



STATEMENT BEFORE THE U.S. SENATE COMMITTEE ON BANKING, HOUSING AND  
URBAN AFFAIRS FOR A HEARING ON THE REAUTHORIZATION OF THE  
NATIONAL FLOOD INSURANCE PROGRAM, PART I

May 18, 2021

Founded in 1931, the National Association of Professional Insurance Agents (PIA) is a national trade association that represents independent insurance agencies and their employees. PIA members sell and service all kinds of insurance, but they specialize in coverage of automobiles, homes, and businesses. PIA 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 members are *Local Agents Serving Main Street America<sup>SM</sup>*.

## 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 largely remained the only source for property owners to buy insurance products to protect their properties against the risk of losses caused by floods.

PIA supports the reauthorization of the NFIP because the program continues to provide critical support to flood-prone areas, whether on the coast or inland. The private market for flood insurance products, which PIA supports, is consistently growing, but its appetite for flood risk cannot currently compete with the relative availability and affordability of the coverage provided through the NFIP.

### A. *The role of the independent agent*

Independent insurance agents generally serve as the first point of contact for a potential consumer inquiring about a flood policy. Independent agents are essential resources for property owners trying to make educated choices about the purchase of flood insurance policies for their homes and businesses.

Purchasing an NFIP policy is a difficult process for consumers; it requires the aid of agents with specialized knowledge, and the flood policy purchasing process is very different from that of a standard homeowners' or auto policy. Agents are responsible for providing consumers with the expertise they need to identify and purchase the right coverage. To adequately 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.

### *B. Risk Rating 2.0*

This fall, the Federal Emergency Management Agency (FEMA), which oversees the NFIP, will deploy a new premium rating program called Risk Rating 2.0 (RR2). RR2 will be implemented as to all new policies (and some existing policies) beginning on October 1, 2021. Specifically, existing policies whose renewal dates are between Oct. 1, 2021 and April 1, 2022 may gain access to the RR2 pricing system during that renewal (and thus ahead of policyholders whose renewal dates occur outside that time frame), if doing so would be financially advantageous to the policyholder.

While PIA shares the goal of providing policyholders with the best available risk-based price for their policy, we are concerned about the logistics associated with requiring independent agents to make two sets of rates available to their customers beginning on October 1 of this year. Independent agents will be obliged to offer RR2 to their renewing policyholders whose rates will decrease under the new methodology. At the same time, agents will be expected to continue to offer "legacy" rates to the rest of their existing policyholders.

To do this, independent agents will need to know how each of their NFIP customers' RR2 rates compare to their legacy rates because they will be expected to offer RR2 only to the policyholders who will financially benefit from the new rating methodology. Unfortunately, agents are being asked to do this without sufficient advance knowledge of which policyholders will be eligible for early RR2 rating or when those policyholders' renewal dates are. Ultimately, on April 1, 2022, all new NFIP policies and renewals will be moved over to the new pricing methodology, regardless of the financial benefit to the consumer.

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

## **II. Reauthorization Fundamentals**

The NFIP's most recent five-year reauthorization expired on September 30, 2017. Leading up to that deadline, the 115<sup>th</sup> 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. Since the 2017 deadline, the NFIP has been subject to a total of 16 extensions of varying lengths, none longer than its current one-year extension, which will expire on September 30, 2021.

*A. Preserve the Essential Role of the Independent Agent*

Independent insurance agents represent potential NFIP policyholders as they navigate this complicated program, and agents generally serve as the first point of contact for an NFIP policyholder who needs to file a claim.

PIA supports increasing the educational resources available to agents to ensure they can speak fluently about the NFIP program, no matter how often and how drastically it changes. Independent agents who sell flood insurance through the NFIP have the expertise to advise consumers on the fundamentals of the program, but as the NFIP changes, and as FEMA's unremitting march of rulemakings rewrite consumer expectations, agents need to be educated prospectively on the ever-changing features of the NFIP.

When considering the reauthorization of the NFIP, members of Congress will want to be mindful of the agent's key role in supporting the NFIP. Agents justifiably worry about changes that would hinder their ability to fulfill their obligations to their customers or that would negatively affect their ability to earn fair compensation for doing so.

