WHERE WE STAND

ON LEGISLATIVE ISSUES

Trusted Choice®

Independent Insurance Agents & Brokers of America, Inc.

2013

WHO WE ARE

The Independent Insurance Agents & Brokers of America (IIABA), often referred to on Capitol Hill as the Big "I," is a national alliance of approximately a quarter of a million individuals (business owners and their employees) who offer all types of insurance and financial services products.

Unlike company-employed or "captive" agents, Big "I" agents and brokers represent more than one insurance company which enables them to offer clients a wider choice of auto, home, business, life, health, employee benefit and retirement products. Independent agents and brokers offer a broad range of commercial and personal insurance products. In fact, independent agents and brokers are responsible for more than 80% of the U.S. commercial lines market.

Big "I" agents and brokers not only advise clients about insurance, but they also recommend risk management ideas that can cut costs. If a loss occurs, the independent agent or broker stands with the consumer until the claim is settled and serves as a true consumer advocate.

The Big "I" was founded in 1896 as the National Association of Local Fire Insurance Agents. With the expansion of property-casualty business and coverages, the organization's name was changed to the National Association of Insurance Agents in 1913. To emphasize its members' ability to work with a variety of insurance companies, the organization then became the Independent Insurance Agents of America in 1975. The association's name was most recently changed in 2002 to the Independent Insurance Agents & Brokers of America to reflect the diversity of its membership, which includes both independent insurance agents and brokers.

IIABA is a voluntary federation of state associations and local boards. Its independent insurance agents and brokers are politically astute and are involved both locally and nationally. They monitor and influence insurance agent and broker issues in Washington, D.C. through IIABA's well-respected, professional staff on Capitol Hill. Their support has made IIABA's political action committee, InsurPac, the largest property-casualty agent PAC and one of the largest federal trade association PACs in the nation.

Trusted Choice® is the national consumer brand created for independent insurance agents by the Big "I" and its insurance company partners.

Extensive consumer research conducted by the Big "I" found that the three most important attributes influencing consumers in their choice of a trusted insurance advisor were the value-added services that independent insurance agents and brokers offer their clients: choice of insurance companies, customization of policies and advocacy support.

The brand employs these attributes to position independent insurance agents and brokers to consumers as the smart way to purchase insurance and financial services, and to set Trusted Choice® agencies apart from their competitors. Consumers are taking note of the brand's powerful message.

Through national advertising and social media campaigns, public relations activities, local agency marketing and state affiliate marketing, Trusted Choice® is educating consumers and becoming the defining brand identity for agents and brokers nationwide.

TABLE OF CONTENTS

AGENT LICENSING REFORM

BIG "I" POSITION: The Big "I" strongly supports legislation to streamline the nonresident licensing of agents and brokers to allow them to better serve the insurance consumer. This legislation, the "National Association of Registered Agents & Brokers Reform Act" (NARAB II), was introduced by Insurance Subcommittee Chairman Jon Tester (D-Mont.) and Ranking Member Mike Johanns (R-Neb.) in the Senate, S. 534, and Insurance Subcommittee Chairman Randy Neugebauer (R-Texas) and Rep. David Scott (D-Ga.) in the House, H.R. 1155. The legislation has passed the House by a voice vote in two previous Congresses and has been endorsed by the National Association of Insurance Commissioners (NAIC). NARAB II would increase consumer access to insurance markets and allow agents and brokers operating on a multi-state level to avoid duplicative licensing requirements while maintaining important consumer protections.

BACKGROUND: The Big "I" strongly supports S. 534 and H.R. 1155, the "National Association of Registered Agents & Brokers Reform Act" (NARAB II), sponsored by Sens. Jon Tester (D-Mont.) and Mike Johanns (R-Neb.) and Reps. Randy Neugebauer (R-Texas) and David Scott (D-Ga.). The bill has 13 bipartisan original cosponsors in the Senate and 42 in the House. This legislation would provide non-resident (beyond one's home state) licensing reform while preserving the rights of states to supervise and discipline agents and brokers. NARAB II would apply to marketplace entry only; agents and brokers would still have to adhere to each state's laws.

The average multistate independent agency is authorized to operate in at least eight states, and it is not uncommon for small and medium-sized agencies to be licensed in 35-50 jurisdictions. According to the 2012 Agency Universe Study conducted by the Big "I", more than 60% of independent insurance agencies have at least one full-time staffer whose job description includes establishing and maintaining licenses for the agency and its personnel. Insurance producers are operating and obtaining licenses in more jurisdictions than ever and the lack of true reciprocity makes compliance challenging, costly and presents additional burdens that are ultimately detrimental to insurance consumers.

