



**STATEMENT BEFORE THE  
COMMITTEE ON APPROPRIATIONS  
SUBCOMMITTEE ON HOMELAND SECURITY  
UNITED STATES SENATE**

**July 23, 2014**

---

The Big “I” is the nation’s oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than a quarter of a million agents, brokers, and employees. IIABA represents independent insurance agents and brokers who present consumers with a choice of policy options from a variety of different insurance companies. These small, medium, and large businesses offer all lines of insurance – property/casualty, life, health, employee benefit plans, and retirement products. In fact, our members sell 80% of the commercial property/casualty market and a sizeable portion of the homeowners’ market. It is from this unique vantage point that we understand the capabilities and challenges of the insurance market when it comes to insuring against flood risks.

**Background**

The Big “I” believes that the NFIP provides a vital service to people and places that have been hit by a natural disaster. The private insurance industry has been, and continues to be, largely unable to underwrite flood insurance because of the catastrophic nature of these losses. Therefore, the NFIP is virtually the only way for people to protect against

the loss of their home or business due to flood damage. Prior to the introduction of the program in 1968, the Federal Government spent increasing sums of money on disaster assistance to flood victims. Since then, the NFIP has saved disaster assistance money and provided a more reliable system of payments for people whose properties have suffered flood damage. It is also important to note that for almost two decades, up until the 2005 hurricane season, no taxpayer money had been used to support the NFIP; rather, the NFIP was able to support itself using the funds from the premiums it collected every year.

Under the NFIP, independent agents play a vital role in the delivery of the product through the Write Your Own (WYO) system. Independent agents serve as the sales force of the NFIP and the conduits between the NFIP, the WYO companies, and consumers. This relationship provides independent agents with a unique perspective on the issues surrounding flood insurance, yet also makes the role of the insurance agent in the delivery process of flood insurance quite complex. Agents must possess a high degree of training and expertise, which requires updating their continuing education credits through flood conferences and seminars. This is done regularly and involves traveling to different regions of the country, costing personal time and money. Every agent assumes these responsibilities voluntarily and does so as part of being a professional representative of the NFIP.

Despite our strong support of the NFIP, we also recognize that the program is far from perfect, which was made all the more clear by the devastating 2005 hurricane season as well as Superstorm Sandy. The current \$24 billion dollar debt, incurred from both 2005 and Sandy, reveals some of the deficiencies of the program. While the Big “I” is confident that the NFIP will eventually recover, it was important that Congress shore up the NFIP’s financial foundation by enacting needed reforms to ensure the long-term sustainability of the program.

For these reasons, the Big “I” supported the “Flood Insurance Reform Act of 2012,” also known as “Biggert-Waters.” Biggert-Waters included many important provisions that were critical to the NFIP. Chief among them was a long-term extension of the program, until 2017. Additionally, the law included important pieces meant to strengthen the financial footing of the program. These included increasing the “elasticity band” of annual rate increase from 10% to 20%, the phase-out of subsidies for commercial properties, vacation homes, and severe repetitive loss properties, and greater flexibility for FEMA to utilize private reinsurance for the NFIP.

However, despite the good intentions of the legislation and its authors, the Big “I” had serious concerns with two specific provisions of Biggert-Waters that quickly caused major problems across the country as the law was implemented. These provisions were the elimination of “grandfathering” in the NFIP and the immediate elimination of subsidies for properties that were bought and sold. The Big “I” strongly advocated for Congress to revisit these provisions, and in fact “fixing” Biggert-Waters quickly became our top priority. Congress also recognized the problems caused by these provisions and quickly acted. This March, less than 2 years after passage of Biggert-Waters, Congress overwhelmingly passed the Homeowners Flood Insurance Affordability Act (HFIAA). The Big I strongly supported HFIAA and looks forward to working with FEMA and Congress to

assure the accurate implementation of these two significant pieces of legislation.

