

STATEMENT  
OF  
ROY WRIGHT  
DEPUTY ASSOCIATE ADMINISTRATOR  
FEDERAL INSURANCE AND MITIGATION ADMINISTRATION  
FEDERAL EMERGENCY MANAGEMENT AGENCY  
U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE  
THE  
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP  
U.S. SENATE  
WASHINGTON, D.C.

“No More Hikes: Small Business Survival Amidst Unaffordable Flood Insurance Rate Increases”

Submitted  
By

Federal Emergency Management Agency  
500 C Street SW  
Washington, D.C. 20472

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## **Introduction**

Good morning Chairman Vitter, Ranking Member Shaheen, and Members of the Committee. My name is Roy Wright and I am the Deputy Associate Administrator for Insurance and Mitigation, responsible for directing FEMA's risk management, mitigation, and flood insurance programs. Thank you for the opportunity to testify about FEMA's efforts to strengthen the National Flood Insurance Program (NFIP) and reduce the financial loss from damage to property caused by floods.

Mitigation actions taken before disasters strike can save lives and significantly lessen their financial impacts on the nation. The NFIP serves as the foundation for national efforts to reduce the loss of property from floods, the most costly and frequent disaster in the United States.

After a disaster, it is crucial for a community's recovery to get local businesses back up and running. These businesses are the heart of a community, often where residents work and get their resources. Following a flooding disaster, having adequate insurance is a key part of a business's recovery. Some reports suggest that nearly 40% of small businesses don't reopen after a flood because they don't have the capital to rebuild, restock, or survive a sustained disruption.

Today, I will provide an overview of FEMA's top five priorities for 2016 to strengthen the National Flood Insurance Program. I will specifically address our continued implementation of the *Biggert-Waters Flood Insurance Reform Act of 2012 (BW12)* and the *Homeowners Flood Insurance Affordability Act of 2014 (HFIAA)*, how this affects business insurance premium rates, and initiatives to track subsequent impacts on small businesses.

## **NFIP Background and Recent Legislative Reforms**

Historically, most insurance companies have excluded flood damage from homeowners insurance. To address this need, Congress established the NFIP in 1968, which is administered by the Federal Insurance and Mitigation Administration (FIMA). The NFIP works with participating private insurance companies to market, sell, administer, and adjust claims for policyholders. By encouraging sound floodplain management efforts, the NFIP is estimated to save the nation \$1.7 billion annually in avoided flood losses.

The NFIP is currently \$23 billion in debt due to major events like Hurricane Katrina and Hurricane Sandy, as well as subsidized rates to many policyholders that did not reflect their true risk. Recognizing the need for reforms, in 2012 Congress acted by passing BW12 which required major changes to strengthen the fiscal soundness of the NFIP. In March 2014, Congress passed HFIAA, repealing and modifying certain provisions of BW12 while still requiring changes to major components of the NFIP including flood insurance, flood hazard mapping, grants, and flood plain management.

After Hurricane Sandy, allegations arose that private insurers involved with NFIP underpaid thousands of homeowners on their flood insurance claims. FEMA subsequently set up a Sandy Claims Review process and contacted 142,000 NFIP policyholders offering a review of their claim, with nearly 19,300 policyholders requesting one. To date, more than \$70 million in additional funds have been paid to policyholders. Throughout this process, FEMA began

identifying areas for NFIP reform, including: changes to the appeals process that will allow any homeowner who is disputing a claim to have access to their files and have full visibility of the adjudication process and updating the arrangement between FEMA and private insurers to allow for more oversight and operational adjustments.

To address legislative requirements and to further advance the program's goals, the NFIP established five key priorities for 2016: improve customer service; improve understanding of risks; reduce risks; engage private sector insurers; and continue to implement legislative reforms.

### **Improve Customer Service**

Ensuring superior customer service is a key priority for FIMA. FIMA, which includes the Flood Insurance Advocate's office, is collaborating with outside customer experience industry experts, and individual policyholders to identify recommendations to improve the customer experience. In the fall of 2015, FIMA surveyed more than 2,000 policyholders to find out what mattered most to them across four drivers of customer experience: product, brand, value, and service. Value and product were identified as the top priorities for customers. FIMA is identifying recommendations to improve customer experience, specifically targeting value and product drivers. Throughout 2016 we are focusing on the following initiatives:

- **Simplifying Products:** enhancing transparency, consistency, and simplicity of the program.
- **Redesigning Product:** Proposing additional coverage options and providing new choices to meet policyholder needs (i.e. basement coverage), as well as educating customers on their policy coverage.
- **Redesigning the Risk Rating System:** analyzing technologies, data sources, and trends for flood risk quantification for a long-term goal of developing a new rating system that more clearly helps customers understand their flood risk.
- **Improving Program and Mapping Communications to Customers:** working with insurers to proactively communicate mapping changes to customers so they are not surprised by any related rate changes.

Also, as a result of lessons learned and policyholder feedback from the Hurricane Sandy Claims Review process, we will be focusing on redesigning the claims and appeal process.