This legislation would immediately establish NARAB as a private, non-profit entity managed by a board composed of a majority of state insurance regulators, as well as marketplace representatives. NARAB would not have any federal regulatory power. NARAB II would only apply to marketplace entry, as day-to-day state insurance laws and regulations would not be affected. The legislation would permit producers in good standing in their home state to operate in additional states if they satisfy NARAB membership criteria. Producers could remain licensed in the traditional manner and obtain nonresident licenses state-by-state or they could apply for NARAB membership for their nonresident licensing. For producers operating in multiple states, and those who would like to expand their operations, NARAB would effectively create one-stop producer licensing for additional licenses beyond the home state.

The NARAB II legislation is state-friendly and would not negatively impact state revenue, as agents and brokers would continue to pay the corresponding fees required by each state in which they operate. NARAB II would leave resident licensing for agents and brokers completely unchanged, and the proposal has received the endorsement of the National Association of Insurance Commissioners (NAIC).

NARAB II would provide higher and more consistent national consumer protection standards through establishing membership requirements. NARAB would require a national criminal background check, which is not required in many states, as part of its membership criteria and would coordinate with the states to establish a central clearinghouse for license issuance and renewal and collection of regulatory information on producer activities. The end result for consumers: increased competition among agents and brokers, additional choice and improved access to insurance markets.

The Big "I" strongly supports this common-sense reform of agent licensing to reduce the administrative burdens faced by our tens of thousands of small business members.

BIG "I" POSITION: When Congress enacted sweeping reforms of the financial services industry following the financial crisis of 2008, it wisely recognized the strength and solvency of the insurance market and left the day-to-day regulation of insurance at the state level. The steadfast stability of the insurance markets over the past several years further reinforces this decision. However, the "Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010" (Dodd-Frank) contains provisions that affect the insurance industry, and the Big "I" is committed to ensuring that those provisions are properly implemented. IIABA is being particularly vigilant to make sure that the Federal Insurance Office (FIO), an informational office with no regulatory authority housed in the Treasury Department, does not exceed its limited mandate.

The Big "I" remains dedicated to preserving state insurance regulation and the foundation of the state system remains as strong as ever. Any insurance market reforms should build upon the strengths and successes of the state-based framework. Finally, while the Big "I" supports a modernized state regulatory system through the use of targeted federal legislation, it strongly opposes day-to-day federal insurance regulation via the so-called optional federal charter (OFC), mandatory federal regulation or dual federal–state oversight.

BACKGROUND:

Implementation of Dodd-Frank

In 2010, Congress passed and President Barack Obama signed Dodd-Frank into law. The full implementation of the law is scheduled to take several more years. While most of the law applies to banks, securities firms and other financial institutions, there are some elements of the law that have an impact on the insurance market. The Big "I" is committed to working with the appropriate federal agencies, state regulators and Congress to ensure that the implementation of these provisions does not inappropriately intrude upon state regulation of insurance or place an undue burden on independent agents and brokers, the companies they work with or the consumers they represent.

Financial Stability Oversight Council (FSOC)

The FSOC, created by Dodd-Frank, is tasked with developing guidelines used to determine systemically important bank and non-bank (e.g., insurance) financial institutions (called SIFIs), which could have a systemically significant impact on the overall capital markets. A SIFI will be subject to greater federal financial oversight and heightened capital standards by the Federal Reserve.

It is important to note that compared to other financial services institutions, insurance companies (especially property-casualty) present very little systemic risk to the economy. Specifically, insurers have lower leverage ratios and generally hold greater amounts of capital in relation to their liabilities, thereby reducing their vulnerability to market shocks. Additionally, the very nature of insurance products makes them inherently less vulnerable to systemic risk. Insurance companies are financed by premiums paid in advance and payments are subject to the occurrence of insured events, essentially eliminating a "run-on-the-bank" scenario. As an additional safeguard, state regulators have broad authority to take insurers into receivership, effectively "walling off" their assets from the holding company and providing priority to policyholders. Any decision by the FSOC to include insurance companies in its oversight should recognize the inherent differences between the insurance industry and other financial services sectors and therefore avoid applying bank-centric standards to the insurance market.

