

How Do We Encourage Greater Flood Insurance Coverage in America?
House Financial Services Committee- Subcommittee on Housing and Insurance
March 10, 2023

Legislation

- **H.R. _____, the "**National Flood Insurance Program Extension Act of 2023**" (**Rep. Davidson**)**
- **H.R. _____, the "**NFIP Participation Study Act of 2023**"**
- **H.R. _____, the "**Consumer Options for Flood Insurance Act of 2023**"**
- **H.R. 900, a bill to amend the National Flood Insurance Act of 1968 to allow for the consideration of private flood insurance for the purposes of applying continuous coverage requirements, and for other purposes (**Rep. Castor**)**

Opening Statements

Chairman Davidson (R-OH) noted that Cleaver is out recovering from a surgery so Garcia will be filling in for him. He said that flooding continues to be a threat to Americans in their homes and said that the NFIP covers over a million people but despite this, the program does not cover everyone. Davidson said that we need to explore ways to entice better coverage outside of areas included in the flood maps through the private sector. He said that regulatory hurdles are one barrier preventing the private sector from being involved and exploring ways where consumers fail to appreciate their flood risk. Davidson emphasized accurate information and awareness to consumers.

Rep. Garcia (D-TX) said that the flood issue is close to home for her as the Houston area is prone to flooding. She said that the solution is clear, saying that Congress must make the authorization of the NFIP permanent and guarantee affordable flood insurance for all Americans that need it. Garcia said that flooding happens as often in inland states as it does coastal states meaning that no one is safe from a flooding event. She pointed out that flood events disproportionately impact minority communities and noted that McHenry has tasked each subcommittee with incorporating diversity and inclusion. Garcia believed that it is important to work together to authorize the NFIP permanently saying that its expiration is this September if we do not act. She added that we have to work on greater private industry cooperation as well and emphasized affordability and widespread access when considering insurance plans.

Witness Testimony

Mr. Julian A.P. Enoizi, *Global Head of Public Sector, Guy Carpenter*, advised individuals, governments, and communities in analyzing their exposures to natural disasters through insurance and other tools. He said that compared to other natural disasters, flooding is underestimated. Enoizi reported that communities with flood insurance recover faster compared

to communities without it. He suggested several ways to improve risk readiness and mitigate the impact of floods including strengthening the NFIP, protecting the NFIP with reinsurance solutions, growing the private flood market, embracing parametric insurance, and promoting excess flood coverage to complement the NFIP.

Mr. Christopher W. Heidrick, *Owner and Principal, Heidrick & Company Insurance and Risk Management Services, LLC, on behalf of the Independent Insurance Agents and Brokers of America (The Big I)*, supported a transparent and modernized NFIP that would increase take-up rates for flood insurance, both in the NFIP and the private market. Specifically, the Big “I” urged Congress to consider modest policy changes that could help grow the private market and protect consumers, such as clarifying requirements related to continuous coverage and mid-term cancellations. He continued that the Big “I” would also be concerned with any policies that could impede the overall long-term growth of the private market and any policies that would harm the WYO Program, make it more complex, or otherwise place limits on the program in a manner that could negatively impact NFIP take-up rates. Heidrick said that the Big “I” believes these policies will help more Americans obtain flood insurance coverage through the NFIP and the private market.

Mr. Patrick Small, *President, DUAL Specialty Flood, on behalf of the Wholesale & Specialty Insurance Association (WSIA)*, discussed that he joined DUAL in 2014 when the private market was starting to get involved in flood insurance. He stated that the private market is still in its infancy but will continue to expand. Small noted legislative proposals including a continuous coverage position between private insurance and the NFIP, allow unearned premium to be returned to consumers that leave the NFIP mid-term, technical changes to the definitions of private flood insurance, and long-term reauthorization of the NFIP.

Dr. Carlos E. Martín, *David M. Rubenstein Fellow, Brookings Institution and Director of the Remodeling Futures Program, Harvard Joint Center for Housing Studies*, acknowledged the numerous hurdles that NFIP has gone through since its creation and identified six themes in his research: unaffordability of flood insurance, limited awareness of flood risk, federal institutions do not have consistent flood requirements, consumers are in the dark on their own individual coverage, reduce the risk that makes flood insurance so expensive, and lack of transparent data on property owners saying that open data is necessary. Martin said that centralized national reporting requirements would be helpful and said that historically poor reporting of insurance data prevents the ability to expand the consumer pool. He said that efforts to increase private insurance need to be considered.