### **Implementation of the Homeowners Flood Insurance Affordability Act**

In stark contrast to the uncertainty and confusion during the initial implementation of Biggert-Waters, we are happy to report to the Committee that, to date, the roll-out of HFIAA has gone rather smoothly. FEMA and specifically NFIP staff have been working cooperatively with the WYOs and the agent/broker community throughout planning and implementation of HFIAA. Grandfathering within the NFIP (Sec. 207 of Biggert-Waters) was immediately restored (in fact Sec. 207 of Biggert-Waters was never implemented). Additionally, FEMA quickly announced that the “triggers” associated with an immediate loss of subsidy would be suspended and that properties affected by such “trigger” be rated according to October 2012 rate charts.

NFIP staff have organized regular conferences calls and live interaction with the WYOs and their vendors to discuss the detailed mechanics necessary for the roll-out of the changes required by the HFIAA. NFIP staff also considered and often implemented much of the technical advice provided during these calls. This engagement by NFIP is likely due to both a desire to avoid some of the mistakes associated with implementation of Biggert-Waters as well as a provision included in HFIAA requiring the NFIP to communicate regularly throughout the HFIAA implementation process. The cooperation and communication has allowed the NFIP and the WYOs to move forward with HFIAA implementation more quickly and more accurately than under Biggert-Waters.

Of course, not everything is perfect regarding implementation, and there will undoubtedly be challenges going forward. In particular, the Big “I” would like ask that the NFIP provide more direct and specific guidance to agents and brokers who are “on the front lines” in dealing with consumers during the implementation of HFIAA. For example, the NFIP on June 26<sup>th</sup> issued a bulletin to WYOs detailing their process for issuing refunds provided by HFIAA. The NFIP should be commended for quickly implementing the one-time refunds for property owners that overpaid on premiums due to Biggert-Waters. Although the numbers of consumers who had overpaid are not overwhelming, the overpayment of premiums caused real economic hardship for some consumers and they are eagerly awaiting their premium refund.

Shortly after the issuance of the June 26<sup>th</sup> WYO bulletin, the NFIP distributed a more simple and generic “one-page” glossy document for consumers in order to educate them on which consumers are, and are not, eligible for a refund. Again, the NFIP should be commended for releasing information directly to the consumer. Unfortunately, the NFIP has not yet issued any sort of bulletin, document, or guidance specifically to agents and brokers on the detailed process of these refunds. It would be immensely useful for the agent and broker community to have guidance created by the NFIP on which consumers are eligible for a refund, how the refund will be disbursed, and the possible timing of such refunds. It would be even more useful if this guidance was tailored to agents and brokers as its audience. As it stands now, agents and brokers are left to translate the complex WYO bulletin (which covers things such as underwriting, which agents/brokers are not involved in) or to rely on the more generic one-pager. This could pose a significant challenge for agents and brokers, especially since in the consumer-focused “one-pager” the NFIP specifically tells consumers that if they have any questions regarding refunds they should “contact their insurance agent.” Unfortunately as it

stands now if a consumer were to pose a refund question to an agent, that agent has no special guidance or additional information to turn to in order to help the consumer.

The one-time refunds will begin on October 1, 2014 -- much sooner than is required in HFIAA. Although HFIAA requires the NFIP to issue refunds directly, the WYOs have agreed to process refunds on the NFIP's behalf and have indicated that they hope to complete the process by the end of 2014. We do anticipate that WYOs will distribute their own guidance on refunds to their agent distribution force once they develop such guidance, but we feel it would be beneficial to have some guidance from the NFIP itself as soon as possible in order to help with questions from consumers.

HFIAA also established the office of the Flood Insurance Advocate. The Big "I" supports the creation of this new Advocate as we believe it will be helpful to have a central location for consumers and others to ask questions about the NFIP. We understand that the NFIP has established the goal of filling that position by the end of this year and hope the NFIP will be able to find candidates with both an understanding of mapping and flood insurance, as both will be needed for the Flood Advocate to best serve policyholders and the program. We also encourage the Advocate to be housed directly in FEMA, as opposed to another government agency such as the Department of the Treasury, so as to genuinely understand the intricacies of the NFIP.

## **Conclusion**

On behalf of the Independent Insurance Agents and Brokers of America, we thank you for the opportunity to present our views today. We look forward to working with you to protect consumers and improve the NFIP.