



**STATEMENT OF SPENCER HOULDIN  
ON BEHALF OF THE  
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA**

**BEFORE THE**

**COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON INSURANCE AND HOUSING**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**March 11, 2011**

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Good afternoon Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee. My name is Spencer Houldin, and I am pleased to be here today on behalf of the Independent Insurance Agents and Brokers of America (IIABA or Big “T”) to present our association’s perspective on efforts to reform the National Flood Insurance Program (NFIP). I am president of Ericson Insurance, a second generation insurance agency with offices in Connecticut and New York. Since 2008 I have served as Chairman of the Government Affairs Committee for the Big “T”. I have also represented the state of Connecticut on the IIABA National Board since 2006.

The Big “T” is the nation’s oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than 300,000 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. 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 considerably more complex than that of many traditional property/casualty lines. Agents must possess a higher degree of training and expertise than their non-NFIP participating counterparts, 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. The current \$18.3 billion dollar debt, incurred in 2005, reveals some of the deficiencies of the program and has strained government resources. While IIABA is confident that the NFIP will recover, it is important that Congress shore up the NFIP’s financial foundation and use this opportunity to enact needed reforms to ensure the long-term sustainability of the program.

For this reason, the Big “I” strongly supports Chairman Biggert’s draft legislation, the Flood Insurance Reform Act of 2011. The IIABA has released a 12-point plan for reform to restore the NFIP to sound actuarial footing, and we are extremely pleased to see a number of IIABA-recommended provisions in this proposed legislation.

### ***Long Term Extension***

As you know, the NFIP is a Congressionally authorized program that requires periodic extensions. Traditionally these extensions have been for multiple years (often for five year periods) but in recent years Congress has not passed a long-term extension of the program and instead has opted to pass numerous short-term extensions. Last year alone the NFIP expired three separate occasions only to be retroactively extended by Congress each time. Each expiration of the program led to concrete damage to the real estate market and the country's economy. During one month-long expiration in June 2010, for example, the National Association of Realtors estimated that as many as 50,000 new home loans were either significantly delayed or canceled. While the IIABA appreciates each of the retroactive extensions, we strongly believe that in order to provide certainty to the marketplace as well as avoid damage to our fragile economy, Congress should pass a long term extension.

Even the short term extensions passed over the last several years, while thankfully staving off expiration of the program, caused their own economic damages. Every time the program is set to expire, WYO companies send notices to their consumers about the pending expiration, agents must then communicate to their clients about what the ramifications of an expiration would be (as well as oftentimes providing real time legislative updates on extension legislation), banks must prepare for how and if to enforce the mandatory purchase requirement of an expired program, and Realtors and mortgage bankers must discuss with their customers how and if to proceed with home loan closings. While not nearly as damaging as an actual expiration, the uncertainty and the increased work-load caused by short term extensions justifies a long term extension of this critical program.

It is for these reasons that IIABA strongly supports the five year extension in the "Flood Insurance Reform Act of 2011."

### ***Moving Towards More Actuarial Prices***

The Big "T" has for many years asked Congress to explore phasing out subsidies in the NFIP altogether. We are pleased that Chairman Biggert's draft legislation contains proposals to phase out subsidies for many properties. Almost 25 percent of property owners participating in the NFIP pay subsidized premium rates. These subsidies allow policyholders with structures that were built before floodplain management regulations were established in their communities to pay premiums that represent about 35 to 40 percent of the actual risk premium. The subsidized rates were deliberately created by Congress in 1968 in order to help property owners during the transition to full-risk rates. However, after forty-three years the Big "T" believes it is time to start phasing out this significant subsidization.

In addition to the fact that subsidized rates torpedo any hope that the NFIP could ever be actuarially sound, FEMA estimates that subsidized properties experience as much as five

times more flood damage than structures that are charged full-risk rates. Customers that are paying a full actuarial rate have a vested interest to take measures to reduce the economic damages associated with floods. In contrast, those with subsidized rates have less incentive to mitigate. The Big “I” welcomes and supports Chairman Biggert’s ideas on phasing out subsidies for commercial buildings, second and vacation homes, homes experiencing significant damage or improvements, repetitive loss properties, and homes sold to new owners.

Finally, the Big “I” welcomes the draft legislation’s proposal to increase the “elasticity band” with which FEMA can increase premiums in any given year. Currently the annual elasticity band for premium increases is a maximum of 10 percent on any property. The draft legislation would propose to increase this band to 20 percent, which will hopefully allow the program to move even more properties towards actuarially priced rates.

### *Modernization of Coverages*

The Big “I” is very pleased that the draft legislation has chosen to modernize the NFIP by increasing maximum coverage limits and by allowing FEMA to offer the purchase of optional business interruption and additional living expenses coverage. The modernization of coverages will hopefully have three positive effects on the NFIP as a whole. First, it will allow consumers to more adequately insure their properties and valuables against their true risks. This will in turn make the NFIP as a whole a more attractive product for consumers, thereby increasing participation in the program. And also, as optional purchases that are sold at actuarial rates, the optional business interruption and additional living expenses additions in particular will result in a NFIP that is closer to being on actuarially sound footing.

