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**REAUTHORIZATION OF THE NATIONAL FLOOD
INSURANCE PROGRAM: LOCAL PERSPECTIVES
ON CHALLENGES AND SOLUTIONS**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION
ON
EXAMINING THE REAUTHORIZATION OF THE NATIONAL FLOOD
INSURANCE PROGRAM
JANUARY 25, 2024

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THURSDAY, JANUARY 25, 2024

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10 a.m., in room 538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chair of the Committee, presiding.

OPENING STATEMENT OF CHAIR SHERROD BROWN

Chair BROWN. Good morning. The Senate Banking, Housing, and Urban Affairs Committee will come to order. I thank the witnesses for joining us. Senator Cassidy will join us in a moment.

This hearing is a continuation of our efforts to enact a long-term reauthorization of the National Flood Insurance Program, NFIP. The program has been extended 28 times since September of 2017. The latest extension will expire on March 8th of this year. We will discuss local leaders' perspectives on the NFIP and the challenges and potential solutions to the risks that flooding poses to communities across the country.

Local leaders are on the front lines of so many issues: transportation, housing, the growing challenge of flooding. Each of these is a priority for this Committee. As these leaders know all too well, flooding is the most common and costly natural disaster facing the country. It is devastating to families, businesses, and communities in every State. That is one good reason that Mayor Patterson is with us from my State.

The risk is increasing. Outdated flood maps, population growth in at-risk areas, land-use patterns, and over-stretched infrastructure all play a role. And whether people want to admit it or not, climate change is only making it worse. It is making extreme weather events more frequent and less predictable, and probably more extreme, all across the country.

Just this month streams overflowed in our colleague, Senator Reed's, home State of Rhode Island; torrential rains poured through homes in San Diego neighborhoods represented by Senator Butler on this Committee; and flash floods have been threatening communities across Louisiana, which is well represented by two colleagues today in the room. And that is just this month.

Flooding is not confined to communities on the coasts, or even on major bodies of water. As we saw in 2022, the same mountains and streams that make our Appalachian towns in Ohio and elsewhere beautiful also make family homes and local economies vulnerable to flooding in an era of more extreme rainfall. Often the only available land for development in Appalachia is in or near floodplains.

And disasters often fall hardest on the families and the communities that have fewer resources to prepare and respond to them, often because of where they live. Smaller, rural communities often do not have easy access to resources to respond to the immediate effects of disasters, nor do they have access to the resources they need for long-term recovery and to prevent disasters in the first place.

We need to ensure our families and communities can adapt and become more resilient both to the flooding we face and to the increases we know are coming in the next several decades. And whenever possible, we want to help communities avoid extreme flooding altogether, through pre-disaster flood mitigation, doing it better than we have.

The NFIP is critical to that effort. Unlike a private insurance company, the NFIP does not just provide insurance. Its job is to prevent and minimize flood damage in the first place, not just help with very expensive recovery.

The NFIP combats the overall threat of flooding through four related components: flood insurance, currently covering nearly 4.7 million homes and businesses, floodplain management, floodplain mapping and mitigation. We must reauthorize and strengthen the NFIP, and invest in mitigation and floodplain management obviously before disasters happen in communities.

In recent hearings, we heard from a wide range of stakeholders who discussed the need for a long-term reauthorization to help communities and stakeholders plan; the importance of helping communities and property owners understand their risk, by both improving mapping and other risk communications, and through disclosure of flood hazards to prospective owners and tenants; and third, the importance of building State and local capacity to carry out our floodplain management and mitigation programs, especially for small and rural communities.

We also heard FEMA's recommendations for strengthening the program, including forgiving the overhang of debt from previous disasters and providing means-tested assistance to help more families afford insurance.

I am interested in hearing today's witnesses' recommendations on how we can help strengthen the NFIP so that it can help local communities meet these needs. I am pleased to welcome Mayor Steve Patterson of the City of Athens, Ohio, in southeast Ohio, here today to discuss some of the unique challenges faced by cities and towns in Appalachia.

NFIP is a complex program, with multiple goals and implications for many of the things people care about most—their homes and their communities, often their small businesses. I believe it is possible for us to come together to reauthorize and improve this program. Today's hearing will help inform this effort.

And this Committee, while sometimes partisan, often Senator Scott and I can work together on major pieces of legislation, as we have from fentanyl to holding banks accountable, to banking medicinal marijuana money, and the like. This Committee, particularly on flood insurance, is more regional an outlook, perhaps, than partisan, and that should help us someday, sooner rather than later I hope, come to some agreement on NFIP.

Ranking Member Scott.

OPENING STATEMENT OF SENATOR TIM SCOTT

Senator SCOTT. Thank you, Mr. Chairman. Before we get started, I would like to take the time to welcome a Charleston native, Mr. Kaniewski, as a witness today. I cannot think of a more helpful perspective in dissecting these issues that are really local in perspective. Although you now live in Minnesota—I have never met someone who left Charleston actually—full time. Please come home soon, we really need you back. We need all the smart-thinking individuals back in Charleston, South Carolina. But we thank you for being here today.

The National Flood Insurance Program comes into play when we start thinking about how to mitigate the risks that are so impactful and negative to communities across the country. As we consider potential reforms to the NFIP, we must keep in mind local perspectives and not just those of Washington bureaucrats. Because we all know that the most effective policymaking typically happens closer to the problem, not farther away from that problem. So our Federal programs should foster local, innovative solutions, not regulatory red tape.

You all have heard me say this before, that as a lifelong Charlestonian and South Carolina resident, as well as an insurance professional for more than 20 years, having sold flood insurance policies, it is really important for us to understand and appreciate the devastation caused by flooding. There is no doubt that if you are a Charlestonian and if you were around in 1989, Hurricane Hugo devastated our community in ways that very few natural disasters have before and frankly, since. The storm surge was so bad and so high that it literally left boats in the middle of downtown in the streets of Charleston.

More recently, Hurricanes Matthew, as well as Florence devastated towns throughout my State, and left some towns submerged. As a matter of fact, the town of Nichols, South Carolina, a very small town, was hit by both storms so bad that more than half of the houses in that small community found themselves underwater.

And the devastation of trying to rebuild 24 months later—again—was undeniably and frankly impossible. But the good news is when you are surrounded by your friends and your family, the impossible becomes possible. And they worked really hard to start the process of rebuilding very quickly, and frankly, very successfully.

This type of repeated flooding makes recovery harder, and naturally, can even cause some residents to lose hope—and certainly a part of the town—residents that they left.

It is one of the reasons why I have re-introduced my Repeatedly Flooded Communities Preparation Act, which would help communities suffering from frequent flooding plan for the next storm, and hopefully, lower the risk. It is my hope that by encouraging flood-prone areas to reduce the impact of future storms, residents will be able to focus on long-term recovery, long after the storm surge recedes.

And recovery does not simply mean rebuilding. It also includes uplifting our communities. It includes making sure that families and neighbors learn to work together, that the synergy in the aftermath of a disaster is where community, and the glue of community, really manifests and reveals itself.

South Carolinians who have lived through repeated flooding know this, and my home State has taken action to prevent this outcome. South Carolina's recent dedication of resources and strategic mitigation efforts are second to none.