Effectively lowering the compensation for independent agents could lead them to stop selling policies through the NFIP, which could lower the number of NFIP policies in force and, more importantly, deny consumers the expertise they rely on and desperately need.

*B. Recommended provisions for reauthorization:*

*i. Maintain the current Write-Your-Own reimbursement rate.*

The WYO reimbursement rate was developed by FEMA and is derived from an average of various 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 WYO reimbursement rate is 29.9 percent, which reflects a reduction of one percent made by FEMA that went into effect as of the [Fiscal Year 2019 WYO Financial Assistance/Subsidy Arrangement](#).

**PIA requests that the WYO reimbursement rate remain the same.** Any reduction in the WYO rate could prompt WYO carriers to leave the program. Fewer WYOs in the program will mean even fewer options for consumers. With about 50 [WYOs participating in the program](#), any WYO rate reduction could lead more to leave.

WYOs currently administer over 85 percent of NFIP policies. By contrast, the NFIP Direct program, which administers the remaining policies without WYOs, does not have the capacity to administer the volume of claims that the WYOs do. Plus, PIA agents who work with both WYOs and NFIP Direct report vastly preferring to work with WYOs, thanks to better customer service and faster response times.

If Congress passes a reduction to the WYO reimbursement rate, WYOs may be forced to pass that reduction on to agents through their commissions so that the WYO can remain in the

program. In turn, a cut to agent commissions could result in an exodus of qualified independent agents from the NFIP, which would devastate the program.

The NFIP needs more policies in force, not fewer. Congress should not make programmatic changes that would harm both agents—the sales force of the NFIP—and consumers. The NFIP is a complicated program that demands far more effort from agents than selling other insurance products; the learning curve alone is a significant barrier to entry for new agents. If Congress lowers the WYO reimbursement rate, independent agents, many of whom are small business owners, may decide that the cut to their commission makes selling and servicing NFIP policies not worth the reputational risk and expenditure of agency resources. NFIP policyholders and potential policyholders will be hurt most by this because they will lose the experienced, independent agents they trust to walk them through every aspect of the NFIP.

PIA strongly supported the House Financial Services Committee reauthorization bill that unanimously passed out of committee in 2019. Notably, that package did not include a cut to the WYO reimbursement rate. PIA will oppose any legislation this Congress that reduces the WYO rate.

*ii. Create an Agent Advisory Council*

PIA recommends the creation of an Agent Advisory Council that would be housed within FEMA but independent of the agency. This Council would provide FEMA with recommendations to enhance the customer experience, including but not limited to improving the application and claims processes, improving communications about changes to the NFIP, and providing input on agent training needs and how best to meet those needs.

An Agent Advisory Council should include independent agents who are experts on flood insurance and sell NFIP policies routinely. PIA has many agent members whose expertise would be an asset to such an advisory council, and we ask that a member of PIA receive a seat.

PIA supports efforts to increase the training available to independent agents, and independent agents can have a role in creating such training by collaborating with FEMA via the Advisory Council on the development of a robust agent training curriculum. FEMA need not host or sponsor all courses; instead, FEMA can set minimum standards that approved training providers (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 modifications to the NFIP.

*C. Risk-Based Rates and Affordability*

The Biggert-Waters Act of 2012 sought to improve the financial stability of the NFIP by changing the method by which premium rates are calculated for properties to better reflect their level of risk and gradually, over multiple years, imposing those actuarially sound rates on policyholders while continuing to provide necessary coverage. Together with the 2014 Homeowner Flood Insurance Affordability Act, known as HFIAA, which slowed the policyholder trajectory to risk-based rates, the NFIP is presently on a gradual track toward financial stability.

In addition, HFIAA reinstated grandfathering rules that allowed properties to be transferred between owners without coverage disruption or surprise. This common-sense provision should be maintained to minimize unnecessary consumer uncertainty.

The gradual progression toward actuarially sound rates is the only realistic way to strengthen the program's financial soundness while maintaining policyholder capacity. Risk-based rates are essential for stabilizing the NFIP financially, but they must continue to be implemented gradually, with clear and frequent communication from FEMA. As demonstrated by the effects of Biggert-Waters, rate increases should be capped to prevent them from increasing precipitously and quickly. Otherwise, consumers will be alarmed and confused by the sudden increases in their premiums.

