

**TESTIMONY OF TED A. MAJEWSKI  
ON BEHALF OF  
HARLEYSVILLE INSURANCE COMPANY  
BEFORE THE  
HOUSE FINANCIAL SERVICES COMMITTEE  
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT  
COMMITTEE ON FINANCIAL SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES  
ON  
“THE MULTIPLE PERIL INSURANCE ACT OF 2007,” H.R. 920**

**JULY 17, 2007**

**Introduction**

My name is Ted Majewski and I am Senior Vice President for the Harleysville Insurance Group, a member of the Property Casualty Insurers Association of America. Harleysville writes homeowners, commercial property and other property and casualty insurance and is domiciled in Pennsylvania. Harleysville also participates in the National Flood Insurance Program's (NFIP) "Write-Your-Own" (WYO) Program.

Thank you for the opportunity to appear before you today on behalf of the Harleysville Insurance Group and the following trade associations: the American Insurance Association (AIA), the National Association of Mutual Insurance Companies (NAMIC), and the Property Casualty Insurers Association of America (PCI). I would like to share with you my comments on this important legislation that would establish coverage for both windstorm and flood losses under a policy provided by the NFIP.

**Comments**

As the events of 2004 and 2005 have shown, the devastation caused by hurricanes and floods can impact millions of lives, businesses and our nation. Even as those hardest hit continue to recover from these events, scientists and meteorologists tell us we will continue to see more frequent and severe storms for another 10 years or more.

The bill being discussed today, "The Multiple Peril Insurance Act of 2007" (H.R. 920) offered by Rep. Gene Taylor (D-Miss.) and others is an admirable effort to resolve, through legislation, issues related to property insurance coverage disputes that are currently being decided in our state and federal courts. However, Harleysville and a significant portion of the property and casualty insurance industry have concerns about the current provisions of this legislation and therefore oppose their being added to "The National Flood Insurance Reform and Modernization Act of 2007" (H.R. 1682), or to any other bill, for the following reasons.

H.R. 920 would dramatically increase the exposure of the NFIP and the federal government to catastrophic losses. The states along the Gulf coast and eastern seaboard

contain more than \$19 trillion in insured property values. The majority of these risks are currently insured in the private marketplace or in state residual market programs where the private insurance industry shares in the potential losses. Moving significant numbers of these properties from the private insurance marketplace to the NFIP could significantly increase the exposure of loss to the federal government and, despite the provision that calls for “actuarially sound” rates for the windstorm portion of this coverage, the potential for a significant taxpayer subsidy. For example, following the events of 2005, state windstorm residual market plans, which are statutorily required to use “actuarially sound” rates, exhausted all of their available assets and had to fund these shortfalls by assessing the insurance industry and/or policyholders.

The policyholders most likely to buy this new federal coverage would be those living in areas that are highly exposed to wind damage, creating adverse selection, as happens with state residual market wind pools today. Private insurers limit their exposure by fairly selecting risks and spreading the risk throughout the industry, except in certain areas where private carriers have the option to exclude coverage for wind, and where wind coverage is made available through state-run residual markets. The amount of “multiple-peril” insurance that the NFIP would sell cannot accurately be determined at this time; thus, determining the non-subsidized premium for such coverage would be, even using the best actuarial science, a guess. Although the “pay as you go” (PAY-GO) rules will, in theory, prohibit the costs of the insurance program from being subsidized by taxpayers, there is a real possibility that the program will not be self-sustaining.

Increasing the potential losses of the NFIP under such legislation comes at a time when the NFIP is already more than \$17.5 billion in debt and a recent Congressional Budget Office report states that the interest alone on this debt will run more than \$900 million a year, without paying back any of the principal.

The private insurance industry responded in 2005, by paying more than three times the amount of the flood program losses (over \$60 billion). Our industry is prepared through its infrastructure to address such catastrophic events. The NFIP currently has no such expertise in underwriting and pricing windstorm coverage, which would likely take years to develop – yet another problem for our citizens who would purchase such coverage.

