Encouraging Greater Flood Insurance Coverage in America
House Financial Services Committee
Subcommittee on Housing and Insurance
United States House of Representatives

March 10, 2023

Founded in 1931, PIA is a national trade association that represents independent insurance agencies and their employees. Our members sell and service all kinds of insurance, but they specialize mostly in property & casualty insurance. They represent independent insurance agents in all 50 states, Puerto Rico, and the District of Columbia.

I. Background

The National Flood Insurance Program (NFIP) was created in 1968 to provide property owners in the U.S. with flood insurance coverage for their homes. At the time, the private insurance market viewed flood as an uninsurable risk, and, as a result, flood insurance products sold through the private market were cost-prohibitive or unavailable. In the decades since its inception, the NFIP has remained the primary source for flood insurance products.

The Federal Emergency Management Agency (FEMA) administers the NFIP, and, over the past several years, FEMA has been updating the NFIP's risk rating process using a methodology known initially as Risk Rating (RR) 2.0. PIA strongly supports the new pricing system, which calculates premium rates using substantially more granular data to align rates more closely with each property's actual level of flood risk. The use of RR 2.0 is an opportunity for the NFIP to move towards solvency while also providing policyholders with more accurate, detailed information about their property's flood risk.

With better information available to them, we hope policyholders and potential policyholders will be encouraged to learn more about their property's flood risk, engage in mitigation efforts where needed, and, ultimately, purchase flood insurance that matches their risk. We appreciate the Subcommittee's attention to the need for greater flood insurance coverage nationwide, and we support that goal.

The program's most recent five-year reauthorization expired on September 30, 2017, nearly five years ago. Leading up to that deadline, the 115th Congress was unable to agree on reforms to the program. As a result, the NFIP briefly lapsed three times within a three-week period in early 2018. The NFIP has been subject to around 20 extensions of varying lengths since the 2017 deadline, and its current extension will expire on September 30, 2023, during the peak of the Atlantic hurricane season.

Every short-term extension brings with it the chance for the program to lapse. When the NFIP lapses, consumers are unable to renew existing policies or finalize the purchase of covered properties. Claims continue to be paid on existing, in-force policies, but consumers engaged in ongoing real estate transactions may experience disruptions in those processes, especially if they are purchasing a property in a mandatory purchase area, where federal law requires flood insurance. Plus, if a flood loss occurs during a lapse, some claims may not be processed until the program is reauthorized. Prior NFIP lapses are estimated to have disrupted over 1,000 home sales per day, and, of course, the longer the lapse, the greater the disruption.[1]

The series of short-term extensions over the last five years has been extremely disruptive for everyone associated with the NFIP, including policyholders. Even when the program does not actually lapse, the federal government and every facet of the insurance industry incurs costs associated with preparing for a lapse as the NFIP's next expiration date approaches. Agents, carriers, vendors, lenders, and FEMA itself all develop contingency plans for each anticipated lapse. They incur those expenditures whether the lapse occurs or not, and only a long-term reauthorization can avoid them. The program's effectiveness depends on certainty.

If a long-term reauthorization cannot be passed, rather than going from one short-term extension to another, PIA encourages Congress to pass, at a minimum, a two- to three-year extension that could provide Congress with enough time to appropriately evaluate the program, identify ways of increasing coverage nationwide, and deploy the legislative tools necessary to achieve that goal. For this reason, PIA supports Chairman Warren Davidson's bill, H.R. 1392, which would extend the program until the end of 2024. This extension would provide the program with much-needed certainty and, importantly, give this Congress crucial additional time to examine and refine the various reform proposals under consideration.

PIA would also support a bill to give Congress even more time by extending the program for two years beginning at the time of its current expiration date, September 30, 2023, and ending on September 30, 2025. This extended authorization period would provide carriers, agents, and policyholders with greater certainty and allow this Congress to study the issue and reach a negotiated agreement on bipartisan reforms, which can be implemented by the next Congress via a long-term reauthorization. This longer extension would give policymakers ample time to pass a long-term reauthorization that includes key reforms and recognizes the essential role independent agents play in delivering the program to consumers.

Ultimately, a long-term reauthorization of the NFIP is critical to the program's stability because the NFIP provides essential support to all flood-prone areas, and the endless stream of short-term program reauthorizations infuses it with an unacceptable level of uncertainty. The most dependable way to increase the number of flood insurance policies in force overall is for the NFIP to be reauthorized with key reforms, including but not limited to those we highlight here.