Federal Insurance Office (FIO)

Dodd-Frank created the FIO, an information-gathering body with no regulatory authority, housed within the Department of Treasury. One of the FIO duties is to brief the Treasury Secretary, FSOC, Congress and the Administration on the status of national insurance issues. To facilitate this process, the FIO was granted limited information-gathering powers that include the authority to subpoena insurers in certain circumstances.

In addition to information-gathering, FIO will assist the U.S. Trade Representative in the negotiation of certain international insurance agreements and participate in the International Association of Insurance Supervisors (IAIS). This group represents insurance regulators and supervisors from more than 200 jurisdictions and their goal is to promote

financial stability, consistency in oversight and effective insurance regulation. As a member of the IAIS, the FIO will be involved in developing the methodology used to identify global systemically important insurers and the policy measures to be applied to those designated firms.

The FIO will also monitor the extent to which underserved communities have access to insurance and will assist in administering the "Terrorism Risk Insurance Act" (TRIA). Further, the FIO is required to conduct several reports—most notably on how to modernize and improve the insurance regulatory system in the United States.

While the FIO has the potential to play a positive role in the insurance market, the Big "I" is focused on ensuring that that this informational office does not experience any "mission creep." State regulation has a steady track record of accomplishment, and this new office should not take any actions that would unnecessarily infringe on the state system.

Federal Regulation of Insurance

Frustration over the lack of insurance regulatory uniformity at the state level continues to spark interest in insurance regulatory reform. Several proposals have evolved for achieving reform: (1) modernizing state laws by working in each state capitol and with groups such as the National Association of Insurance Commissioners (NAIC) and the National Conference of Insurance Legislators (NCOIL), (2) constructing an entirely new regulatory structure at the federal level through enactment of mandatory or optional federal regulation, and (3) improving the state-based system by creating greater uniformity and efficiency via targeted federal legislation (please refer to the section on agent licensing for more information).

The Big "I" remains dedicated to preserving state insurance regulation and firmly believes that the benefits and attributes of the system dramatically outweigh any shortcomings or inefficiencies. Although the need for greater efficiency and uniformity is clear, IIABA believes federal regulation goes too far and holds great risk for all market participants.

HUD Disparate Income Rule

In early 2013, the U.S. Department of Housing and Urban Development (HUD) issued a final rule expanding the Fair Housing Act's Discriminatory Effects Standard and how it applies to actions that have discriminatory effects on minority groups.

The new rule attempts to hold the private housing market responsible for practices that result in statistically disproportionate effects on consumers based on color, religion, sex, familial status or national origin—regardless of whether there is evidence of intent to discriminate or that any individual was actually subjected to discriminatory treatment.

There is significant concern within the insurance market that HUD has indicated that this could apply to insurer underwriting of homeowners insurance, even in situations where there was no intent to discriminate, and where all policyholders and applicants for insurance were subjected to the same underwriting and pricing criteria regardless of race, ethnicity or any other prohibited characteristic. HUD is clearly exceeding its authority in applying this rule to insurance and the rule represents an infringement on state regulation of insurance as state regulators already address discrimination issues related to insurance.

The Big "I" has serious concerns with the new HUD rule and urges Congressional oversight over this rogue agency's actions. These efforts by HUD, as well as efforts by other regulators such as the Consumer Financial Protection Bureau (CFPB) or the Federal Housing Finance Agency (FHFA) in their increased scrutiny over force-placed insurance, have the potential to undermine the effective state regulatory system of insurance and the Big "I" will be vigilant against such encroachment.

TERRORISM INSURANCE

BIG "I" POSITION: The current authorization for the "Terrorism Risk Insurance Act" (TRIA) expires on Dec. 31, 2014. IIABA urges Congress to work toward enacting an extension of this program as soon as possible in order to continue protecting our country's economic security against the threat of terrorism. As such, the Big "I" supports H.R. 508, the "TRIA Reauthorization Act of 2013," by Reps. Michael Grimm (R-N.Y.) and Carolyn Maloney (D-N.Y.), which would provide for a five-year reauthorization of this important program.

BACKGROUND: The TRIA program was created on Nov. 26, 2002 in response to the Sept. 11, 2001 attacks and the ensuing inability of the commercial property-casualty insurance markets to underwrite the risk associated with terrorist attacks. The program is essentially structured as a federal reinsurance backstop in the form of a public-private partnership. Since its inception, the TRIA program has undergone two additional extensions in 2005 and 2007 along with modifications to cost-sharing mechanisms between the private sector and the federal government.