In 2023, the State's budget included significant funding for mitigation efforts that would reduce flood damage from future storms. Backing up that investment, the South Carolina Office of Resilience released a nationally praised "Statewide Risk Reduction Plan", identifying the communities most vulnerable to floods and targeting mitigation resources to protect those residents.

These are local solutions to local challenges, and they will make a huge difference in the lives of South Carolinians.

And while I recognize that what works in South Carolina may not work in places like Senator Cassidy's Louisiana or Chairman Brown's Ohio, I am confident that similar, locally based solutions and approaches could make a huge difference, not only in those communities, but to the National Flood Insurance Program itself.

To support these levels, we must have substantial reform to the NFIP. The status quo is not an option. The program is financially insolvent, with over \$20 billion—\$20 billion—in debt. Instead of educating communities and homeowners on the risks they face, the program's outdated flood maps and lack of transparent data often obscures the risks. Without a well-functioning and financially solvent insurance system, the NFIP will fail to provide cities and towns with the tools they need to be resilient. And, if the NFIP is unable to provide local communities with improved mapping and mitigation resources, the financial health of the insurance program will continue to deteriorate.

When I say that, especially with my legislation I have reintroduced, we have to recognize that the NFIP pays out 30 percent of its resources to about 1 percent of the properties that consistently and repeatedly are flood victims again, and again, and again. So 1 percent of the exposure absorbs 30 percent of the resources, and that is an opportunity for us to look to the local communities to create strategies to perhaps not rebuild there, and that will take a local engagement to mitigate that risk for the Nation, for the program, and frankly for the communities where they happen.

Comprehensive reform of the program is essential.

One final and important point before I close. Congress cannot allow the NFIP to lapse. Most often we talk about States like Florida, or South Carolina, or Louisiana, where they pay a disproportionate share of the premiums that go into the NFIP. The truth is

that whether you are in Ohio, or California, whether you are in the New Jersey, New York area, where Hurricane Sandy—\$8.8 billion—Hurricane Harvey—\$9 billion—the number of flood insurance policies in place? Essentially nonexistent.

So not only do we need to have a comprehensive reform of the program itself, we need to have a better education that floods do not simply happen when you live near the water. Floods today happen throughout the country.

Chair BROWN. Thank you, Senator Scott.

Senator Cassidy, welcome. Senator Cassidy is not a Member of this Committee, but he and Senator Kennedy and Senator Menendez, especially, have been kind of leaning on this, and are particularly interested. Senator Cassidy will introduce his friend from Louisiana.

Senator CASSIDY. Thank you, Chairman Brown and Ranking Member Scott, and I just appreciate you all having this hearing and allowing me to introduce, which I think is not a little bit out of the ordinary, and I want to appreciate your staff. My staff says your staff has been fantastic to work with, and we thank you for that.

Chair BROWN. Thank you.

Senator CASSIDY. Today I have the privilege of introducing Greater New Orleans, or as we call it, GNO, Inc., President and CEO, Michael Hecht. Michael moved to New Orleans after Hurricane Katrina with the goal of helping the city rebuild. Previously, after 9/11, he had worked in New York in the Mayor's Office, running their Small Business Recovery Program. So when Katrina hit Louisiana, devastating tens of thousands of people and businesses, Mr. Hecht took action by running a similar, quarter-of-a-billion-dollar Katrina Small Business Recovery Program for the State government. He helps when communities have been struck.

Now there are many lingering effects of Hurricane Katrina, which he is going to speak of, but one of the most obvious is the method to assess flood risk. And if I may add, NFIP's new risk assessment policy, called Risk Rating 2.0, has made flood insurance simply impossible to afford, and in some cases policies rising over 1,000 percent, in some cases, flood insurance premiums being higher than a person's mortgage.

At this point we know that we are in an actuarial death spiral, where people will be dropping insurance because they can no longer afford, therefore, a smaller number of people for whom to put on the risk, therefore, more expensive premiums, and therefore, more people drop. Mr. Hecht will address this and the impact it is having upon families and businesses.

And then, last, I thank you for having this hearing because of the solution that Senator Menendez and I and others have proposed, for which we would love your input, which we think could address this.

So I look forward to hearing this testimony and the testimony of others. Once more, I thank you very much for having the hearing.

Chair BROWN. Thank you, Senator Cassidy. I cannot improve on the introduction offered by our friend from Louisiana. Mr. Hecht, welcome.

Daniel Kaniewski is the Managing Director for Marsh McLennan, which he joined after serving as Deputy Administrator for Resilience and Acting Deputy Administrator for FEMA during the Trump administration. Dr. Kaniewski, welcome.

Steve Patterson is the Mayor of Athens, Ohio, the largest city in Appalachia. He currently serves as the Second Vice President of the National League of Cities, President of the Mayors Partnership for Progress in Appalachian Ohio. I meet with him and other mayors frequently.

First elected in 2015, after two terms on the City Council, Mayor Patterson is a former associate professor of psychology at Ohio University, former Air Force pilot, serving as a major from the District of Columbia Air National Guard, 1113th Fighter Wing, and a graduate of College in North Dakota.

Mr. Hecht, if you would begin.

**STATEMENT OF MICHAEL HECHT, PRESIDENT AND CEO,
GREATER NEW ORLEANS, INC.**

Mr. HECHT. Great. Thank you so much, Committee Chairman Brown and Ranking Member Scott and the Members of the Committee, and Senator Cassidy, I want to thank him for his leadership on this issue, and so many others.

My name is Michael Hecht. I am President and CEO of Greater New Orleans, Inc., and for the past decade we have led the Coalition for Sustainable Flood Insurance, which is a national alliance of approximately 250 organizations across 35 States. And today I am going to discuss the need to reauthorize NFIP, given its benefits to the country, the need to reform the program that has been discussed, and particularly given FEMA's administration of Risk Rating 2.0, its associated impacts.

I want to be clear that, first and foremost, the Coalition for Sustainable Flood Insurance absolutely supports a long-term, multiyear reauthorization of NFIP to ensure program stability and to minimize the negative impact across the American economy. As Senator Scott mentioned, and as you said, Chairman, a lapse is something that we cannot allow to happen. This is destabilizing to the national housing market. We know, for example, that during a June 2010 lapse, that about 1,400 home sale closings were canceled or delayed each day. And furthermore, the benefit that NFIP provides to our Nation is great and significant, and its five million policyholders.

And I think two points I need to make here is that, one, they are often mischaracterized as being wealthy homeowners who are subsidizing their beachfront homes. This is just empirically, statistically not the case. In fact, a study that we ran found that 98.5 percent of all NFIP policies are in counties with a median household below \$100,000, and 62 percent of all policies are in counties with a median household income below the national average of \$54,000. The reality is that the NFIP program is about allowing the working coast and riverine parts of America to keep working.

And moreover, and I think this is a very important point, we talk about the debt of the program and the cost of the program, which is estimated to be \$36 billion over the past 50 years, but on the other side of that, per FEMA's own analysis, the standards, the

floodplain standards that have been implemented because of NFIP have saved the country \$120 billion of losses over that period. So that is a net benefit for the American people of about \$85 billion.