Encouraging greater flood insurance coverage in America is going to require effort from all segments of the insurance market, along with the cooperation of policymakers. The universally agreed-upon goal is to achieve greater participation in the NFIP and strengthen the private

[1] See https://www.nar.realtor/blogs/economists-outlook/how-many-home-sales-will-be-affected-by-a-nfip-lapse (last viewed on March 9, 2023).

market for flood insurance. In addition to passing a long-term reauthorization of the program, Congress could make substantial progress in increasing the number of flood insurance policies in force by deploying several public policy tools that could both facilitate greater NFIP participation and strengthen the private flood insurance market. A non-exhaustive list of those tools is proffered below.

1. Passing a Continuous Coverage Provision

One of PIA's top priorities is the adoption of a continuous coverage provision in any NFIP bill, so that policyholders can move between the private market and the NFIP without penalty. For that reason, PIA supports H.R. 900, the Continuous Coverage for Flood Insurance Act, a bipartisan bill that was recently introduced by Reps. Kathy Castor (D-FL) and Blaine Luetkemeyer (R-MO).

Currently, consumers may be left in an untenable financial position if, for example, their private flood policy is cancelled for reasons outside their control. Existing law requires that, if such consumers live in an area where flood insurance is required, they reenter the NFIP as if they were brand-new policyholders, at which point they are immediately subjected to full-risk rates and denied access to the glide path afforded to renewing policies.

Continuous coverage would allow a former NFIP consumer who purchased a private flood policy to return to the NFIP at the same rate they were paying when they left and picking up their glide path from the point where they left the program. Without continuous coverage, consumers whose NFIP rates were on a glide path toward full risk rates will effectively be penalized with higher rates for attempting to return to the NFIP after leaving it for the private market.

The inclusion of a continuous coverage provision will free agents to offer, and consumers to purchase, flood insurance policies available in the private market without fear of losing an existing glide path toward full-risk rates.

2. Requiring Increased Transparency by FEMA on New Pricing Methodology

PIA strongly supports the new pricing methodology (previously referred to as RR 2.0) implemented by FEMA. Immediately after the new methodology was introduced, agents were faced with a barrage of questions from lenders, builders, community floodplain managers, realtors, and clients about the effect the new pricing system would have on different aspects of the program. But without a clear understanding of how each rating factor works, agents could not answer these questions. The flood insurance program has always been a complex program with a steep learning curve, but the new pricing methodology exacerbated it and sometimes places agents in the uncomfortable position of being unable to answer the inquiries of consumers and others.

As independent agents have gained experience with the new methodology, they have seen that they need more information from FEMA about how the new rating factors are weighed and combined to produce a single property's new rate. Every day, all over the country, agents begin the process of renewing a policy into the new pricing system by entering the required data points into the new rating engine. Often, based on our members' years of experience, and their growing experience working with the new pricing system, agents expect the system to produce a rate within a certain range. Sometimes their expectations are met, but, in many cases, they are surprised at the quotes returned by the system.

Agents have discovered that the legacy system credited consumers for mitigation measures in a way that the new system does not. Consumers who invested in mitigation because they expected it to pay for itself in annual rate reductions are learning that, in some cases, they will need to own their home for another decade or more before their mitigation investment pays off—if it ever does. Consumers considering whether to undertake mitigation efforts may be discouraged from doing so. Based on agents' experiences with the new pricing methodology, it appears that consumer mitigation efforts are minimally rewarded, if at all, in the new system.

Because consumers whose rates went down using the new pricing methodology were eligible for transition at their next renewal, beginning this past October 1, current policies being renewed into the new system for the first time are disproportionately those of consumers experiencing rate increases. Naturally, consumers facing increases seek explanations from their agents, who are often unable to provide them. The rating engine does not show how it arrives at a particular rate. Agents cannot see the effect of any single data point on a rate, making it impossible for them to explain to policyholders how the system builds their rate.

Independent agents are the face of the NFIP, and their expertise and personal attention to their clients are vital assets to the program. The lack of transparency in the rating engine makes their work harder because it leaves them with frustrated clients and incomplete information. Better information about how rates are produced would help agents maintain the level of service they are accustomed to providing and would improve the customer experience. Increased transparency will lead to greater trust in the NFIP, which would increase the flood insurance take-up rate all over the country.

For the past several years, PIA has appealed directly to FEMA to provide additional transparency about the origins of its pricing methodology; those requests have gone unheeded. FEMA has declined to provide greater transparency around its new pricing methodology to PIA or anyone else. For that reason, we support efforts by policymakers to demand greater transparency from FEMA, and we view favorably legislation like the Risk Rating 2.0 Transparency Act, which was recently introduced by Sen. John Kennedy (R-LA).