These cost-sharing mechanisms are designed to maximize the amount of private sector capital involved and minimize taxpayer exposure. First, an attack must total $5 million in insured losses and be certified as a terrorist attack by the Treasury Secretary in order to count toward the cost-sharing thresholds in the program. Next, $100 million in aggregate industry insured losses must be incurred within a program year before the TRIA program is triggered. If this $100 million threshold is crossed, each insurance company would then owe a deductible equal to 20% of its commercial property-casualty premiums written. For some of the larger insurers, this deductible would amount to billions of dollars. In addition, beyond these deductibles the private market would also be responsible for a 15% copayment, which would be owed up to the yearly program cap of $100 billion. If industry-wide aggregate insured losses total less than $27.5 billion, 133% of taxpayer dollars expended are required to be paid back over time to the federal government through surcharges on commercial policies. If private industry losses exceed the $27.5 billion threshold, recoupment of taxpayer dollars is at the discretion of the Treasury Secretary.

Although the ability of the private market to model part of the risk associated with terrorist attacks has somewhat improved since 9-11, the fundamental problems with insuring against this unique peril remain. Private insurers do not have access to the data and information to perform proper underwriting, as much of the information that does exist is available only to governmental agencies involved in thwarting terrorist attacks. In addition, unlike with other risks such as natural disasters, previous events do not provide optimal data points for the underwriting process as terrorists seek to make their attacks as unpredictable as possible.

It has been more than a decade since the initial passage of TRIA, and the public-private partnership has continued to work well to stabilize the commercial insurance marketplace that underpins the U.S. economy. However, as the most recent TRIA authorization nears expiration, the threat of a terrorist attack remains and many of the private market deficiencies in underwriting the unique and unpredictable risk associated with potential attacks still exist. Accordingly, the Big "I" supports H.R. 508, the "TRIA Reauthorization Act of 2013," by Rep. Michael Grimm (R-N.Y.) and Carolyn Maloney (D-N.Y.), which would provide for a five-year extension of the TRIA program. This would ensure the continued availability of terrorism coverage for the small and large businesses that independent insurance agents and brokers serve.

The Big "I" looks forward to continuing to work with Congress and stakeholders to develop appropriate solutions to ensure the existence of an adequate market for terrorism insurance.

BIG "I" POSITION: In just a few short years, the "Patient Protection and Affordable Care Act" (PPACA) has already begun to create a sea change in the health insurance marketplace. Unfortunately, the law has created an extremely challenging environment for Big "I" members both as small businesses and as health insurance advisors. IIABA urges Members of Congress to keep agent and consumer issues in mind as the implementation dates of the major provisions of the law approach.

Into the year 2014 and beyond, ensuring a strong agent and broker role in health insurance exchanges is of great importance. With the major changes in the marketplace caused by the PPACA, consumers will need professional guidance more than ever. In tandem with this issue, proper regulation, training and oversight of so-called "navigators" or other similar government-funded entities operating within the exchanges will be a vital consumer protection issue.

Lastly, a focus for IIABA has been to gain relief for agents, brokers and the consumers they serve from the detrimental Medical Loss Ratio (MLR) regulations. As a result, the Big "I" supports bills in both the Senate and House that would preserve consumer access to agents and brokers by excluding agent compensation from the MLR calculation.

BACKGROUND: The PPACA's implementation is scheduled to take place over an eight year period, with three years already having passed. For agents and brokers, one of the earliest and more detrimental provisions to be implemented so far is the MLR regulation. Jan. 1, 2014 will be a milestone for the new law, since on that day the new health insurance exchanges are due to go online along with guaranteed issue, the individual and employer mandates, and many additional market reforms. The last provision of the law to be implemented will be the punitive "Cadillac tax" on high value health plans in 2018.

Health Insurance Exchanges/Navigator Programs

One of the centerpieces of the PPACA is the creation of health insurance exchanges in 2014 to help consumers and small businesses enroll in qualified health insurance plans,

administer new subsidies and provide a portal for enrollment in government health care plans.

The law provides that states may set up their own exchanges or else the federal government will step in and run an exchange for them through Federally Facilitated Exchanges (FFEs). States that have defaulted into FFEs also have the option of performing plan management and/or consumer assistance functions for the exchanges, also known as the "partnership model." Now that all exchange creation deadlines have passed, it is clear that the federal government will have a role in running exchanges in the vast majority of states.