In terms of Risk Rating 2.0, there are some dramatic impacts that I would like to talk about. On average, under Risk Rating 2.0 an NFIP policy will be \$1,808, which is a 104 percent increase over legacy rates, and rates will increase by over 50 percent in 41 States. To the point that has been made by the Senator about the death spiral, this is a major concern about the affordability. Participation peaked at NFIP at about 5.7 million in 2009. On the day before Risk Rating in October 2021, there were 4.9 million policies. Since then, NFIP has lost over 215,000 policyholders, and ultimately FEMA, through their own projections, projects losses of 900,000, 20 percent because of Risk Rating 2.0. This is not going to be good for the program or America.

And there are also regional impacts. Our region, for example, Greater New Orleans, is essential for the national economy, and even global food and energy security. NFIP and Risk Rating does not take this into account.

For example, 50 percent of all U.S. grain exports go through the Port of South Louisiana, which is in our region. The average increase under Risk Rating 2.0 is going to be 239 percent in that region. If our workers cannot live there this is going to have impacts on our ability to supply America and the world with food.

And finally, in conclusion, we do believe that NFIP should absolutely be reauthorized but also reformed. Congress did not cause the Risk Rating 2.0 problems but has the ability to impact them and to make them better.

So some of our priorities, many of which are reflected in the National Flood Insurance Program Reauthorization and Reform Act of 2023 include requiring a peer review of Risk Rating 2.0 methodology and a thorough and holistic analysis of economic impacts; mandating FEMA's transparency through the release of a usable, public-facing, risk calculator, and also a rating appeals process. We need to lower annual premiums from 18 to 9 percent cap. We need to enact a means-tested assistance program, ideally looking at housing burden, which is a little bit more subtle than even just looking at percentage of AMI. And finally, the debt and interest payments should be frozen and redirected into mitigation because ultimately mitigation is how, as a Nation, we are going to work our way out of this challenge.

These policies, which will resolve affordability, transparency, and accuracy concerns would serve to stabilize participation, sustain the program, and support communities across the country.

Again, thank you for the opportunity to speak today, and thank you for your service, and I look forward to taking your questions. Chair BROWN. Thank you, Mr. Hecht. Mr. Kaniewski.

**STATEMENT OF DANIEL KANIEWSKI, MANAGING DIRECTOR,
PUBLIC SECTOR, MARSH MCLENNAN**

Mr. KANIEWSKI. Chairman Brown, Ranking Member Scott, my name is Daniel Kaniewski, and I focus on public sector challenges and solutions at Marsh McLennan, the world's leading professional services firm in the area of risk, strategy, and people. We are a

U.S. company with more than 85,000 colleagues worldwide, advising public and private sector clients in 130 countries. With more than 150 years of experience, we help individuals, businesses, communities, and Governments address the financial impacts of disasters through insurance and other risk management tools.

Before coming to Marsh McLennan, I was the second-ranking official at the Federal Emergency Management Agency, FEMA, where, as the agency's first Deputy Administrator for Resilience I served alongside some great leaders of this Nation. As you can imagine, much of my work is focused on flood risk. I welcome the opportunity to speak to you today about that.

Now as was said, flooding is the most common and most costly natural hazard, and yet communities often fail to protect themselves from the physical and financial impacts. Federal policies and programs, including the NFIP, are essential, but ultimately all disasters are local and so too are resilience investment decisions.

To increase the resilience of communities against the pervasive risk of flooding, we believe that risk transfer—that includes the NFIP, private flood insurance, reinsurance, and parametric insurance—should be paired with risk reduction, hazard mitigation, and strong building codes.

Now there are several ways to improve flood resilience, and for the NFIP, as we describe more fully in our written statement, those include strengthening the NFIP with a sound financial framework, protecting the NFIP with reinsurance solutions, growing the private flood insurance market, addressing gaps in NFIP coverage, embracing parametric insurance, promoting excess flood coverage to complement the NFIP, and leveraging existing NFIP incentive programs.

On that final point I wish to elaborate.

One existing NFIP incentive program is the Community Rating System. CRS is a voluntary incentive program that recognizes and encourages floodplain management practices that exceed NFIP's minimum requirements. It is an example of a Federal program that incentivizes community action on risk reduction and risk transfer.

Tulsa, Oklahoma, is one of two communities nationwide that have achieved the CRS program's highest program rating. I recently spoke to the Oklahoma Floodplain Managers Association annual conference in Tulsa, and I saw firsthand how the city had transformed its approach to flooding. The conference host, Annie Mack Vest, helped Tulsa achieve its noteworthy status and NFIP policyholders there now enjoy a 45 percent discount off their flood premiums. Apparently I was not the only one to notice Annie's accomplishments. Oklahoma Governor Kevin Stitt recently appointed Annie to serve as the State's top emergency management official.

In addition to FEMA grant programs, though, that incentivize these resilience investments, States have been launching their own innovative programs. Said by Russ Strickland—he is the Secretary of the Maryland Department of Emergency Management and recently elected to be the President of the National Emergency Management Association—his quote is, "Hazard mitigation is the center of the universe."

To that end, South Carolina recently announced \$200 million for flood resilience projects, while Florida, South Carolina, Alabama,

and Louisiana, and others have programs aimed at incentivizing homeowners to strengthen their homes against hurricane risk. A recent academic study reviewing the Alabama program found that participating homeowners found their insurance premiums reduced and their home values increased, confirming our view that resilience pays.

Beyond Government programs, the property and casualty insurance and reinsurance industries are developing innovative programs to protect communities and homeowners against floods. Community-based catastrophe insurance, or CBCI, is a parametric product pioneered by Marsh McLennan. It provides disaster insurance to local government entities that wish to cover a group of properties. The program enhances financial resilience by simultaneously providing affordable coverage and creating incentives for risk reduction. Our recent CBCI pilot in New York City was developed in partnership with the city of New York and several non-profit and insurance industry partners and funded by the National Science Foundation. It provides a level of financial protection for low- to moderate-income households that previously lacked insurance.

More broadly, other industries such as the financial and real estate industries, can incentivize flood resilience investments together with the insurance industry and all levels of Government. The National Institute of Building Sciences recently issued a roadmap for resilience incentives specifically highlighting how residential structures prone to flooding would benefit from these incentives. The report identified co-beneficiaries of mitigation investments and highlighted how these co-beneficiary industries can together help pay for these investments.

Thank you for your time today and the opportunity to share how Federal, State, and local programs, together with innovations from industry, can help close America's flood resilience gap. I look forward to your questions.

Chair BROWN. Thank you, Dr. Kaniewski.
Mayor Patterson, welcome.

**STATEMENT OF STEVE PATTERSON, MAYOR, CITY OF
ATHENS, OHIO**

Mr. PATTERSON. Thank you. Good morning, Chairman Brown, Ranking Member Scott, as well as the esteemed Members of this Committee. I appreciate the invitation to speak to you on behalf of the National Flood Insurance Program. I am Steve Patterson, the Mayor of the great City of Athens, Ohio, home to Ohio University. I am also the Second Vice President for the National League of Cities, representing 19,000 communities, cities, villages, and towns across the United States, and the President of the Mayors' Partnership for Progress, which represents 19 Appalachian counties and 120 communities and 800,000 citizens across southeast Ohio.