Member Questions

Chairman Davidson (R-OH) said that the NFIP needs legal authorization in order to sell its insurance and said that this has been unfortunately caught up in the appropriations process and referred to his legislation, *National Flood Insurance Program Extension Act*, which would give the program two years of certainty and asked if the panel thought this was a good idea. Enoizi replied that they would support anything that supports stability. Heidrick said that the Big I supports a permanent reauthorization of the NFIP and will continue to work with Davidson on this. Small also supported extensions. Martin replied that stability is very important. Davidson went on to say that the NFIP is the largest provider of flood insurance covering 93% of flood

insurance and said that there is nothing like a public-private partnership for risk sharing and referred to having seen this in the mortgage market. He said that PMI is about 45% and said that this market tends to work well in delivering consumer choices and a government baseline option. Davidson asked Small if there is any reason why we cannot replicate this sort of model in flood insurance where NFIP plays a big but not dominant role while the private capital takes on more risk and supplies new options. He asked what steps we need to take to move us closer to that direction so we can have a more stable mortgage insurance model compared to the current all or nothing model we basically have now. Small thought the PMI model was excellent and thought that with the NFIP if you have a nationally promulgated product, there is an opportunity to tighten the relationship with lenders. Davidson turned to Heidrick and asked for any suggestions for agents. Heidrick emphasized education and said that affordability is a critical factor.

Rep. Garcia (D-TX) discussed the flood prone area of her district and turned to Martin on his testimony on take-up highlighting that Congress must ensure that more families opt to have flood insurance coverage and asked what provisions should be in the reauthorization that would make sure more individuals and families take advantage of the NFIP and asked what role private insurance play in this. Martin replied that private insurance continues to play a large role in flood insurance and recommended a wide range of options when it comes to data sharing and information along with a means testing assistance program for high-risk, low-income areas. Garcia turned to the NFIP 2.0 system and asked Martin how to balance affordability with accurate risk assessment, especially as the risk for flood events continues to rise. Martin replied that this is the challenge that has been the subject of conversation for a decade saying that the ability for NFIP to be more actuarially match its rates with actual actuarial risk allows many more private insurance and carriers to provide services in this area but that does not mean that low income households will automatically be able to afford it. He thought that more competition could be helpful but said that this is a challenge that we need to continue to monitor. Garcia said that households are only required to have flood insurance if they are deemed in a high-risk zone and asked if these zones need to be updated and how often. Martin replied that a lot of these conditions require constant updating saying that the more frequently maps are updated the better and recommended more resources to make these changes. Garcia asked about the educational process for homeowners. Martin answered that property disclosures should be available to both renters and homebuyers and thought that there are opportunities for disclosure.

Rep. Posey (R-FL) discussed flood insurance premiums being further adjusted based on climate change and asked why premiums should be based on something other than risk for the current year. Heidrick replied that he is not certain how rates are calculated exactly. Posey turned to Small and said that if we are going to commit to actuarial flood insurance premiums and premium subsidies for LMI homeowners and we know which homes are subject to manage more insurance, he asked what the reasons are to have the federal government selling flood insurance instead of giving this to the private sector and state insurance regulators. He also asked if the

private insurance industry could handle this need. Small said that when we look at risk, we develop rates based on sustainability and accuracy so there is a component to getting the risk correct and do not associate based on area. Posey went on that there are properties with many claims in the past and multiple total loss payments and asked if it is wise to continue to cover risks that are almost for sure going to occur. Small thought this was a difficult question and said that would be difficult in the private insurance market and said that NFIP has a social element of responsibility to maintain homes but agreed this was a delicate balance. Posey turned to Enoizi asking if we can have reliable programs or rates if the maps are inaccurate as FEMA is claiming. Enoizi replied that technology is evolving all the time regarding mapping and encouraged FEMA to do more.

Ranking Member Waters (D-CA) said that private insurers have receded from communities after being hit hard from catastrophe flooding saying that people in Houston were dropped from their private insurers after Hurricane Harvey or that they were denied coverage. She asked how this impacts affordable access to flood insurance and what this says about the role of the NFIP. Martin heard stories of people who lost their policies before or during a flood event and want to see more of what these patterns are. He said that studies suggest that discriminatory practices have diminished significantly but rates can be based on credit scores. Waters referred to a 2022 study that said that the risk has tripled in California for a mega flood due to the changing climate and said that earlier this year, California experienced some of the worst flooding in the state's history. She said that we have seen life threatening flooding along with significant snowfall leading to flooding and said that these damages can be devastating where 98% of Californians lack flood risk coverage. She said that with the threat of more flooding, this could mean that the NFIP may take on additional debt in the future but said that the program is already saddled with legacy debt from previous hurricanes. Waters saw no reason for new policy holders to pay for legacy debt from 20 years ago and asked if Congress should fully forgive this legacy debt. She asked how forgiving the debt would support the affordability of the NFIP. Martin agreed with her and saw no reason for that debt to be held because it does not benefit current and future policy holders along with supporting the long-term fiduciary stability of the program. He said that ensuring that with the reforms that have occurred over the past 10 years, he believed that much of the longer-term fiduciary standing will have been resolved so there is a lot more stability in the program. Waters agreed and referred to her legislation that would forgive the legacy debt.