Congress should consider provisions demanding greater rate transparency from FEMA, including information about how the rating engine builds a rate, how some rating factors may be used to increase a rate, and how other rating factors may be used to decrease it. Everyone invested in the future of the NFIP would benefit from a more comprehensive understanding of how the system is intended to work.

3. Creating an Affordability Program to Make Flood Insurance Accessible to All

Another challenge to increasing flood insurance coverage nationwide is the affordability of NFIP policies as they transition to full-risk rates. All new policies are being issued at full-risk rates under FEMA's new pricing system, which means that high-risk properties will immediately be subject to commensurately high-risk rates. Existing policyholders' annual rate increases are subject to statutory caps (typically either 18 or 25 percent per year, depending on the type of property), which will limit how much their rates can increase from one year to the next. PIA supports the continued use of statutory percentage caps on rate increases as policyholders continue along their glide path to full-risk rates. That said, even with statutory caps, some policyholders will be subject to the maximum allowable increase each year and will find their premiums unaffordable *before* they reach their full-risk rates.

Thanks to the implementation of the new pricing methodology, the NFIP is presently on a gradual track toward financial stability. However, for the NFIP to remain a viable program, consumers need the program to acknowledge the issue of affordability. The past several years have been financially tumultuous for individuals, businesses, and for the national economy, and, in some parts of the country, some property owners will find their full-risk rates to be unaffordable, whether they are new policyholders subject to full-risk rates immediately or existing policyholders experiencing the statutory maximum in allowable annual increases.

The goal of this hearing is also a goal of the NFIP: to increase the number of flood policies in force; indeed, the program owes its very existence to that goal. Even though the program has been available for more than a half century, only 30 percent of homes in high-risk areas have flood insurance,[2] and fewer than 25 percent of the properties flooded by Hurricanes Harvey, Sandy, and Irma were covered by flood insurance.[3] To increase the take-up rate, particularly in high-risk areas, the NFIP needs an affordability framework with means testing to ensure that flood insurance is not out of reach for those who need it most.

Anecdotally, agents are seeing some NFIP policyholders with low-risk properties turn to the private market when faced with their first renewal into FEMA's new pricing methodology. If this trend bears out on a national scale, the NFIP could be increasingly composed of the properties with highest flood risk in the country. Without an affordability mechanism, the new pricing methodology could create an adverse selection problem for the NFIP, where this federal government program is populated only by the highest-risk properties. If that happens, the benefit of putting most of the risk in one place will be effectively erased, because the flood risk within the NFIP will be largely homogenous. The NFIP's risk must remain diversified; it should not become, essentially, the federal flood insurer of last resort.

PIA supports both the NFIP's progress toward full-risk rates and the development of an affordability framework. Consumers need detailed, accurate information to enable them to make smart choices about their level of risk. However, some consumers may not be able to afford the rates associated with their property's level of risk as assessed by the new pricing methodology—if not now, then in the future. The program must be made affordable for policyholders who will never be able to afford their property's full-risk rate and for those who may find themselves priced out of their homes before their rates even reach full risk.

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[2] See https://www.iii.org/article/spotlight-on-flood-insurance#:~:text=Flooding%20is%20the%20most%20common%20and%20costly%20natural,natural%20disasters%20in%20the%20United%20States%20involve%20flooding (last viewed on March 9, 2023).
[3] See https://riskcenter.wharton.upenn.edu/policy-incubator/upgrading-flood-insurance/closing-the-flood-insurance-gap/ (last viewed on March 9, 2023).

Because agents are in regular communication with existing and prospective policyholders, they are already witnessing price increases in some of the communities they serve. Agents are seeing firsthand that the NFIP does not have the luxury of choosing between full risk rates and an affordability framework.

The affordability problem may be exacerbated for policyholders who make policy changes that are not eligible for statutory caps, which apply only to rate increases prompted by a consumer's trajectory along the glide path. If a change in premium is prompted by something other than movement along the glide path, that change is not subject to the otherwise-applicable statutory cap. The NFIP refers to these as "premium-bearing changes,"[4] which include but are not limited to the loss of an applicable discount, an increase in coverage amount, or a decrease in deductible. PIA supports allowing increases in coverage to remain subject to an otherwise-applicable rate cap. Omitting coverage increases from statutory caps arguably discourages policyholders from increasing their coverage, leaving properties less protected than they would otherwise be.

For that reason, in the interest of retaining NFIP policyholders, PIA supports the development of an affordability framework to encourage policyholders to keep their flood coverage even if their rates are increasing.