Cities, towns, and villages are experiencing a higher frequency of intensity of extreme weather events, including hurricanes, floods, wildfires, and heatwaves. These severe and unpredictable weather conditions are leading to large-scale disasters that can overwhelm existing infrastructure as well as emergency response capabilities.

As we discuss the flood insurance, the recent devastation that we are seeing in San Diego highlights the reoccurrence of impacts of flooding on our cities and residents. My thoughts go out to Mayor Gloria and the San Diego residents during these tough times.

Ohio University, like many cities, has also experienced floods, most notably the 1968 flood, at which we crested at more than 24 feet, 20-foot flood stage, which created a large problem for the City of Athens. Since then we have been working with the Corps of Engineers to mitigate a lot of those flood events that we see in our city.

While Athens strives to reduce flood risk, concern persists about the potential for significant events like San Diego's. That is why NFIP is critical to offset these potential losses from such disasters and to protect our communities. NFIP ensures rapid access to funds for repair and restoration, minimizing the economic strains that affect our families and contribute to our communities' resilience. Recognizing the critical need for long-term reauthorization of the NFIP, NLC has endorsed the National Flood Insurance Program Reauthorization and Reform Act.

Beyond individual homeowners, NFIP impact extends to economic stability at the community level. The program's commitment to prompt financial assistance prevents prolonged—and I mean prolonged—economic impacts, and financial assistance prevents these downturns, resulting in extensive property damage.

This stability benefits not only homeowners but also the ripple effects on our local business economies, our schools, public services, supporting the overall well-being and vitality of our communities. NFIP further empowers comprehensive floodplain management, catalyzing local governments to establish long-term floodplain management strategies. This includes detailed maps, risk assessment, and mitigation plans. Through NFIP, municipalities gain access to resources and expertise, enabling proactive measures such as robust zoning regulations, integrated flood risk considerations into land-use planning, and critical infrastructure improvements.

Cities such as Athens are implementing strategies like green infrastructure, resilient housing, community-based disaster preparedness, smart technologies, inclusive plannings, stakeholder collaborations, social infrastructure investment, and adoptive transportation. These efforts underscore cities' commitments and to thrive and adapt in a changing world.

While State, Federal, and local investments from Infrastructure Investment and Jobs Act aims to minimize losses caused by extreme climate events, the allocation funds still fall significantly below the escalating demand to combat the increasing risks of extreme weather events. Local governments continue to need additional funding and resources to enhance our collaborative efforts to bolster resilience, protect communities, and ensure the long-term sustainability of our infrastructure.

NFIP continues to provide flood insurance for property owners due to challenges in the private flood insurance covering in the many at-risk areas—concerns about cherry-picking by private insurers, leaving vulnerable communities for NFIP, raising equity issues and threatening the sustainability. NFIP's capacity to address challenges from catastrophic floods positions it as a vital

player—and I mean a vital player—in providing financial protection to at-risk communities, a role elusive with the private sector.

NLC's members are also concerned about the sluggish pace of the funding that is being disbursed in the Community Development Block Grant Disaster Recovery Program, the CDBG–DR, hindering long-term recovery efforts after disasters. Bureaucratic hurdles and lengthy processes delay the much-needed funds, impacting the ability to promptly address urgent needs and slowing down the overall recovery efforts. That is why NLC supports the bipartisan Reforming Disaster Recovery Act in the hopes that the legislation would significantly improve the CDBG–DR Program for faster community recovery from major disasters.

In conclusion, the NFIP is a critical resource, offering financial protection for residents and aiding and building resilience and sustainable communities. The National League of Cities eagerly anticipates collaboration with this Committee to ensure NFIP remains an effective tool in safeguarding communities nationwide.

Thank you for your attention. I am available for further information or for questions.

Chair BROWN. Thanks, Mayor Patterson. Thank you all for testifying.

We are going a bit out of order. Senator Scott and I have agreed on that. At the request and the agreement of the Ranking Member, Senator Kennedy of Louisiana will be first to ask questions. I understand you have been called away for a constituent event related to D.C. Mardi Gras, and I would hope, Senator Kennedy, that I do not ask for much from you except to stay within your 5 minutes, but I hope that maybe there would be a king cake in it for Senator Scott and me. Senator Kennedy.

Senator KENNEDY. When you get back to your office you will have a surprise.

Senator SCOTT. Senator Kennedy, if you go 7 minutes I will give you more.

Senator KENNEDY. OK.

[Laughter.]

Chair BROWN. Sorry. That was not part of the agreement, ever.

Senator KENNEDY. I want to thank our esteemed Chairman and Ranking Member, Senator Tester, for accommodating my schedule.

Thank you all for being here, especially to my friend, Michael Hecht. He is a very talented, able guy. Michael is head of the business community in New Orleans and the surrounding area. I can say some things that he cannot say.

We have two problems in Louisiana in terms of flooding. We have hurricane flooding and we have nonhurricane flooding. I want to talk about the nonhurricane flooding first.

When New Orleans gets 2 inches of rain in a short period of time, it floods. Why? Because New Orleans is below sea level, and it is in a bowl. It is in a bowl. That is why our founders in the city built first in the French Quarter, because it is the highest area.

We have what is called a Sewage and Water Board, which has pumps when it rains a lot to pump the water out. We have had that for years and years and years and years. The taxpayers pay for it. And for years and years and years and years it has been a

model of inefficiency. In fact, it has been a cesspool of political patronage and corruption.

Now Michael cannot say that, and the business community does not want to say that because they are worried about retribution from the politicians. But it is the truth.

Look at the headlines from our TV stations. “Payroll fraud in a secret sex room”. “Troubling allegations at New Orleans Sewage and Water Board”. “Former New Orleans Sewage and Water Board employee sentenced for theft scheme”. “New Orleans Sewage and Water Department raided by FBI”. “Ex-Sewage and Water Board official has to pay back \$100,000 he stole”. Next headline, “We knew the Sewage and Water Board was dysfunctional. Now we know it’s corrupt”.

The people of New Orleans deserve better, and what we need to do is one of two things: the politicians have had their shot. They missed. We need to either turn the Sewage and Water Board over to the State of Louisiana and let somebody else run it, or we need to privatize it, because the Sewage and Water Board’s plan right now, when it floods, when half of the pumps are broken, you know what their plan is? I kid you not. Move to higher ground. Where?

Now the second problem is hurricane flooding, and this is the National Flood Insurance Program. We need a National Flood Insurance Program that looks like somebody designed it on purpose, because the one we have right now is not. The old one was not great, but at least it sort of worked.

A few years ago FEMA decided they were going to reinvent it, and they hired an outside group of consultants, paid them bucket-loads of money, called Milliman, and Milliman came up with a new algorithm. And this algorithm is so good they say they can look in the future and look at each individual home and predict whether it will flood or not, 20 years from now. They made all kind of wild allegations.