Rep. Luetkemeyer (R-MO) started with Heidrick on the Big I's support of his bill, *Consumer Options for Flood Insurance Act*, that would allow consumers to leave the NFIP and come back freely and asked him why the legislation is important. Heidrick replied that the bill clarifies that the consumer can leave and come back to the NFIP. Luetkemeyer said that flooding insurance is a huge deal for his district and asked if the private insurance market has the ability to take on more risk. Enoizi replied yes but said that premiums have been increasing over recent years so

there are many questions around flood mapping and marrying risk financing with risk mitigation. Luetkemeyer went on that the NFIP is not sustainable and is a subsidy program essentially and viewed that the NFIP needs to be revenue neutral. He said that he is a big fan of the secondary market and thought that there was plenty of capacity in the secondary market to take on this risk and asked if this would allow costs to go down. Enoizi replied yes and that the private market can gain a bigger role by taking on more risk and taking the burden off the take payer.

Rep. Velazquez (D-NY) discussed the impact of Superstorm Sandy and referred to her legislation, the *NFIP Administrative Reform Act*, which creates a disclosure and an acknowledgement to accompany the purchase of standard flood insurance policy. She asked how these documents would give private policyholders a better understanding of what is and what is not covered under their flood policy. Heidrick replied that agents have the responsibility of providing consumers with as much information as possible and any tool would be helpful to achieve that objective. Velazquez discussed the diversity of housing stock in New York, especially for landlords and said that while many multifamily buildings are owned by corporations, many are mom and pop landlords who operate on a thin margin when providing affordable housing. She said that these properties are usually more at risk of flooding and lead to displacement after a storm. Velazquez asked what more Congress and FEMA can do to improve pre-disaster mitigation for rental and affordable housing properties and their renters. Martin replied that we need to look at the information that the property owners have access to is critical which includes the clear disclosures of what is in and outside of a policy. He said that one could think about other alternatives to NFIP with regard to the coverage limit for certain kinds of properties, particularly those owned by small low-income households and occupied by low income households. Velazquez said that despite the frequency and severity of flooding, households purchasing flood insurance have not kept pace and said that many homebuyers incorrectly believe that flood insurance is covered under their homeowner policy or that their home is not at risk. She said that this is even more common among low-income households or in homes where English is not the primary language. Velazquez asked how the Big I is working to increase coverage for homeowners of color and non-English speakers. Heidrick replied that the Big I agents are in virtually every community and state saying that the Big I also has a diversity council. He recommended education efforts of the consumers and trusted advisors. Velazquez turned to Enoizi on making insurance more available and affordability referring to her legislation, the *Flood Insurance Tax Credit Act*, which would create a new tax credit for flood insurance expenses based on a taxpayer's use of NFIP's WYO or direct program. She asked if a tax credit program like this would help incentivize consumers to get coverage. Enoizi replied that anything that encourages the take up of insurance would be supported. Martin agreed.

Rep. Fitzgerald (R-WI) discussed a FEMA draft proposal called 'direct to customer' and said that insurance agents and brokers selling NFIP or private insurance play an important role in informing consumer decisions. He talked about the rush to cut corners in this digital age through

an automated process in replace of human advisors and believed that this could have a negative impact in increasing participation in flood insurance. Fitzgerald asked if the direct to customer approach to distributing flood insurance would reach consumers that the NFIP or agents are not currently reaching. Heidrick replied no and that since the direct to consumer approach has been tried over and over again and has failed. He said that independent agents that live in and have local knowledge of the communities must be involved in the insurance process. Heidrick did not believe that a call center is helpful to provide knowledge and pointed out that those in lower income communities may not have internet access or a computer so that face to face contact is vital. Fitzgerald asked how more private plans can be brought into the market. Small thought that there was improvement to bring the private sector into the market and said that the premium has to be correct. He thought that we need to continue the good work that Risk Rating 2.0 has provided and continue that work. Fitzgerald discussed NFIP's traditional reinsurance placement faced a 36% decline in participants compared to last year and asked what Congress can do to encourage more participation and further protect taxpayers. Enoizi thought that the reduction he referred to is a function of the market and said that all areas of insurance suffered that kind of retrenchment and said that we have already touched on a lot of ideas to promote participation.