4. Recognizing the Role of the Independent Agent

The NFIP is a public-private partnership between the federal government and insurance companies, which are referred to as Write-Your-Own (WYO) carriers. The federal government enters into a contract with each WYO selling NFIP products, and each WYO, in turn, enters into an agreement with the insurance agents of its choice to sell those products to consumers. Independent agents have separate contracts with each WYO whose NFIP policies they sell.

Independent insurance agents generally serve as the first point of contact for a potential consumer inquiring about flood insurance, and they represent potential policyholders as they navigate this complicated program. Agents are essential resources for property owners trying to make educated choices about the need for and purchase of flood insurance policies for their homes and businesses. Many times, a policyholder's first call after a flood loss is to their agent.

Purchasing an NFIP policy is a difficult process for consumers; it requires the aid of agents with specialized knowledge, especially now that all policies are subject to the new pricing methodology. Even before the transition to the new methodology, the flood policy purchasing process was very different from and substantially more complex than that of a standard homeowners' or auto policy, and it still is. Selling flood insurance demands far more effort from agents than selling other insurance products.

With the private market growing, and state statutory and regulatory oversight of the private market always evolving, agents must compare the NFIP to the private market for eligibility, coverage options, and pricing; inform policyholders and prospects of their results; and offer

[4] The October 2022 Flood Insurance Manual addresses this issue in its "How to Endorse" section. See https://www.fema.gov/sites/default/files/documents/fema_nfip-flood-insurance-manual-sections-1-6_102022.pdf (last viewed on March 9, 2023).

options if any are available. To effectively serve their customers, agents must remain up to date on ever-changing laws and regulations governing flood insurance coverage requirements, and, historically, they have also had to keep pace with the constant evolution of applicable floodplain maps, flood zones, specialized terminology, and relevant community participation. To facilitate their clients' transition to FEMA's new pricing system, they are also tasked with gathering data points about each of the properties they cover to provide the pricing system with a complete picture of the property.

At renewal time, agents review notices for accuracy (name[s] of insured[s], mailing address, location of insured property, scope of coverage, and identification of any liens and lienholders); research legal changes that could affect coverage or premium rates and the existence of other policies that could cause a gap in coverage; and obtain and enter new data points required by the new pricing methodology. Agents work with policyholders to ensure renewal payments are received in a timely way, send policyholders reminders as the expiration date approaches, and warn of cancellation for nonpayment of a policy for which renewal is intended.

Perhaps most importantly for consumers, independent agents support their clients after a flooding event, even when that event also affects the agents' own homes and businesses. Once a flood occurs, agencies often make customer service representatives available nearly around the clock in shifts. Agencies will sometimes hire extra staff to assist in navigating the complicated claims process. Often, the entire agency has itself been affected by the flood from which their clients are recovering; however, agents recognize their responsibility to put their clients first. Because floods frequently damage an entire neighborhood or community at once, an agent usually does not have the luxury of handling just one claim arising from one flood; rather, a single agent or agency could be handling many claims, all arising from a single flood.

Because of the essential role agents play in the sale and servicing of NFIP policies, any reauthorization must not include any provision that would negatively impact independent agents, who function as the sales force of the NFIP. Agents receive compensation for their work with the NFIP from the WYOs they partner with; that remuneration comes to the WYOs from FEMA, which remits to participating carriers a standard percentage of net written premium, known as the WYO expense reimbursement rate. WYOs use the reimbursement rate to pay for various administrative expenses and, importantly, agent commissions.

Any cut to the WYO expense reimbursement rate would force carriers to pass the loss on to agents by reducing their commissions. As always, during the NFIP reauthorization process, PIA will remain vigilant in opposing any attempt to cut the WYO reimbursement rate.

Conclusion

PIA supports the NFIP because it provides critical flood coverage to residential and commercial property owners, and we support FEMA's new pricing methodology because it provides property owners with a more accurate estimate of their flood risk than was previously available to them.

PIA would like to see more transparency in the rates produced by RR 2.0, particularly when those rates are at odds with the expectations of knowledgeable flood experts. We are also committed to the creation of an affordability framework to ensure that NFIP policyholders are not priced out of their homes as their rates increase along the glide path toward full risk.

PIA urges Congress to work towards a long-term NFIP reauthorization that includes a continuous coverage provision, a requirement that FEMA commit to increased transparency around its new pricing methodology, an affordability framework, and continued support of the agent community that makes increasing the number of policies in force an achievable goal. These reforms will attract and retain policyholders and provide everyone associated with the program the certainty needed to remain in the business of flood insurance. PIA looks forward to continuing to work with Congress on these critical issues.