The Big "I" supports a strong role for agents and brokers in every health insurance exchange, no matter what the operational model. The agent and broker community is a professional, licensed, trained and accountable workforce with the experience necessary to properly advise and enroll consumers in a plan that best fits their needs. In addition, an agent's role in servicing the policy after the sale is of particular importance. In a time of great change for the health care system, the role of the agent is more important now than ever.

Also within the exchanges, the PPACA authorizes the creation of "navigator programs." These programs are designed to empower certain groups to perform outreach with the goal of raising public awareness regarding availability of qualified health plans, as well as providing referrals for enrollees with grievances, complaints or questions. Perhaps most alarmingly, "navigators" will be charged with "facilitating enrollment" in qualified health plans.

The Big "I" believes individuals and small businesses seeking information on what health insurance plan best fits their needs should be able to count on sound advice from a licensed health insurance agent, broker or consultant. This is an important consumer protection issue, since it would be reckless for state or federal governments to hand this trusted role over to any individual or entity with no relevant health care background, training, accountability or oversight.

Consequently, the Big "I" believes that navigators and any other similar government-funded entities operating within the exchanges should be properly licensed and trained. In addition, just as with agents and brokers, these entities

should be legally liable for their actions and be required to adhere to a financial responsibility requirement. This will ensure that consumers are made whole when wrongful or negligent acts are committed.

Affordability

Beginning in 2014, the PPACA allows insurers to vary premiums by considering only certain factors, and for these factors premiums can only vary by certain ratios. The factors and ratios are age (3-to-1), tobacco use (1.5-to-1), family size (self-only or family) and geography (as determined by the state).

The Big "I" is concerned about the effect of the 3-to-1 age rating restrictions on the cost of health insurance in particular. Such a sudden constriction of rating bands will likely cause premiums for younger people to rise significantly, and quickly. In turn this could cause many younger, and presumably healthier, individuals to forgo purchasing insurance and simply pay the tax penalty. This could be a particularly acute problem in the first few years of implementation of the market reforms, since the individual mandate tax penalty is initially far from punitive. As a result, this could lead to adverse selection and further increases in health care premiums.

As a solution, the Big "I" supports H.R. 544, the "Letting Insurance Benefit Everyone Regardless of Their Youth (LIBERTY) Act," by Rep. Phil Gingrey (R-Ga.). This bill would allow states to regulate their own insurance markets by allowing them to choose their own age rating bands. Under the legislation, if a state does not act to establish its own age rating band the default ratio would be 5-to-1.

Enacting this legislation would provide the flexibility needed to help curb some of the "rate shock" that is sure to arise once these market reforms take effect in 2014.

Medical Loss Ratios (MLRs)

On Jan. 1, 2011, the U.S. Department of Health and Human Services (HHS) put into force MLR regulations for insurance carriers. These regulations mandate that at least 80% (individual and small group) or 85% (large group) of premiums collected must go toward either claims payments or "health care quality improvement." In other words, no more than 20% or 15% of premiums may be used on "non-claims costs," which include items such as profits and administrative expenses. If these ratios are breached, rebates are due to the consumer.

Unfortunately, although the MLR provisions were billed as targeting insurer administrative costs such as CEO salaries, through the regulatory process agent compensation was erroneously classified as a "non-claims cost." As a direct result, since the MLR regulations went into force, agents across the country have experienced significant cuts in compensation and a decreased ability to serve consumers.

In a healthy free-market environment, independent agents would fill the role of guiding consumers (both individuals and businesses) through the labyrinth of laws governing the health care system and assisting them in determining the appropriate coverage. In addition, the role of an agent does not stop at the point of sale. Agents remain with the consumer throughout the life of each policy, providing advice through the claims process and assisting in the prevention of fraud. Unfortunately, due to the MLR regulations' detrimental effects, this role is at risk.

Consequently, the Big "I" supports S. 650 by Sens. Mary Landrieu (D-La.) and Johnny Isakson (R-Ga.). This bill would exclude agent compensation from the MLR formula in the individual and small group markets, while keeping any "bonuses" in the administrative cost category. If enacted into law this important piece of legislation would relieve the detrimental impacts of the MLR ratios on agents and brokers, increasing consumer access to professional and accountable health care guidance.

