

May 2, 2017

The Honorable Paul Ryan
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Charles Schumer
Minority Leader
United States Senate
Washington, DC 20510

Re: National Flood Insurance Program Reauthorization

Dear Speaker Ryan, Minority Leader Pelosi, Leader McConnell, and Minority Leader Schumer:

On behalf of the National Association of Insurance Commissioners (NAIC)¹, we write to urge prompt action on a long-term reauthorization of the National Flood Insurance Program (NFIP) before it expires on September 30 and to share our recommendations for your consideration as you develop reauthorization legislation. We appreciate the House Financial Services Committee's and Senate Banking Committee's focus on reauthorization and the hearings held to explore reform proposals.

State insurance regulators want to help improve the NFIP and consumer experience and stand ready to assist you in tackling the challenges of NFIP reauthorization and reform. We recognize the importance of accomplishing NFIP reform to address the efficiency and effectiveness of the program and urge you to avoid short-term extensions and program lapses that create uncertainty in the insurance, housing and commercial lending markets. Through the NAIC, we formulated guiding principles for NFIP reauthorization that focus on maintaining a stable program to provide certainty for policyholders while also encouraging greater growth in the private flood insurance market as a complement to the NFIP. State insurance regulators encourage careful consideration of affordability issues balanced with efforts to improve the program's financial solvency as well as inclusion of flood mitigation initiatives.

The NAIC supports legislative efforts to facilitate the growth of a state-regulated private flood insurance market to help provide consumers with more choices and coverage potentially at more affordable prices. While the NFIP has served as the primary source of flood coverage, more sophisticated risk mapping and modeling has developed in recent years and is generating new interest among private insurers to

¹ Founded in 1871, the NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and the five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

provide such coverage. We encourage Congress to utilize NFIP reauthorization as an opportunity to remove some of the barriers that currently preclude the creation of a robust private flood insurance market. Although one of the objectives of the Biggert-Waters Flood Insurance Reform Act of 2012 was to provide opportunities for the growth of the private market as an alternative to the NFIP, the definition of and regulatory environment surrounding private flood insurance created by the Act is at odds with this objective.

We strongly support the Flood Insurance Market Parity and Modernization Act (H.R. 1422/S. 563) introduced by Representatives Ross and Castor and Senators Heller and Tester to address these concerns and urge its inclusion in NFIP reauthorization legislation. This bill clarifies state insurance regulators' authority over private flood insurance and provides a clear definition of private flood to remove the confusing language in current law to help prompt more insurers to enter the market if they are willing. Facilitating the entry of additional carriers into the market will provide consumers with access to additional options for flood insurance products. Over time, this additional competition and shift of risk from a federal program to the private market could help lessen the exposure of U.S. taxpayers to the types of catastrophic flood losses that now reside as unpaid debt on the NFIP's books. The bill also includes important provisions ensuring that private flood insurance meets the continuous coverage requirement so policyholders have a choice to return to the NFIP without penalty, including not losing any subsidy they previously had with the NFIP.

We also recommend reauthorization legislation require the Federal Emergency Management Agency (FEMA) to reinstate its prior rules allowing policyholders to cancel their NFIP policies mid-term and receive refunds on a pro-rated basis if they decide to replace their NFIP policies with private flood insurance. FEMA's policy change discourages consumers' use of private flood insurance. The Government Accountability Office has also noted concerns about this change and recommended FEMA reconsider these rules in its July 2016 report, "Potential Barriers Cited to Increased Use of Private Insurance." We do not believe consumers should be penalized by a prohibition on pro-rata NFIP refunds because they chose to obtain a private flood insurance policy mid-term and encourage your support for including language to reestablish the prior rules. In order to help facilitate the growth of the private flood insurance market, Congress should also encourage FEMA to share its NFIP data with state insurance regulators and insurers to provide meaningful statistical information to help the private market be able to accurately assess flood risks. Further, we also support requiring FEMA to eliminate the non-compete clause to allow the Write Your Own insurance companies to sell private flood insurance outside of the NFIP.

In addition to our support for creating a regulatory environment more conducive for a private flood insurance market, we believe it is critical that reauthorization legislation focus on increasing flood mitigation efforts. Floods continue to be one of the most destructive natural hazards and encouraging investment in prevention and preparedness measures are critical to help minimize the impact of the damage and economic loss. We support mitigation discounts, such as premium discounts or insurance rate reductions to persons who build, rebuild, or retrofit certain residential properties to better resist flood events, and legislation to allow individuals to set aside funds in a tax-preferred savings account for disaster mitigation and recovery expenses. We also appreciate Representative Royce's legislative efforts to address the challenges of repetitive loss properties and to develop strategies to help reduce the number and vulnerability of these properties. These actions along with building and maintaining structures that incorporate mitigation strategies have the potential to reduce future program losses and improve the financial condition of the program.

Finally, we encourage legislative reforms to ensure accurate flood mapping. FEMA needs to provide increased transparency regarding its decision making processes for developing and updating its flood maps and its approach to rate making so that policyholders understand their current flood risk. Any reauthorization legislation should include strategies to increase flood insurance take up rates, including facilitating opportunities to educate consumers about flood insurance policy options, and encouraging the purchase of flood insurance for those outside of special flood hazard areas. We also believe it would be beneficial to include a study in reauthorization legislation to explore alternative approaches to the current flood insurance program structure to help guide continued reform efforts to address the nation's flood risk. Such a study could include consideration of transitioning the NFIP into a residual market or a reinsurance backstop as well as addressing issues related to the NFIP debt. The study should also consider the impact of governmental action, such as the construction of new dams and levees, on flooding risk and affordability issues for impacted homeowners, and also include an assessment of the implications of future structural changes to NFIP on affordability, availability, the federal budget, taxpayer exposure, and the flood insurance marketplace. Studying alternative approaches could help develop more sustainable and efficient ways to insure flood risk.

We appreciate your consideration of our recommendations and urge you to move forward with a prompt long-term flood insurance reauthorization and reform.

Sincerely,



Theodore K. Nickel
NAIC President
Commissioner
Wisconsin Office of the
Commissioner of Insurance



Julie Mix McPeak
NAIC President-Elect
Commissioner
Tennessee Department of
Commerce & Insurance



Eric A. Cioppa
NAIC Vice President
Superintendent
Maine Bureau of Insurance



Michael F. Consedine
Chief Executive Officer
National Association of Insurance
Commissioners

Cc: The Honorable Jeb Hensarling, Chairman, House Financial Services Committee
The Honorable Maxine Waters, Ranking Member, House Financial Services Committee
The Honorable Michael Crapo, Chairman, Senate Committee on Banking, Housing, and Urban Affairs
The Honorable Sherrod Brown, Ranking Member, Senate Committee on Banking, Housing, and Urban Affairs