The bill purports to eliminate the need to determine whether a hurricane loss is caused by wind or water (flood). However, while the number of wind/water disputes that occurred after Katrina is significant, they are relatively rare compared to the more than three million insurance claims from these events. When flooding does occur, it is rarely a massive tidal surge, as happened in Katrina. Flooding from tidal surge is different from the water damage that typically occurs in conjunction with wind damage, and is usually more severe in its impact.

H.R 920 would increase the amount of coverage available above the current NFIP limits, but even these higher limits would still be inadequate for many properties. Thus, property owners who want to purchase adequate coverage or who are required by a mortgage lender to obtain higher limits will still need to purchase additional coverage from the

private market and integrate two different insurance policies. This coordination of coverage could lead to its own set of difficult adjusting issues. In addition, while the proposed “multiple peril” program covers the perils of windstorm and flood, it does not address the other perils that are covered by homeowners and commercial property policies (e.g., fire, theft, and liability. Fire is the most common cause of a devastating property loss.) In fact, it does not even entirely address the peril of wind losses; thus, property owners seeking broader coverage or required by their mortgage lender to obtain more complete protection will still have to purchase private insurance and integrate two different insurance policies. Also, personal property insurance policies are regulated by state insurance departments, so the NFIP and private insurance policies would need to be seamlessly integrated. If not, numerous operational challenges will arise, including claim disputes.

The bill could cause a major disruption in the private property insurance market. If a private insurer, regulated by the states, is unable to adapt its policy language or rates quickly enough to accommodate customers purchasing NFIP policies, the financial interests of mortgage lenders will be left unprotected. Such integration issues would need to be properly addressed in the bill.

While the NFIP’s WYO program has helped mitigate some of the purchasing and adjusting coordination issues, it is not clear whether a “WYO”-type approach is contemplated or even feasible under this bill. If not, it will be necessary to create a whole new infrastructure to underwrite, price, sell, and service these policies.

Windstorm residual markets exist in many Atlantic Coast states and in all Gulf Coast states. These pools typically provide “wind only” coverage to homeowners living in designated coastal areas who are unable to obtain this coverage in the voluntary market. Thus, a private market mechanism for providing “wrap around” policies already exists in these markets. States have designed these residual markets to respond to their unique geographic and insurance market needs. The bill does not address how these programs would operate, or if they will be replaced with a federal program. The proposal seems to be applying a “one-size-fits-all” approach for all states when the need for such a program is limited to coastal areas of coastal states.

As insurers, we understand that the Katrina wind/water disputes that have arisen are a significant problem for homeowners who have suffered the loss of their homes and belongings. However, these issues are being resolved in the courts based on the contracts purchased by individual policyholders. The decisions that will be made by the appellate courts in those cases will guide how future hurricane claims are handled and this will reduce the number of disputes.

There are additional programs that could help address the sponsors’ concerns and that can address the various objections that are contained in this testimony. For example, it is possible to put a workable dispute mechanism in place. The current NFIP program can be amended to require the NFIP to participate in state-sponsored mediations to determine the extent of damage caused by wind versus flood (as is currently proposed in H.R. 1682).

## **Summary**

In summary, passage of H.R. 920 would create a new federal program that if not properly structured has the potential to incur enormous deficits following a hurricane of any significance. It would also create a plethora of administrative and implementation issues for insurers, state regulators, the NFIP, and most importantly, consumers that would need to be proactively addressed in bill language. Even given the bill's directive that rates be set based on actuarial principles, it is likely to subject the federal government to a huge and potentially under-funded liability for hurricane wind damage, which is currently underwritten by the private sector and through state residual market programs.

We would appreciate the opportunity to work with Chairperson Waters, Ranking Member Biggert, the author and co-sponsors of this bill, this Subcommittee and Congress on reforms to the National Flood Insurance Program and other potential solutions to the issues raised by these events; however, we oppose this bill, or its inclusion as an amendment to any other legislation, without significant modification.

Again, thank you for the opportunity to present our views on this important legislation and we commend the Chair and the Members of this Subcommittee for holding this hearing.