



Statement
of
National Association of Mutual Insurance Companies
to the
United States Senate
Committee on Banking, Housing and Urban Affairs
Hearing on
The National Flood Insurance Program

May 9, 2012

The National Association of Mutual Insurance Companies (NAMIC) wishes to express its support for S. 1940, the Flood Insurance Reform and Modernization Act of 2011. We believe the bill, as drafted, responsibly reauthorizes the National Flood Insurance Program (NFIP) while enacting real reform. We appreciate the leadership of the Senate Committee on Banking, Housing and Urban Affairs and we respectfully request Majority Leader Harry Reid to bring the bill to the Senate Floor for consideration.

Founded in 1895, the National Association of Mutual Insurance Companies (NAMIC) is the largest and most diverse property/casualty insurance trade association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include small, single-state, regional, and national carriers accounting for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market. We also have over a quarter of the companies that participate in the NFIP's "Write-Your-Own" program as members. NAMIC's membership truly represents a cross-section of the industry and has been proudly protecting its policyholders throughout North America for many years.

NAMIC is proud to team up with over 25 organizations to "Flood the Hill" this month to call for a Senate vote on flood insurance reform. "Flood the Hill" consists of, fourteen trade associations representing **76,571 companies**; four professional associations representing **1,496,000 individual members**; two environmental groups representing **5,000,000 individual members**; and eight private companies representing **219,893 employees**.

NAMIC appreciates the Senate Banking Committee's unanimous passage of this bill on September 8, 2011. Much like its House of Representative counterpart - *HR. 1309, the Flood Insurance Reform Act of 2011*, which passed by a vote of 406-22 - the Senate bill also enjoys wide bipartisan support. While the House and Senate reform bills are not identical, they share the same goals and are close enough in concept that passage of comprehensive legislation is within reach in the 112th Congress. We thank Chairman Jon Tester and Ranking Member David Vitter for holding this hearing and once again demonstrating the broad support for flood insurance reform and reauthorization.

Reforming the National Flood Insurance Program

The NFIP is a vitally necessary program, but in its current form is on the brink of insolvency. Without reforms, the economic cost of flooding continues to be shifted to taxpayers and irresponsible development in flood-prone areas remains encouraged. NAMIC believes the reforms in S. 1940 go a long way toward restoring the program's financial sustainability and preserving the program's benefit to the country. Specifically, we believe NFIP reform must address the following four issues: 1) update premiums to accurately reflect risk; 2) create a fair and comprehensive floodplain mapping process; 3) reduce severe repetitive loss claims; 4) encourage pre-disaster mitigation.

First, the NFIP must charge risk-based premiums. Insurance rates should more accurately reflect the true cost of providing coverage, but they currently do not under the NFIP model. As the

NFIP currently stands, its rates are inadequate and do not match the risk faced by many of its insured. NFIP rates are often as much as 60% below actuarially sound rates. The inadequacy of the rates led the program to experience significant losses from major floods such as those we saw in the 2005 storm season. The over \$20 billion debt assumed by the NFIP after Hurricane Katrina fell on the shoulders of all taxpayers. Without reforms, the next major storm causing the NFIP to exceed its reserves will force the NFIP to borrow billions more from the U.S. Treasury. The phase-in of sound rates provided by S. 1940 is a sensible approach to putting the NFIP on a sound fiscal footing.

FEMA's flood maps must also be updated based on the best available science, incorporating expert opinions in the public and private sectors at the local, state and federal levels. Accurate maps are necessary to accurately predict flood risk, which is necessary for the aforementioned risk-based rates. We also support the fair appeals process allowing for community input in the mapping process. NAMIC believes that the Technical Mapping Advisory Council created by S. 1940 would accomplish this goal.

Further, the NFIP must reduce the number of repetitive loss properties participating in the program. According to a 2011 Government Accountability Office (GAO) report, 1% of the flood policies account for between 25-30% of the claims. S. 1940 properly implements risk-based rates immediately for severe repetitive loss properties. Once the policies reach true actuarial rates, the high cost of flood insurance should either cover future claims or force owners to drop their coverage. Either scenario will result in fewer claims for the NFIP and will discourage rebuilding in high-risk areas.

Finally, FEMA should encourage better pre-disaster mitigation. NAMIC strongly supports the report commissioned in S. 1940 on the inclusion of building codes in floodplain management criteria. Building codes have been shown to save lives, prevent severe property damage, and reduce the need for federal disaster relief. Therefore we would encourage you to adopt the partnership approach in H.R. 1309 that would give local communities the ability to reduce potential property loss through the use of Community Block Development Grant funds for local building code enforcement.

Reauthorizing the National Flood Insurance Program for the Long Term

Long term reauthorization of the NFIP is vitally needed by the struggling housing, construction and financial markets. Above all, Congress must avoid another lapse in NFIP authorization at all costs. Failing to reauthorize the NFIP could jeopardize nearly 40,000 mortgage closings per month, according to the National Association of REALTORS.

More than 5.6 million policyholders in 21,000 communities nationwide depend on the NFIP as their main source of protection against property losses that result from flooding. Without flood insurance, many residential and commercial real estate transactions across the country will come to a stop, as federally backed mortgage loans cannot legally be secured without this critical protection.

During a lapse, there is much confusion regarding the effective term of the policy and whether consumers and businesses have flood insurance protection. The repeated last-minute short-term reauthorizations forces consumers, lenders, agents and insurers to repeatedly take steps to prepare for the contingency that Congress fails to reauthorize the NFIP. Long-term authorization will provide more certainty to the private market partners of the NFIP – “Write Your Own” carriers – so they may model their business plans for deeper market penetration and higher take-up rates. Consumers and businesses need a reliable program that can provide long-term access to flood insurance. S. 1940 fulfills that need by reauthorizing the NFIP for five years.

Conclusion

The NFIP is in need of significant reforms in order to continue providing flood protection to those who need it. NAMIC supports this reform legislation and believes that S. 1940 is an effective way to balance the many goals of the reform effort: fiscal soundness, affordability of insurance, adequate coverage for those at risk, floodplain management (reduction of flood hazard vulnerability), economic development, individual freedom, and environmental protection.

NAMIC thanks the Senate Banking Committee for its leadership so far on S. 1940 the Flood Insurance Reform and Modernization Act of 2011. We urge the bill’s many supporters to speak to Senate leadership about scheduling a floor vote on this important legislation before the end of May.