BIG "I" POSITION: The Big "I" is encouraged by current discussions of a broad tax code reform effort. If any such effort comes to fruition this Congress, IIABA urges Congress and the Administration to address individual rates along with corporate rates, as many of IIABA's small business members file individually as pass-through entities. In addition, when considering changes to the tax code in the context of deficit reduction or otherwise, the Big "I" asks that Congress not add to the already heavy tax burden for small businesses.

BACKGROUND: The "American Taxpayer Relief Act of 2012" was passed in Jan. 2013 in order to avert the drastic tax increases scheduled to take place due to the expiration of the 2001-2003 tax cuts. These automatic tax increases were a large part of the so-called "Fiscal Cliff," with the other portion being the spending cuts taking place because of the sequester.

The tax package eventually signed into law provided permanent marginal income tax relief for all taxpayers. However, for income earned over $400,000 ($450,000 for joint filers) per year, the top rate was increased to 39.6%.

The law also allowed the Personal Exemption Phase-Out (PEP) and Pease limitation to be permanently reinstated, albeit at significantly higher income thresholds as compared to Clinton-era levels. Essentially these two provisions limit the ability of taxpayers earning more than $250,000 ($300,000 for joint filers) per year to utilize personal income exemptions and itemized deductions.

In addition, the law provided permanent capital gains and dividends tax relief for taxpayers earning less than the $400,000 income threshold ($450,000 for joint filers). For taxpayers earning more than these amounts, rates on capital gains and dividends were increased to 20%.

The law also permanently set the estate tax rate at 40% (up from the previous 35%), with a $5 million ($10 million for joint filers) exemption. Those exemption thresholds will be indexed for inflation.

Tax Code Reform

The Big "I" supports efforts to overhaul the tax code with the goal of simplification and providing more certainty for individuals and small businesses. However, any tax code reform effort should address individual rates along with corporate rates. As with many small businesses throughout the country, the majority of IIABA member businesses are organized as Subchapter S Corporations, Partnerships or Sole Proprietorships and therefore file at individual rates.

In addition to helping small businesses, comprehensively addressing individual and corporate tax rates would also prevent gaming of the system and would provide the level playing field needed for economic growth. However, the value of eliminating certain deductions to offset costs should be carefully weighed, as this could have a damaging effect on small businesses and negate the positive effects of any tax code overhaul.

PPACA Small Business Tax Increases

In 2013, two new tax increases on certain individuals and small businesses take effect as part of the PPACA. A new 0.9% Medicare surtax will be imposed on the wages of individuals and small businesses who pay at the individual rate and earn $200,000 ($250,000 for joint filers) or more. In addition, a new 3.8% tax on nonwage (investment) income for these same individuals and small businesses will also be imposed. These income thresholds are not indexed to inflation, meaning the new taxes will capture more and more individuals and small businesses over time.

The Big "I" is alarmed at the potential impact of these tax increases since the majority of the association's member businesses pay at individual rates. IIABA's membership is comprised of thousands of small businesses that will be hurt by this misguided, ad-hoc tax policy. The Big "I" urges Congress to consider the impact of these tax increases on the association's small business membership, especially given the current economic climate.

BIG "I" POSITION: IIABA strongly supports the Federal Crop Insurance Program (FCIP) and urges Congress to continue this valuable program for American agriculture. As Congress continues its work on a long-term Farm Bill, it is imperative that any decisions or changes to the present crop program serve the risk management needs of our farmers and ranchers and not simply shift funds away from the FCIP. The reductions endured by the FCIP through the 2008 Farm Bill and the 2011 Standard Reinsurance Agreement (SRA) already total $12 billion. The Big "I" understands the need to revisit federal programs over time and supports the overall goal of budget deficit reduction; however additional drastic cuts to the FCIP will reverberate in small, rural communities across the country, jeopardizing the efficient and effective quality of service provided to farmers. As a result, the Big "I" strongly opposes S. 446, the "Crop Insurance Subsidy Reduction Act," introduced by Sen. Jeff Flake (R-Ariz.) and the companion bill, H.R. 943, introduced by Rep. John Duncan (R-Tenn.).

The FCIP is not a disaster program, but rather a risk management tool. It has been successful because it requires farmers who want protection to put some "skin in the game," in the form of paying premiums. The FCIP only benefits those who suffer real, verifiable losses. Farmers have consistently agreed with this assessment and believe that the FCIP is the most effective tool to help them manage risk to their crops. According to the National Crop Insurance Services (NCIS), since 2000 farmers have spent nearly $30 billion in out of pocket costs on crop insurance premiums to protect their farms. Despite the fact that 2012 was the worst drought year in decades, there was not a single call for an ad-hoc disaster payment.