Rep. Tlaib (D-MI) mentioned the high cost of auto insurance in her district and said that while the NFIP program is important, it is not accessible or affordable to people in her district. She said that when you have an insurance product so risky and unstable that the government must step in, it is not a free market product. Martin said that we need to have policy coverage that would otherwise not be able to afford it which is why we need the NFIP but agreed that the insurance is still unaffordable. Small said that all types of risks are looked at and agreed that mitigation is key. Tlaib asked if the NFIP is a form of socialism due to the government subsidizing 93% of the program. Martin replied that diversifying the risk pool and helping with her concerns.

Rep. De La Cruz (R-TX) understood the role insurance agents play in relationships with their insurers as a former insurance company owner. She said that in her experience, her company had to file independently with NFIP and said that the more steps that agents have to go through, the less likely they are to do it but said that she felt that it was important to sell NFIP due to the lower income city she was in. De La Cruz asked about the NFIP's non-compete contract and how it impacts the independent agent. Heidrick agreed that it is critical for an agent to be able to see multiple quotes for a customer and the removal of non-compete would enable that. Small replied that ease of access is critical and to be able to provide comparisons is important for the policyholder account whether it be private or NFIP.

Rep. Williams (D-GA) stated that renters are more unlikely to know the risk of their rental home flooding. She asked Martin what reforms to the NFIP should be focused on to address disparities. Martin replied that very thoughtful mitigation and buyout programs would be helpful to low income communities. On disparities, Martin commented that there are still disparities in

claim treatment and wanted to alleviate this through data transfer to monitor this. Williams said that Georgia has no requirements for flood disclosure for buyers or renters and asked what can be done to remedy this issue. Martin replied that disclosure rules are designated by the state and said that rental disclosure is very modest across the country so recommended national disclosure or at least the ability to see where risk areas are. Williams said that federal maps are still painfully out of date meaning that homeowners do not know if flood insurance is something to consider buying and asked what Congress can do here. Martin replied that climate change is impacting every community so it is important that we provide resources that account for future risks.

Rep. Garbarino (R-NY) said that it has been about a year since Risk Rating 2.0 has gone into effect and asked how pricing has changed in the past year. Heidrick replied that the cost of the premium is individualized saying that he has seen some people experience decreases and increases in their premium. He said that before 2.0, the least risky properties saw the largest increases. Garbarino asked with 2.0 if there are clear benefits with mitigation futures. Heidrick replied that there are benefits to mitigation but said that the black box rating engine that makes it impossible for agents to provide specific guidance has been a challenge. Garbarino asked if a home has been raised, do consumers still see increases. Heidrick said that some have seen increases because of 2.0 and said that he has been told by the NFIP that the extent of mitigation impact interplays with other mitigation factors. Garbarino turned to Enoizi about an article about a community-based catastrophe insurance transaction spearheaded in NYC to support LMI communities in high flood risk areas and worked with the private market to issue grants and asked Enoizi to talk about this program and how it could be replicated across the country. Enoizi thought that the community based catastrophe program is a solution for many of the challenges people have voiced today especially around low-income homes and explained that the program allows the community to buy insurance as opposed to the individual and the advantage of that is a parametric trigger meaning that there is no argument whether a flood occurred or not which allows for quick payments. He said that some of that money can also be put toward risk mitigation and said that the New York community that bought this got a premium reduction which allowed them to invest some of the savings they made to future risk mitigation.

Rep. Horsford (D-NV) emphasized affordability in flood insurance and focused on individuals who cannot afford a basic policy. He said that those in most need of flood insurance are unable to afford their premiums and said that lowering cost and expanding coverage is at the center of all reforms. Horsford asked Martin to discuss the consequences for working families if the premiums quadruple. Martin replied that a disaster event would create a financial spiral that could last up to four years which is why we need insurance. On NFIP, he said that insurance and mitigation saves money so insurance is a better fiduciary investment as well. Horsford wanted to work to keep flood insurance affordable and asked Martin to speak to how means tested affordability programs may have spillover effects into the private market and result in increased

affordability for all policy holders. Martin replied that that certainly would happen if you are providing resources to the population and you are making sure that a broader pool of people are purchasing the products assuming everyone contributes.