### **Improved Understanding of Risks**

To properly mitigate risk through insurance, we must first get an accurate picture of the current and future risk profiles of our communities. In accordance with HFIAA requirements, FEMA is updating the flood mapping program for the NFIP. This updated program will be reviewed by the Technical Mapping Advisory Council (TMAC) and, when the new program is applied, it will result in technically credible flood hazard data in all areas where Flood Insurance Rate Maps are prepared or updated. TMAC's 2015 Annual and Future Considerations report contains numerous recommendations to improve the mapping program. FIMA will work closely with regional offices and external stakeholders to establish implementation strategies and priorities.

### **Reduce Risks**

Conducting mitigation projects now can help improve community resilience, reduce future loss of life or property from flooding, and minimize the need for future claims payments by the NFIP.

The Flood Mitigation Assistance (FMA) program provides grant funds on an annual basis to state, local, tribal, and territorial (SLTT) governments for projects that reduce or eliminate the long-term risk of flood damage to structures insured by the NFIP. In FY 2015, FEMA obligated more than \$71 million in FMA grant funds for mitigation activities affecting approximately 293 properties. These measures are expected to provide a savings to the NFIP of approximately \$142 million. For the FY 2016 FMA Grant Program, \$199,000,000 is available to SLTT governments. The application period closed on June 15 and applications will be reviewed to determine eligibility and priority.

### **Engage Private Sector Insurers**

Flooding disaster survivors can recover more quickly and more fully when they are insured against losses, whether they purchase that insurance from the NFIP or through the private market. Our priority is to ensure that as many citizens as possible are covered for flood damage.

The NFIP's current \$23 billion debt has resulted from premium subsidies colliding with catastrophic events. To better diversify our financial risk in the future, FEMA is exploring reinsurance as a way to improve the financial stability of the flood insurance program. Congress asked FEMA to assess the capacity of the private reinsurance, capital, and financial markets to assume a portion of the NFIP's risk, as well as to assess options for privatizing the NFIP. FEMA submitted these studies in August 2015. We are currently working with the reinsurance industry on catastrophic flood modeling, gathering quotes to pilot reinsurance for the NFIP, and exploring how to build the cost of reinsurance into the program.

### **Continue Implementation of Recent Flood Insurance Reform Legislation**

FEMA has made significant progress towards implementing BW12 and HFIAA requirements. In addition to the initiatives previously discussed, our current key priorities include:

- Compiling data and beginning analysis of NFIP reform impacts on small businesses, non-profits, and houses of worship;
- Completing reports on policyholders whose premiums exceed one percent of their coverage value;
- Continuing work on regulation changes, including but not limited to installment plans and Write Your Own expense allowance with actual costs;
- Evaluating reinsurance options and developing a pilot program; and
- Designing an Affordability Framework that will provide policy options for an affordability program supported by qualitative and quantitative analyses.

### *NFIP Reform Impacts on Small Businesses*

The NFIP offers policies designed specifically for commercial policyholders, providing up to \$500,000 for building property and up to \$500,000 for business-related contents. For many large businesses, the commercial coverage under the NFIP is not adequate to cover their needs.

However, for many small businesses, affordable flood insurance provided by the NFIP is an important protection against flood losses. Currently, 6.8% of NFIP policies are non-residential policies. This number includes businesses as well as non-business, non-residential properties such as schools, hospitals, and houses of worship. Over the next year, we will be able to classify new and renewing non-residential policies into types including businesses, small businesses, houses of worship, and non-profits.

The NFIP is in the process of implementing reforms required by BW12 and HFIAA. While HFIAA repeals or modifies some provisions of BW12, it maintains the requirement that flood insurance rates for business properties in high-risk areas reflect true risk. This means that the subsidized rates that previously applied to some older business buildings will continue to be phased out.

On October 1, 2013, the subsidized rates for these pre-Flood Insurance Rate Map (pre-FIRM) buildings began to phase out. At renewal, non-residential policyholders received a 25 percent rate increase. As required by both BW12 and HFIAA, the 25 percent rate increases are set to continue until rates reflect the property's true risk of being in a flood-prone area. FEMA temporarily slowed implementation of BW12 to properly implement a provision of HFIAA that has special treatment for a non-residential policy rating class that included business properties and non-business non-residential buildings such as schools, hospitals, houses of worship, and apartment buildings. As of April 1, 2016, the rate increase returned to 25 percent annually until the non-subsidized true risk value is reached.

FEMA recognizes that increasing fixed costs for expenses such as flood insurance can have a significant impact on small businesses. FEMA encourages all business owners to avoid locating a business on property susceptible to high or moderate risk of flooding, though that is not always feasible for a variety of reasons. However, there are additional ways in which businesses can mitigate their flood risks and lower their insurance premiums. Options for business owners to consider include: flood proofing, relocation, floodwalls and levees, and structural elevations. Not every option will work for every business. We encourage businesses who want to mitigate against flood losses to work closely with their flood insurance agent and their state and community officials to evaluate their options.

In the future, our goal is to properly identify the flood risk through an updated mapping program, and communicate that risk through insurance rates to help provide accurate, clear information to support decision-making of small-business owners on where to locate their business.

## **Conclusion**

We continue to work with Congress to implement a program that meets the needs of individuals, businesses, and communities to protect themselves and their properties from the most common, costly disaster in the United States while being transparent about their true risk level to help drive decision-making.

Again, thank you for the opportunity to testify today. I look forward to any questions the Committee may have.