Insurance Market

While a number of state legislatures have passed laws attempting to incentivize private insurance companies to underwrite flood insurance in competition to what many see as an ill-equipped federal government program, a healthy and competitive private sector marketplace has not developed. The C Committee recommendations touch on a number of areas that will need to be addressed in order to promote the development of a competitive marketplace. NAMIC has long been on record in support of the Flood Insurance Market Parity and Modernization Act. The legislation is a step in the right direction in terms of allowing the private sector to offer policies and the language ensures that private sector flood insurance policies are regulated appropriately by state insurance regulators like any other property and casualty insurance product.

In addition to passage of the Flood Insurance Market Parity and Modernization Act, an opportunity exists for the federal government to utilize the knowledge of WYO insurance companies in its attempts to promote private sector participation in underwriting flood insurance. The NFIP's WYO Program was created in 1986 as public-private partnership in an attempt to increase the NFIP's policy base and the geographic distribution of policies; improve service to NFIP policyholders through the infusion of insurance industry knowledge; and provide the insurance industry with direct operating experience with flood insurance. Currently, the WYO Arrangement prohibits a WYO insurance company from offering flood insurance outside of the NFIP. By removing the non-compete clause, WYO insurance companies would be able to apply their first-hand experience in flood insurance to offer private-sector flood insurance policies. In addition to removing the non-compete clause, insurers will also need access to data currently held by FEMA. In the evaluation of any risk, insurers have a limited antitrust exemption allowing them to pool historic loss information so that they are better able to project future losses and charge an actuarially-based price for their products. While the private sector lacks significant loss history for flood losses, FEMA has a wealth of historical flood loss data by virtue of being the primary source of flood insurance over the last 50 years. Access to that historical loss data from FEMA for the risk of flood is essential for any insurer to begin to assess flood insurance risk to make possible the development of a private-sector insurance product.

Mitigation

One of the stated C Committee recommendations that NAMIC strongly supports is enhanced mitigation planning to stem the risk of ruin after a large natural catastrophe. The NFIP shares the common goal of mitigating to ensure that those properties that flood the most frequently, or have been through a major flood, are better prepared for the future through mitigation grants and

property buyouts. FEMA has stated that nearly 30 percent of flood losses result from repetitive loss properties. To that end, FEMA should increase and utilize its mitigation grants and repetitive loss buyout authority to focus on ensuring those policyholders are mitigating their risk. Going forward, mitigation is also a great tool in reducing a property's risk to address affordability concerns. One example that the C Committee rightly identified to help reduce mitigation costs for homeowners is The Disaster Savings Account Act, H.R. 2230. The Disaster Savings Account Act, introduced by Rep. Dennis Ross (R-FL), would allow eligible individuals to deduct up to $5,000 contributed to a designated "disaster savings account." In addition to disaster savings accounts designed to help homeowners reduce the cost of mitigation, NAMIC is also supportive of legislation to establish disasters savings accounts designed to help homeowners pay their deductible after a natural disaster. Such legislation has been passed in several state legislatures.

Affordability

Though subsequently modified by the Homeowners Affordability Act of 2014, the bipartisan passage of the Biggert-Waters Flood Insurance Reform Act of 2012 showed recognition by Congress that the NFIP needed to change the way it viewed the risk of flood insurance in order to keep the program from inflicting further financial damage on the taxpayer. The ability to charge rates based on the risk presented by actuarial data is key to any insurance transaction. As stated by FEMA, the NFIP does not consider catastrophic loss years when setting rates but instead bases its underwriting of flood insurance policies by average loss year. The result is subsidized rates that promote homeowners living in risky areas and the need for the federal government to utilize large-scale post-disaster aid packages to recover from severe storms such as Katrina and Sandy, further increasing the consumer's reliance on the government as a safety net. Another consequence of the subsidized rates provided by the NFIP is that the NFIP is currently $23 billion in debt, showing that rates have not been adequate for some time.

Actuarially-based rates are necessary not only to keep the program sustainable, but also to promote the expansion of the private flood insurance market. The continuation of significantly subsidized rates will prevent the private sector from being able to offer products that would otherwise exist in an open and competitive marketplace. For these reasons, NAMIC continues to support implementation of actuarial risk-based rates for all properties covered by the NFIP.

Recognizing that a number of flood insurance policies would see sharp increases in premium, we suggest a long-term transition period towards risk-based rates for grandfathered policies and new home sales. One of the strong reactions that led to the passage of the Homeowners Affordability Act of 2014 was the increasing criticism from constituents over the fast pace at which the implementation of actuarial risk-based rates was moving.

Another suggestion NAMIC has made to address affordability is for FEMA to establish a targeted, means-tested, temporary support and mitigation fund to help homeowners of modest means who face affordability problems and may not be able to afford those rates. One example would be to create a flood insurance voucher program that targets the minority of subsidized property owners for whom risk-based rates would be truly unaffordable. Such a program could be modeled on the Section 8 Housing Choice Voucher program currently administered by the

Department of Housing and Urban Development. Under this program, local public housing agencies collect information and data to assess need and determine voucher amounts. This same data could be used to determine eligibility and voucher amounts that would be made available to property owners who could not otherwise afford their flood insurance premium. Importantly, the voucher amount should not be "baked into" the flood premium; rather, it should be designed so that each voucher recipient sees the risk-based rate to which the voucher amount is applied, thus enabling the voucher recipients to be fully aware of the actual flood risk that he or she faces. While means-tested assistance should focus on low income policyholders, a case could also be made for potential policyholders that operate small businesses out of their homes. We strongly urge the (C) Committee to consider including among its recommendations support for a federally-funded flood insurance voucher program.

We appreciate your consideration of these comments.

Sincerely,

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[1] NAMIC is the largest property/casualty insurance trade association in the United States, with more than 1,400 member companies representing 39 percent of the total U.S. market. NAMIC supports a diverse spectrum of regional and local mutual insurance companies as well as many of the largest insurers in the world. NAMIC member companies in the United States and Canada serve more than 170 million policyholders and write more than $230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets in the United States. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.