The inclusion of optional business interruption coverage is particularly important to Big “I” members and their commercial customers. If a flooding catastrophe causes a business’ premises to be temporarily unusable, that business may have to relocate or even close down temporarily. Property owners are still required to pay employees, mortgages, leases and other debts during this process, and these ongoing expenses can mount up quickly for a business on reduced income or no income at all. For property insurance policies, business interruption insurance provides protection against the loss of profits and continuing fixed expenses resulting from an interruption in commercial activities due to the occurrence of a peril. The inclusion of an optional business interruption provision will provide stability to the local economies in the areas affected by flood damage and will offset government disaster relief payments should the flood peril result in widespread destruction across a region. Business interruption coverage, and the security and peace of mind it provides, is important to our members and to small businesspeople across America.

The Big “I” also strongly supports the option for a consumer to purchase additional living expenses. Additional living expenses coverage would allow the consumer to purchase, at an actuarial price, a dollar amount of coverage for such expenses as hotel, food, replacement clothes, etc. should the consumer be dislocated from his or her residence.

This provision will provide consumers with greater security during the often bewildering post-flood period, and will do so in an actuarial basis as opposed to relying solely on FEMA grants and assistance.

While the draft legislation allows FEMA to offer these products, it does so with three caveats; that FEMA charges actuarial rates for the coverage, that FEMA makes a determination that a competitive private market not currently exist, and that FEMA certify that these coverages will not result in any additional borrowing from the Treasury. The Big “I” supports the goals of each of these conditions and looks forward to working with the Committee to ensure that these important coverages are made available to those who need it while also adhering to these principles.

Also chief among our recommendations, and present in the draft legislation, is the proposed increase in the maximum coverage limits. The NFIP maximum coverage limits have not been increased since 1994. An increase in the maximum coverage limits by indexing them for inflation, as proposed by the draft legislation, will better allow both individuals and commercial businesses to insure against the damages that massive flooding can cause and will increase the program’s popularity and take-up rates.

### ***Privatization of the NFIP***

Some observers have argued that the program should be eliminated or completely privatized. These arguments center on the assumption that the private market could step in and offer flood insurance coverage. However, the IIABA has met with many insurance carriers who categorically state that the private market is simply unable to underwrite this inherently difficult catastrophic risk, especially in the most high risk zones where it is needed. IIABA would always prefer to utilize the private market, and our members would almost certainly prefer to work directly with private insurance carriers rather than a government agency. However, where there is a failure in the marketplace, as there is in the case of flood insurance, we believe it is imperative that the government step in to ensure that consumers have the protection they need. This was the reason the NFIP was first created in 1968, because the private market could not offer flood insurance and a series of high profile floods had consumers turning to direct federal disaster assistance as their only recourse. We see no evidence that the private marketplace is any more prepared or capable of underwriting flood risk in 2011 than they were in 1968.

We do not, however, oppose the studies on private market capacity as called for in the draft “Flood Insurance Reform Act of 2011.” We believe that these studies will likely show that the private market cannot properly underwrite flood risks, but if it can be demonstrated that a private market could emerge in some way, we would welcome that discussion.

### ***Repetitive Loss Properties***

Repetitive loss properties—currently defined as those that have had two or more flood insurance claims payments of \$1,000 or more over 10 years—continue to put a

significant drain on NFIP resources. These properties account for about 1 percent of all policies but are estimated to account for up to 30 percent of all NFIP losses. The Big “T” is encouraged that the draft legislation would phase out subsidized rates for these repetitive loss properties, but would urge the Committee to consider taking further measures to combat this difficult issue. For example, if a repetitive loss property continues to experience a certain number of losses within a specific timeframe, Congress could require that property to either take stringent mitigation measures or to be disqualified from participating in the NFIP altogether.

While Congress has previously made efforts to tackle the repetitive loss issue, according to GAO the number of repetitive loss properties has actually grown over the last decade. Dealing with repetitive loss properties is of the utmost importance not only because of the financial strain that they place on the program, but also because of the obvious lack of fairness that these properties highlight to other program participants and the general public.

### ***Conclusion***

The IIABA is very pleased that the Subcommittee is conducting today’s hearing on comprehensive flood insurance reform and we urge the Financial Services Committee to quickly consider this draft legislation and send it to the full House of Representatives for action. The Flood Insurance Reform Act of 2011 is an essential component in ensuring the long-term stability of the NFIP. We strongly support your efforts to update it to reflect today’s risks and market. Adopting the reforms found in the draft legislation would help make the NFIP more actuarially sound and more effective at serving both consumers and taxpayers.

I thank the Committee for giving me the opportunity to express the views of the IIABA on this important program. I hope very much that this hearing will contribute to additional action taken by Congress to pass flood insurance reforms and to ensure the stability of the NFIP.