It is imperative that agents remain the exclusive sales force of the FCIP and they should not be supplanted by a system of federal bureaucrats. The recent calls by the FSA to take back the sales and servicing of the FCIP from the private market would not only be incredibly costly and inefficient, but would completely reverse the enormous strides made by this important safety net.

BACKGROUND: Independent agents have been an essential component in the evolution of the FCIP as the program moved from a federally-provided program to a public-private partnership in the early 1980s. In 2012, crop insurance covered 86% of all cropland acres and provided the strongest safety net to America's world food producers. Crop insurance combines the affordability and comprehensiveness of the public sector with the efficiency and speed of delivery of the private sector.

As part of the evolution of the FCIP, the terms of the SRA, which determines the Administrative and Operating (A&O) reimbursements and underwriting gains for crop insurance companies, are renegotiated every five years. In June 2010, the Risk Management Agency (RMA) and approved crop insurance companies negotiated and finalized the 2011 SRA. Despite agents' critical role in this market, independent agents are not permitted to participate in this negotiation and have no formal input regarding the details of the SRA.

The Big "I" opposed the 2011 SRA, which cut the FCIP by $6 billion over 10 years and made unprecedented and sweeping changes to the delivery system. First, the 2011 SRA radically changed the reimbursement rate for A&O expenses in a way that shifted significant delivery dollars between states, choosing winners and losers. Second, the SRA imposed caps on the compensation a private company may pay private agents for the delivery of insurance.

This unreasonable agreement represented the first time RMA has attempted to enforce price controls and regulate agent crop insurance commissions directly rather than allow the marketplace to determine the appropriate agent commission rate. The Administration punctuated all of these sweeping changes by including a covenant not to sue which binds not only company signatories but also agents not privy to the SRA.

The Big "I" also opposes S. 446, the "Crop Insurance Subsidy Reduction Act," introduced by Sen. Jeff Flake (R-Ariz.) and the companion bill, H.R. 943, introduced by Rep. John Duncan (R-Tenn.) which would roll back crop insurance subsidies to pre-2001 levels. The unique potential for catastrophic losses in farming means that without a public-private partnership sharing in the costs of crop insurance, policy premiums would be prohibitively expensive. These subsidies enable farmers to buy insurance at adequate levels which drastically reduces the

need for ad-hoc disaster payments in the wake of a farming crisis. With less protection, a large natural disaster could result in such substantial farm losses that the government might be forced to intervene. Higher levels of coverage protect the sustainability of farm businesses, stabilize farm production, and save rural jobs and taxpayer dollars.

As strong advocates for the FCIP, and as the largest trade group representing crop insurance agents, IIABA urges Congress to support the FCIP and oppose any further destabilizing reductions. The Big "I" will continue to work with Congress as changes to the crop program are proposed, but it urges Congress to consider the real world impact that each of these proposals would have on farming communities.

FLOOD INSURANCE

BIG "I" POSITION: The National Flood Insurance Program (NFIP) is an important public-private partnership that protects 5.7 million consumers and 22,000 participating communities from the dangers of floods. In July 2012, Congress passed and President Barack Obama signed into law, the "Biggert-Waters Flood Insurance Reform Act of 2012" (FIRA). This legislation provided a five-year extension of the program and enacted needed measures meant to decrease subsidies and help make the program more fiscally sound. Unfortunately, before a single major provision of FIRA was implemented, Superstorm Sandy struck the East Coast resulting in approximately $8-12 billion in NFIP covered losses. As a result, one of the first actions of the 113th Congress was to grant the NFIP an additional $9.7 billion to help pay Sandy claims.

The Big "I" expects additional scrutiny of the NFIP and looks forward to working with Congress on ways to ensure that the flood insurance program works effectively to protect the millions of consumers who rely on it without adversely affecting U.S. taxpayers. However, the Big "I" believes that the provisions from FIRA that will help the program become more actuarially sound should be given a chance to work before wholesale changes are made. Additionally, it is important that any reforms to the program take into account the historical inability of the private sector to underwrite flood risk as well as the need of millions of homeowners and small businesses to have such flood protection.