Any day now, I expect FEMA to say, “This algorithm is so great it will grow hair,” or “it will cure ED.” And I say, “Man, I need to see this algorithm. Can I see it?” “No. If we show it to you, I’ll have to kill you.” And I am in charge of their budget. They lied. They lied. They have the credibility of Jussie Smollett and Michael Avenatti put together. They lied. They said a million people of the five million people will see their rates go down. I have not talked to a single person who has seen their rates go down. This is just an excuse to raise premiums, and they do not care.

The whole purpose of a National Flood Insurance Program is to provide a product that people can afford. In my State, here is what the premiums have done. They said, “Oh, a lot of your people, Kennedy, they will see decreases.” Claiborne County—we call our counties parishes—a 305 percent increase. Another parish, 321 percent. Plaquemines Parish, 540 percent. FEMA lied, and they are not going to do any better.

Now the best part of Senator Menendez’s bill—it is a good bill; I am on it, he and Senator Cassidy. We have all worked hard—but it is going to cap the rate increases at 9 percent. Right now FEMA can raise the premiums 18 percent every single year, and they are going to keep doing it because they do not care. They lied to the American people and my people, and they ought to hide their heads

in a bag, along with all the politicians that have allowed the Sewage and Water Board to steal money for all these years.

Thank you.

Chair BROWN. Thank you, Senator Kennedy.

Senator Tester is recognized for 5 minutes, from Montana.

Senator TESTER. Yes, thank you, Mr. Chairman, and Mr. Kaniewski said that he heard another person saying hazard mitigation is the center of the universe now. I always thought it was Cleveland, but maybe not. Enough of that.

So look, we are on our 28th straight short-term extension of the National Flood Insurance. Beyond ridiculous, quite honestly. My question is for all three of you, but I only want you to use it for 30 seconds because you could all talk on it for 10 minutes, and that is, from this Committee's standpoint, what would you prioritize, besides the extension baloney, what would you prioritize in an NFIP bill as the most important qualities?

Go ahead. We will start with you, Mr. Hecht.

Mr. HECHT. Thank you, Senator. First would be affordability because we want to make sure that people stay in the program and it does not go into a death spiral. The second would be comprehensibility so people understand what they can do to make improvements and what they are paying for. And the third most fundamentally would be money for mitigation because hazard avoidance, reducing exposure is the center of the universe, and it is how we are going to improve this for our Nation, over time. Thank you.

Senator TESTER. OK. Go ahead, Mr. Kaniewski.

Mr. KANIEWSKI. My answer is going to be hazard mitigation. Hazard mitigation because not only does it protect existing homeowners against their existing risk, it helps protect homeowners in the future, and anyone else who purchases that home in the future against future risk. It also gets at the affordability issue, because if you have reduced your risk you should also be able to reduce your rates.

Senator TESTER. OK. Mayor Patterson.

Mr. PATTERSON. I would have to echo the affordability. I would also recommend looking hard at the CDBG-DR to streamline that. I come from one of the three chronically distressed counties in the State of Ohio, and when I look at affordability and look at my residents and my constituents it is a big challenge when you live the chronically distressed part of the State. And it is not just in our State. I look at all of Appalachia and see the exact same thing, and see affordability and streamlining access to CDBG-DR to where it is getting out more quickly and more effectively.

Senator TESTER. Thank you for that. I am going to go back to you, Mr. Hecht, because you talked about sustainability. All three of you talked about affordability with the last answer, and I agree, it does not do any good to have insurance if it is not attainable. But you also talked about sustainability, which is pretty damn important. We are \$30 billion in the hole on the National Flood Insurance Program right now. I worked with Senator Vitter, Senator Kennedy's predecessor, and Senator Heller from a different angle on flood insurance. Affordability is always the issue, and sustainability means it is paid for, right? At least that is my definition of it.

So how do we do this? Because when you are comparing the premium to risk, it is, well, you correct me if I am wrong, the risk is pretty significant.

Mr. HECHT. Yes, thank you. So I think that there are two ways of looking at this. One is on the cost and efficiency side, and I think that Senator Scott spoke to this. The fact that 1 percent of claims are accounting for 30 percent of the payouts is something that clearly needs to be addressed.

Senator TESTER. And how would you address that?

Mr. HECHT. Well, I think that you are going to have programs that basically that if you are a repetitive-loss building that at some point you do not qualify for new payouts. You basically need to be remediated, and you cannot build there any longer. There has to be a recognition to being smart about this program going forward.

Senator TESTER. So let's put this in plain talk. In other words, what you are saying is if you have an event that is expensive, unless you do some pretty significant mitigation you are not going to be eligible for the policy anymore.

Mr. HECHT. I would say there is a little bit of a subtlety to that, because I think we have to define what is the appropriate definition of "repetitive." If you have one event then you should not be taken out of the program. And I cannot say here today what the exact level should be, but there should be some point, after two or three events, that if you have not mitigated it, reduced exposure on your own, or are using public assistance then you do not get to continue to be a bad penny.

Senator TESTER. And I hate to keep going down this road, but look, Senator Kennedy talked about being below sea level. That is a problem. Building in the floodplains of rivers is a problem. We see the same thing, by the way, with fires. You build in the middle of the forest; the forest is going to burn.

So the question is, and yet we have taxpayer subsidy of this program. We have taxpayer subsidy of a lot of programs, by the way. But we have taxpayer subsidy of this program. So how do we really get it to a point, because I do think sustainability is important. How do we get it to a point where it is a sustainable program, so that we are not dependent upon the U.S. taxpayer, for people who make bad decisions? Yes, go ahead.

Mr. HECHT. No, no. It is a very complicated issue. One is efficiency. I think the other question we have to look at is the write-your-own programs are critical to us. They work for us. But should you get 30 percent continually as the rates continue to go up, that is a question.

On the other side of it, we were able to be in Amsterdam over the holidays. When you arrive in Amsterdam Airport, Schiphol, there is a sign there that says, "Welcome to below sea level." They have mitigated so well that it is actually a positive for them. So we do have the ability to design structures that protect communities and homes in a way that ultimately will reduce the exposure to the taxpayer.

And finally, flood insurance, I would argue, is really a social good. We need to live and work near water as a Nation, so we have to have programs that maybe provide some level of, as you said, cross-subsidization.

Senator TESTER. Thank you, all three, for your testimony. I appreciate it.

Chair BROWN. Thank you. Senator Scott, of South Carolina.

Senator SCOTT. Thank you. My good friend, Tester, asked a really good question about the impact of all of these challenges, repeated losses, but one of the things that at some point we are going to have to have a conversation, as a Nation, about a comprehensive catastrophic occurrence approach. The truth of the matter is that if you live in inland, name your State, your exposure and education on flood insurance, or the necessity of flood insurance, or NFIP is probably just absent. If you live in Charleston, we may have a tornado every now and then, but not a big deal. If you live in Colorado or California, your exposure to fires is a totally different experience.

But if you live in America, the fact is simple. We, the taxpayers, have paid out hundreds of billions of dollars over the last 10 years because of catastrophic occurrences. It matters where you live to what the occurrence is, but it is occurring everywhere.