*Recommended provisions for reauthorization:* PIA supports the maintenance of grandfathered rates and the continuation existence of a percentage cap on rate increases as the program moves policyholders toward actuarially sound rates.

### **III. Mitigation and Mapping**

An increased focus on mitigation could help control the NFIP's costs. Robust mitigation efforts allow 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 that property owners could use to reduce their flood risk. The HFIAA also authorized FEMA to consider and incorporate various flood mitigation activities when estimating and calculating premium rates.

*Recommended provisions for reauthorization:*

#### *A. Provisions to incentivize communities to participate in the NFIP*

Any reauthorization bill should incentivize property owners to mitigate their losses by making it easier and more affordable to do so. Further, Congress should increase the incentives available to communities for participating in the NFIP and encourage continued participation by keeping up to date with their land use, mitigation, and building code requirements. This would assure that participating communities implement, maintain, and upgrade necessary land-use restrictions and mitigation methods.

#### *B. Investments in mapping*

Clear and accurate mapping is essential for consumers and should be invested in as part of any NFIP reauthorization. Mapping is critical for rating, land use, and construction purposes.

### **IV. Cultivating the Private Market**

The cultivation of deliberate, responsible growth in the private flood insurance market could be a complement to the NFIP. For this reason, PIA continues to support the offering of flood insurance policies and endorsement coverages by private sector insurers. In previous Congresses,

PIA helped develop the Flood Insurance Market Parity and Modernization Act, a bill that would have addressed this issue.

However, in the last few years, the five federal agencies that oversee mortgage lenders (the Treasury Department; the Federal Deposit Insurance Corporation [FDIC]; the Federal Reserve; the Farm Credit Administration; and the National Credit Union Administration [NCUA]), jointly issued a [final rule](#) on private flood insurance. The rule, which PIA supported, became effective in 2018.

With the issuance of a final rule for lender-approved private flood insurance, the private flood insurance sector largely has what it needs to grow. While this rule answers many questions about flood insurance policies issued by private insurers, it does not resolve the issue of continuous coverage. A top priority for PIA is the pressing need for the inclusion of a **continuous coverage** provision in any NFIP reauthorization, 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. Existing law requires that, if such consumers live in an area where flood insurance is required, they enter the NFIP as brand-new policyholders and are thus immediately subject to full-risk rates.

Continuous coverage, on the other hand, would allow a former NFIP consumer who purchased a private flood policy to return to the NFIP at the same premium rate they paid before they left. Without continuous coverage, consumers with grandfathered NFIP policies are effectively penalized with higher rates for attempting to return to the NFIP after leaving it for the private market.

PIA asks that continuous coverage, which is a vital consumer protection issue, be included in any NFIP reauthorization. Overwhelming bipartisan support for continuous coverage was demonstrated when it was included in the House NFIP reauthorization bill that passed the Financial Services Committee unanimously in 2019.

*Recommended provision for reauthorization:* A provision to ensure continuous coverage for policyholders.

## **V. Additional Consumer-Friendly Provisions**

PIA also supports provisions not identified above, including but not limited to allowing policyholders to purchase additional increased cost of compliance (ICC) coverage to encourage pre-flood mitigation; providing post-Sandy claim remedies, like changes to deadlines for showing proof of loss and providing notice of damage; and creating an appeals process for FEMA denials of requests for flood mapping updates. Many of these items would benefit consumers and strengthen the program, and several of them were included in the House NFIP reauthorization bill, which PIA strongly supported, and that passed unanimously out of the Financial Services Committee in 2019.

## **VI. Conclusion**

PIA supports the NFIP because it provides critical flood coverage to residential and commercial property owners that the private market is presently unable to adequately supply. PIA remains concerned that delaying the implementation of risk-based rates, while providing needed economic relief for many homeowners, just prolongs the underlying long-term financial instability that continues to plague the program.

The issues we have highlighted here represent our highest-priority concerns. PIA urges Congress to work towards a long-term NFIP reauthorization that will provide needed certainty to policyholders and help to attract and retain independent agents, new policyholders, and private insurers. PIA and its members look forward to continuing to work with policymakers on this critical issue.