BACKGROUND: Private insurance companies have long argued that they are largely unable to underwrite flood insurance. Therefore, the NFIP is virtually the only way for many people to protect against the loss of their homes or businesses due to flooding. Working with the approximately 85 Write Your Own (WYO) insurance companies that administer this government program, independent agents and brokers serve as the primary distribution method for flood insurance. Federally-backed flood insurance is available to communities that agree to adopt and enforce flood-plain management ordinances designed to reduce flood damage. It is mandatory that property owners with federally-backed mortgages in one in 100 year flood plains purchase flood insurance.

The NFIP is a Congressionally-authorized program that requires periodic extensions. Last year, Congress passed a five-year reauthorization of the program called the "Biggert-Waters Flood Insurance Reform Act of 2012" (FIRA). This law, in addition to extending the program for five years, also included important reforms meant to make the program more actuarially sound and decrease taxpayer exposure. Foremost among these reforms was a phase-out of explicit subsidies for second homes, commercial properties, properties undergoing substantial improvement, severe repetitive loss properties, properties bought and sold, and properties that have had their flood coverage lapse. The law also grants the NFIP the ability to increase rates by 20% per year (the limit was previously 10%) and allows properties newly mapped into flood zones to be transitioned into their full rates over a four-year period. The law also continues the NFIP map modernization project, meant to ensure the entire U.S. has updated and accurate flood insurance maps.

Unfortunately, before any of these important reforms were even implemented, Superstorm Sandy struck the East Coast and caused an estimated $8-12 billion in flood losses. The NFIP was already more than $18 billion in debt to the U.S. Treasury (as a result of Hurricane Katrina in 2005), and only had the authority to borrow an additional $3 billion. Congress quickly acted and granted the NFIP an additional $9.7 billion to help pay Sandy claims.

For more than 30 years the NFIP operated at essentially zero cost to U.S. taxpayers. In fact, from 1986 (when Congress stopped making a separate appropriation for the NFIP) to 2005 the program had been completely self-supporting, covering all claims and expenses out of income from premiums and fees. Unfortunately, the 2005 and 2012 hurricane seasons alone have resulted in the NFIP being in debt approximately $30 billion to the U.S. Treasury. This fact has caused some policymakers to discuss ideas aimed at further limiting taxpayer exposure to flood losses through further reform of the NFIP or even privatization of the program.

The Big "I" believes that the NFIP has met its goal of protecting millions of homeowners and small businesses against the dangers of flood losses. While the Big "I" would welcome a discussion of further reforms, or even privatization, it is also clear that historically private insurers have had significant challenges in underwriting this catastrophic risk, especially in the high-risk zones where it is most needed. Any serious efforts at reform or privatization should take into account not only the potential taxpayer exposure to the program but also the millions of consumers who rely on it for protection.

INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA POLITICAL ACTION COMMITTEE

InsurPac, the political action committee (PAC) of the Independent Insurance Agents & Brokers of America (IIABA or the Big "I"), was established in 1975 to complement IIABA's legislative program. It pools voluntary personal contributions from thousands of independent agents and brokers, and then disburses the funds to campaign accounts for federal office, including those for members of the U.S. House of Representatives and U.S. Senate.

InsurPac is roughly a $2 million PAC per election cycle and is the largest property-casualty agent PAC in the country. It is also one of the largest small business PACs across all industries.

InsurPac and the Big "I" are separate but affiliated organizations. InsurPac's governing board of trustees is appointed by the Big "I" Executive Committee. Monthly reports are filed with the Federal Election Commission (FEC). These reports reflect all InsurPac disbursements and receipts from individuals that aggregate in excess of $200 in a calendar year.

BIG "I" GRASSROOTS: PROTECT AND PROMOTE YOUR BUSINESS

The Independent Insurance Agents & Brokers of America's (IIABA or the Big 'I") grassroots program is the backbone of legislative advocacy on agent and broker issues on Capitol Hill and in state capitals. IIABA's quarter of a million agents, brokers and their employees comprise a formidable grassroots constituency that ranks among the most respected on Capitol Hill.

The Big "I" encourages its members to be active in local, state and national politics. In fact, more than 25 former insurance professionals currently hold seats in the U.S. Congress. IIABA's grassroots strength lies not only in agents' strong relationships with federal legislators, but also in the number of concerned agent and broker activists that can be mobilized at a moment's notice by the Big "I"s e-mail "Action Alert" system.

To learn more and become involved in the association's grassroots efforts call 202-863-7000 or send an e-mail to **IIABAGrassroots@iiaba.net.**

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