And so while we are here today to talk about the National Flood Insurance Program and the importance of understanding how to mitigate that risk, the truth of the matter is that we, at some point, need to have a serious conversation about the comprehensive nature of catastrophic occurrences, that an insurance company cannot create a probably maximum loss, which means that that experience or that occurrence will not be insured at some point because you cannot figure out how to have an actuary sit at a table and figure it out. So without that comprehensive approach we really are missing the target by a mile.

That said, if a home floods and the owner does not have coverage, Mr. Kaniewski, what are the options?

Mr. KANIEWSKI. Well, if I can back up a second and say if they do not have flood insurance the first time they may learn about that will be when the flooding happens. Far too many Americans believe that flood insurance is included in homeowner policies. It is not.

Senator SCOTT. That was my second question.

Mr. KANIEWSKI. And then they also may believe that the Federal Government will be there to help them.

Now again, in my role at FEMA, absolutely, if there was a Presidentially declared disaster FEMA was there to help. But the amount of assistance that FEMA is legally able to provide to a homeowner who has experienced a loss of any kind, including a flood, pales in comparison to what insurance would pay.

Senator SCOTT. And I am not sure if the number is \$39,000 from FEMA or \$40,000, but it is not \$400,000.

Mr. KANIEWSKI. Correct.

Senator SCOTT. It is not \$50,000. It is actually around \$39,000 or \$40,000, last time I checked, and I have not checked for this hearing.

But I will say this, that the fact of the matter is that the floods that are occurring in different places every year, and the places where we are seeing floods occur—as an example, we had, I think it was 2015 or so, we had a 1,000-year flood in South Carolina. Not in Charleston, not in Myrtle Beach, not in Hilton Head. In Colum-

bia. The community could not have been prepared for that because it is not supposed to flood in Columbia, South Carolina. But that actual experience is happening throughout the country in places where they do not expect it to flood.

So having a conversation about the necessity of flood insurance is very difficult. Having sold it as an agent on the coast, it is very difficult to tell someone who is 100 yards or 1,000 feet away from the water that you need flood insurance. Oh, it will not happen to us. We will just build high enough. Well, sometimes "high enough" is a relative definition. So we do need to have a different marketing strategy and approach as it relates to preparing for floods in places where we just do not think it is going to flood.

During my opening statement I mentioned some recent actions taken by home State of South Carolina, providing communities with tools they need to protect their residents. Combining significant State investment in flood mitigation for a variety of mitigation strategies seems like a recipe for success at the local level. It has positive impacts at the national level.

Mr. Kaniewski, could you provide us with any thoughts you may have, in about 30 seconds, on this approach?

Mr. KANIEWSKI. Well first I, too, applaud the State of South Carolina. I mean, it is really a rare event where you see a State stepping up and saying, we are going to commit hundreds of millions of dollars to address this risk in our State. We are going to protect our citizens. We are going to protect our municipal infrastructure. We see it as a societal benefit.

And I just want to pause for a moment and say what a big deal that is, because not only will that protect the citizens of South Carolina, it will protect the American taxpayer.

Senator SCOTT. Thank you for that. And, Mr. Chairman, with my last 2 seconds left just quickly, when I think about the hundreds of billions of dollars paid out because of natural, catastrophic occurrences, the one thing I did not think about until you just mentioned it is that the public sector for public infrastructure pays out on top of that expense. So I would imagine in the last 10 years we have exceeded \$1 trillion of payout, for the residents and the public infrastructure around this country, for an occurrence that is going to happen again and again and again.

Chair BROWN. Thank you, Senator Scott.

Senator Menendez, of New Jersey, has probably put more thought into this issue than anybody on the panel. Thank you.

Senator MENENDEZ. Thank you, Mr. Chairman. Thank you and the Ranking Member for holding this hearing. I am not as colorful as Senator Kennedy but I agree with a lot of what he had to say.

Since FEMA recently changed its rating methodology, the program has lost 150,000 policyholders. FEMA itself has estimated that it will lose 1 million policyholders by the end of the decade due to the premium increases.

In Patterson, New Jersey, where the medium household income is \$50,000 a year, policyholders will see their premiums increase from an average of \$1,500 a year to an average of \$4,000 a year. In Keansburg, New Jersey, where the medium household income is \$76,000, 1,000 policyholders will go from an average of \$1,300 to \$3,500. And the list goes on.

So, Mr. Hecht and Mayor Patterson, can working families handle these types of increases?

Mr. HECHT. Thank you, Senator, and thank you for your leadership on this issue over many years. One of my notes here I just looked at, which I think is important to say, is that the challenges of flood insurance, which would be difficult for a working-class family to handle on their own are being compounded now by inflation, which is making groceries and gasoline more expensive, and then homeowners insurance, which is being driven by reinsurance, which has gone up, I know in Louisiana, about 65 percent, I think nationwide between 15 and 20 percent.

So we really have a middle-class, working-class affordability crisis throughout the country, where flood insurance is just one of the vectors.

Senator MENENDEZ. Mayor.

Mr. PATTERSON. Yes, I would add to that, in Athens, in Athens County, the median household income is around \$42,000, so it is much lower than the national average. It is a challenge, you know, to have that added burden, especially those who are living within the floodplains, within the city and throughout the county. It is going to be an exceptional burden on them. And to echo the already existing cost-of-living increases that we are all experiencing. But again, my default becomes the distressed counties in Appalachia.

Senator MENENDEZ. What happens is that families who are forced to drop their flood insurance coverage due to rising costs and later suffer damage in future disasters, that is the ultimate disaster to them.

And look, insurance is about spreading risk, right? The wider the pool, you know, the less the cost. The smaller the pool, the higher the cost, and that drives people out at the end of the day. And so if we think about how much money taxpayers are paid when there is a disaster declaration, true, not as much as an insurance company will pay, but still that is the taxpayer dollars, and I have not seen too many Presidents when there is a natural disaster somewhere in the country say, "Sorry. Not going to give you a declaration." They give declarations, which means the taxpayers' monies are being spent. So we should put that in as part of the equation, understanding that.

And then if the private sector could do this, and do it at a reasonable cost, I would be all for it, but we have seen that the private sector just really is not going to go and do this, in a way, without a backstop that ultimately creates that opportunity.

So, you know, the NFIP RE Act that I introduced, myself, Senator Cassidy, Senator Kennedy, and a whole bunch of others, on a bipartisan basis, lowers the statutory cap to 9 percent, the average annual increase that policyholders have seen since the Homeowner Flood Insurance Affordability Act of 2014 was signed into law. It also creates a voucher program to help families buy into the program. And endless increases help no one remain in their homes if there are unmitigated and uninsured consequences.

A long-term reauthorization of the program must include robust funding of, as I think you have all talked about, mitigation, to decrease the risk profile of the program and provide a sound financial future. If we know right now which homes are most at risk we

should not wait until a flood to step in and help. For every dollar of mitigation the Federal Government saves \$7 in disaster relief payments.

But there is one critical mitigation financial tool of the NFIP, the increased cost of compliance coverage that has grown obsolete. Mr. Kaniewski, how much does it cost to raze a home, in general?

Mr. KANIEWSKI. Unfortunately, flood mitigation measures, especially one that you just described, are among the most expensive hazard mitigation measures.