Rep. Norman (R-SC) asked about a contents only policy for renters. Enoizi replied that this creates a culture of people who look after themselves and often, these people would not be aware that the property was not covered for insurance and so mandatory offers may overcome this problem. Norman said that this is a tailor made product that people can choose from and said that compared to other insurance products, how much consumer choice does a homeowner have when purchasing NFIP. Heidrick replied that there are fewer flood insurance options compared to other lines of personal insurance products. He recognized that the private flood insurance market is still in its infancy and thought that the private market working with the NFIP would create more stability. Norman said that the lending institutions are getting a lot more insistent that flood insurance is obtained even if the land is not particularly prone to a flood. Heidrick replied that the lending institutions are very diligent in enforcing the mandatory purchasing requirements.

Rep. Pettersen (D-CO) said that the NFIP provides a critical backstop to ensure flood insurance but said that 25% of all claims come outside of flood prone areas. She said that homeowners are often surprised that they do not have flood insurance and said that she has experienced this personally. Pettersen went on that while we are considering permanent authorization of the NFIP, she believed that consumers need to be aware of their options. She said that an important issue for Colorado is what we are going to do to address wildfire insurance and coverage along with flood insurance. Pettersen asked what options there are to address wildfire insurance learning from flood insurance. Martin replied that this speaks to all of the hazards homeowners face meaning that homeowners may not know what all of their policies cover. He said that availability of information and documentation is vital so people know what they are covered for. Enoizi added that there is a need for risk mitigation for wildfires and said that there are nature based solutions to help. Pettersen said that Colorado brought a fee for every fire policy plan that went toward mitigation and floated that idea.

Rep. Flood (R-NE) said that while Nebraska is not a coastal state, the state has thousands of river miles and discussed other nations adopting a private model for flood insurance and asked about market based reforms implemented in the UK. Enoizi was in favor of public-private partnership where the risk sharing is maximized and said that in the UK there is a public-private partnership that has a number of features around making affordable insurance to those who cannot afford it but by necessity are living in flood zones. He went on that flood mitigation is required after an initial disaster and said that after three disasters without mitigation, the insurance is taken away. Flood asked if this program has been effective. Enoizi replied that it has been very effective and essentially only those who are uninsured are left with the state which is

how it should be because the risk is pushed largely to the private market. Flood said that we have a situation where homeowners can get their home rebuilt every couple of years and said that this is what Enoizi is trying to prevent by requiring the insured to build back better after a flooding event. Flood asked what this conversation has been like among the flood insurance community about requiring people to build more flood resistant structures following a massive claim. Enoizi replied that the public has received this well and are essentially put in a position where they have to have insurance. Flood stated that the NFIP is a one-size fits all program that needs reform.

Rep. Pressley (D-MA) believed that the NFIP is an essential program but is facing several challenges. She referred to Enoizi's testimony and highlighted the flood protection gap and asked him to explain what this is and why this gap exists. Enoizi replied that the flood protection gap is the difference between economic loss and the insured payout and said that globally there is about \$82 billion in flood losses every year and the protection gap on those is around \$25 billion so it is an enormous problem globally and the US. Pressley turned to Heidrick asking about the barriers to increasing flood insurance and what Congress can do. Heidrick replied that the barrier comes down to education and affordability saying that we need a means tested solution that is outside the NFIP. He said that Congress can prevent the lapse of the NFIP and create a long-term solution modernizing the NFIP. Pressley asked about the economic benefits of increasing flood insurance coverage for homeowners and small businesses in terms of reducing those financial losses. Martin replied that a critical part of purchasing a home is all of the insurance that needs to be purchased with it and said that these risks are going to increase due to the changing climate. He emphasized the need for low-income homeowners to have the option to insure their home as well.

Rep. Lawler (R-NY) said that we need to find ways to ensure that we are encouraging all Americans to have flood insurance. He said that currently only homeowners with active federally backed mortgages in higher risk special flood hazard areas are subject to the law's mandatory flood insurance purchase requirement meaning that renters and homeowners without such mortgages may be at the same risk but have no requirement to insure their residences. Where they might be overlooked by the NFIP, he asked if more private flood insurers could seek out these homeowners in special flood hazard areas and offer them customized insurance to reduce the gap. Heidrick replied that anything that creates choice and access will help to reduce the insurance gap is encouraged. He said that private flood insurers have done a good job in filling gaps and providing alternatives that may be a lower priced product or expanded coverage than the NFIP offers and said that the more that the private flood insurance industry develops, the more choices consumers will have. Lawler asked what other insurance options exist for homeowners and communities. Enoizi replied that in Germany, there are billboards encouraging insurance. He said that in New York, there is a product that covers the community which helps the educational and affordability issues. Lawler followed up on Enoizi's point with Germany, asking what other nations' approaches are to closing the flood insurance gap. Enoizi replied that

mutualization of risk and socialization of risk saying that there are lots of solutions to the same problem.

Davidson concluded that we have a lot of good ideas to create a better product.