Senator MENENDEZ. Probably anywhere between \$100,000 and \$150,000. We did this in New Jersey after Superstorm Sandy. And currently the ICC coverage only provides \$30,000 to raze a home, which is no longer sufficient to get a home in compliance. That is why our NFIP RE Act modernizes increased cost of compliance by increasing the amount of coverage available to \$120,000, and making it accessible the moment homes are out of compliance with building codes.

And so in my mind there is a series of things that we can do, but if we believe that sustainability is going to be driven purely—purely—by rates and payment, then we are going to drive not a million, we are going to drive a lot more people out of the National Flood Insurance Program. That will collapse, and then we will be in a set of circumstances when a disaster takes place that we will have disaster declarations, we will spend the taxpayers' money, but we will have no mitigation from the private sector side and from the individual citizens' participation, not to mention that the value of their home, Mr. Chairman, goes through the basement, because if you are in a flood zone and you do not have flood insurance, and your mortgage requires it, or if you want to sell and someone needs to get flood insurance and cannot afford it in order to buy for the new mortgage that may require it on that home, that home is virtually worthless.

And so these are all parts of the equation that we have to think about, and that is what we try to do in our legislation, and we look forward to working with the Chair and others to see if we can make something happen. Thank you.

Chair BROWN. Thank you, Senator Menendez.

Senator Britt, of Alabama, is recognized.

Senator BRITT. Thank you to the witnesses for being here. I certainly appreciate you taking time to be in front of us and let us ask important questions.

I want to first echo some concerns that I previously highlighted before this Committee, related to Government overreach and overregulation.

We have seen it across the board in all financial institutions, the regulators are bringing, under this Administration, more regulation, more overreach, more burden, and unfortunately the Federal Insurance Office is no different.

In November, the Treasury Department announced that it is moving forward with FIO's climate data call, and this is just yet another blatant effort to overstep into the State-regulated insurance industry and collect incredibly detailed information from our communities. The effort completely undermines our well-functioning State regulatory system and is an effort to pursue this

Administration's climate agenda at the cost of both taxpayers and industry.

That is why I introduced the Insurance Data Protection Act with 16 of my Senate colleagues, including all of the Republican Banking Committee Members. The bill would rein in the overreach we have seen from the Federal Insurance Office and keep the office as it was intended to be, an informational body that supports the efforts of our State insurance regulators. State insurance regulators understand the unique needs, including the weather challenges, faced by their communities, and they help drive solutions.

Unfortunately, Alabama is no stranger to the impacts of our natural disasters. We have experienced the devastation of everything from tornadoes to hurricanes to major weather events, and everything in between, the effects that those have on families, homeowners, and communities. Even this week we are preparing for strong storms and flash flooding across southern Alabama.

It is imperative we are forward thinking in our disaster mitigation, disaster preparedness, and resiliency efforts. The Alabama Department of Insurance, in particular, has been a champion in this space. In 2011, Alabama established the Strengthen Alabama Homes Program, designed to aid and incentivize Alabama homeowners to improve their homes and to minimize property loss due to weather events.

Mr. Kaniewski, I appreciate you highlighting these efforts in your written testimony. You specifically touched on the Fortified Roof Program that we have in Alabama and a report by three universities that studied the demonstrated benefits of the program. In short, the study found that the program directly resulted in (1) lower insurance premiums, and (2) higher home resale values.

For those that may not be aware of the efforts in Alabama, can you further describe them and touch on the proven benefits that they have to homeowners?

Mr. KANIEWSKI. Well, thank you, Senator, and I have got to say, in many forums I often laud Alabama. Alabama has three really notable things that you touched on. One, they have a Resilience Council. They created a council, and you say, oh, council, big deal. No, it is a big deal, because it meant the Governor is prioritizing resilience. Moreover, the cochairs of that council are the State emergency manager and the State insurance commissioner. In some States those two do not even speak. In Alabama, they sit together and they work on these resilience issues jointly. So kudos number one.

Kudos number two, Strengthen Alabama Homes, as you mentioned. That program has been so successful that other States are now replicating it. Louisiana is now putting it into place, a virtual carbon copy of what Alabama put in place. And your State insurance office is working very closely with the State of Alabama to help them implement that program.

So again, kudos number three, the study you mentioned. You are lucky to have a researcher named Lars Powell at the University of Alabama, who did that study. I thank Lars any opportunity I have because that is the first study that I have seen that gives empirical data, real evidence, that mitigation pays.

Senator BRITT. Thank you. And so how do these types of efforts play into the larger discussion that we are having today, I mean, around reforms to the National Flood Insurance Program, and particularly on incentivizing communities to focus on disaster mitigation, preparedness, resiliency? Can each of you just speak to that quickly?

Mr. HECHT. Yes, thank you, Senator. Actually, Louisiana competes with Alabama, or tries to, on many things like football.

Senator BRITT. Roll Tide.

Mr. HECHT. In this case the Fortified Roofs Program that you all have put out there is the one that we model on. We were recently in London, meeting with Lloyd's, talking about that program. And what we love about that is that we are going to debate affordability and how we make this work. Ultimately, it is going to be community-based resilience, which prevents the damage from happening, that reduces exposure. That is the answer for our States and our country.

Senator BRITT. Thank you.

Mr. KANIEWSKI. Well, we certainly have studies that are out there, like the National Institute of Building Sciences that puts out great work on the 6-to-1 number. It is 7-to-1, even 11-to-1 in building codes. But rarely do you see an opportunity where a State is a living laboratory, puts those ideas into action, and shows, with real data, with real homes, that resilience pays.

Senator BRITT. Thank you.

Mr. PATTERSON. I think what I would add, and when you are speaking of test cases, the City of Athens is, in earnest, taking on flood mitigation, given that we have the Hocking River that runs right through the center of the city. And as I mentioned earlier, we are home to Ohio University, where back in 1968, and before that, the campus was completely split it have during high-water events, with flooding that was taking place. We have since worked with the Corps of Engineers to basically reroute the Hocking River, move it to where it was no longer as significant a flood threat, but it is still a flood threat in the City of Athens.

And so we have, in earnest, gone to great lengths to remove a lot of the invasives along the banks of the river itself, and in doing so we are reintroducing native trees that are high-volume suckers, if you will, with sycamore trees, black willows, and swamp oak that are lining that now, which really helps when we do have high-water events that we are able to clear that watershed more quickly with absorption, but also creating a more laminar flow through the City of Athens by removing the invasives, which basically acted as snags to catch deadheads and other debris, therefore creating basically artificial fast-moving flash flood dams. So that has been effective. We have seen that that has been very effective with reducing the flooding that we are seeing in different neighborhoods throughout the city. And we are going to continue on that mission.

We are currently working with the Corps of Engineers under Section 206 as well as 1135 to help work with them to explore different ways to where the tributaries coming into the Hocking River are also reduced. We have had significant flooding on some of the tributaries.

But I guess my point being is that there are a lot of things that cities can do, villages can do. Now I will also add this, that when it comes to cities and villages, capacity becomes a real concern. Do they have the capacity? Do they have the financial wherewithal to be able to address some of these things? And I would say in the cities and villages that I engage with, that are small, the answer is no.

Senator BRITT. Thank you very much. We have got to empower homeowners and communities to be resilient against these storms and other conditions. I appreciate it.

Chair BROWN. Thank you, Senator Britt. I will continue to waive my questions. Senator Warren.

Senator WARREN. Oh, thank you, Mr. Chairman.

So climate change is wreaking havoc on our communities, and with global temperatures on the rise natural disasters are coming more often, and they are doing more damage. And with floods accounting for about two-thirds of the costs of all natural disasters our Nation's flood insurance program is feeling the strain. In just the past decade, the National Flood Insurance Program has been hit by 4 of its top 10 costliest events in history. More floods, more intense floods, mean more families and businesses need flood insurance more than ever before.

Last year, parts of Massachusetts were devastated by historic flooding, causing millions of dollars in damage to homes, to businesses, to farms. Modeling shows that over 100,000 properties in the commonwealth that are not in FEMA's flood zones and do not have flood insurance are at serious risk of experiencing a flooding event.

Mr. Hecht, you are an expert on flood insurance market. With climate change on the rise, more people need flood insurance. Does that mean that everyone who needs flood insurance today gets that insurance?

Mr. HECHT. Absolutely not. Only about 4 percent of U.S. homeowners have flood insurance. That number should be much, much greater.

Senator WARREN. In short, our flood insurance system is not working right now. The best and most important thing we can do is tackle the root of the problem. We should be making big, bold investments to stop climate change in its tracks and to reduce the risks that floods pose to our Nation's communities. But at the same time we need to make sure that we understand exactly how the ongoing climate crisis is affecting our insurance market.

So Mr. Hecht, let me come back to you. We know a few things about how climate change is changing access to insurance. We know that premiums are up by hundreds of dollars a year in many areas. We know that private insurers have pulled out of flood-prone States like Florida and your home State of Louisiana. But if we wanted to know exactly why an insurance company was pulling out of Leominster, Massachusetts, for example, and what insurance options were available to people in Leominster, at what premium levels, do we currently have data available to be able to do that?

Mr. HECHT. Senator, no. So NAIC collects data that is at a State level, policies in force, and so forth, but I do not believe we have that level of granularity.

Senator WARREN. OK. So down at the homeowner level, at the town level, at the area that is flooding level, we just do not have that information.

You know, the Federal Insurance Office at the Treasury Department is now working to try to fill that gap. In November, FIO proposed a plan to collect data from insurers on how climate change is affecting Americans' access to insurance and to the affordability of that insurance, including information on premiums, coverage, and claims.

Mr. Hecht, FIO has proposed gathering data about the effects of climate change on one type of home insurance. Would it be helpful if the Administration gathered data on more types of insurance, like flood insurance, and about more categories of information, like the reasons for policy cancellations?

Mr. HECHT. I have two quick answers to that. One is that as a homeowner you are looking at the cost of staying in your home, which is all types of insurance plus your mortgage note and your car payments and so forth. So the answer is yes.

And then second, I think data, good data, is power.

Senator WARREN. So we are in the same place. I always want more information, and particularly in an area like this we have to understand the problem in order to fix the problem. The Biden administration should finalize its data call about the effects of climate change on the insurance market as soon as possible, and the Administration should collect all of the data necessary to understand our gaps in insurance coverage and to work out the right regulatory response.

Good. Thank you all very much. Thank you for being with us today.

Chair BROWN. Thank you, Senator Warren.

I want to go back to your talk, Mayor Patterson, your talk about what you did in Athens. I was in high school and I remember, I did not know much about that part of the State but I was maybe a sophomore in high school and I remember that flood, and it was the first time I really thought about something happening relatively close to home.

Talk about opportunities beyond what you did to encourage collaboration between universities and communities. OU, for those not familiar—I mean, you all know about Ohio University, but it is a big university in a relatively small town, and has a huge impact on the town, 95 percent positive impact, I would say, not discussing the other 5 percent of the difficulty with [inaudible] relations. But if you would comment on that.

Mr. PATTERSON. Senator, Thanks for the question. There is a lot that we are doing. We are blessed in that we have Ohio University and great partners with the city, not just the City of Athens but also the regional campus cities. You know, by having the Voinovich School of Leadership and Public Service they have got a strong GIS mapping arm. So that school in itself is a resource that has been made available to the Mayor's Partnership of Progress, which I already mentioned. So they play well with us to scrape the data that is necessary for us to understand the flood risks as well as better understand those with the greatest need when it comes to the impacts of flooding in our region. So they have been a great partner.

I would say that having a workforce, a volunteer workforce at that, of the 19,000 students at Ohio University, they take part in doing a lot of the tree plantings that I had just mentioned. You know, we planted, over the last 8 years, more than 411 trees, both along the river and inland as well, to not only protect us and mitigate for flooding issues but also our decarbonization mission that we have in the City of Athens, with a pretty strong, with a 4 percent sequestration of carbon. But it is the students who come and help us work with that, the river sweeps that take place. They are engaged in that effort as well.

But for me to have the ability—and it does not hurt that I taught at Ohio University for 18 years of my life—I know the schools and the departments to go to, to use those resources. But again, as I had mentioned, we are using them now in the cities of Zanesville, in the city of Ironton, in the city of Saint Clairsville, where there are regional campuses, and it has become a real force multiplier to have access to some of these resources to where, again, the capacity in some of the smaller cities and villages to be able to get this type of work done is insurmountable to them. They will not even think about it. They are thinking about having someone who is going to be hired to drive the snowplow versus someone who is going to be their GIS tech.

Chair BROWN. Few campuses have the reputation of activism the way yours does, the way OU does, and I appreciate you talking about the branch campuses. I have introduced a bill, the Neighborhood Tree Act, to help communities plant more trees. My thinking on that was informed about a book I read some time ago called “Urban Forests” or “Urban Trees”, I think. And I remember one of the things that this book pointed out was an aerial picture of Los Angeles County showed that Beverly Hills was 55 percent tree covered and south central, one of the poorest parts of the city, was something like 13 percent. I was also informed by the work you did because of the Hocking River flooding. So this legislation surely could make a difference in helping, in a significant, not a hugely consequential way but significant in some communities.

Let me go, Mr. Hecht, to you for a moment, and if I have time I will come back to you, Mayor. FEMA reports it cannot pay back debts stemming from previous disasters. It will have to pay nearly \$8 billion in debt interest, as you know, over the next 10 years. In 2017, at the request of the Trump administration, we forgave \$16 billion of the program’s debts, debt following Hurricane Harvey. I am glad to hear you agree that forgiveness is important.

Would you like to comment on the benefit of using NFIP’s resources for things other than interest?

Mr. HECHT. Yes. Thank you, Mr. Chairman, and I agree with the doctor that if we can use those funds to invest in mitigation at the community level, things like levees, at the individual levels, providing for better roofs or elevating homes we are going to reduce our exposure over time.

So if you think about exposure and costs, kind of like net present value like a stock, it is going to improve our stock price by making these investments today. So it does not seem like it is wise to just pay back the Treasury when that money can be going to actually reduce costs to the Treasury over time.

Chair BROWN. OK. Thank you. And Mr. Kaniewski, I know that you played a role in that, as I think you said number two at FEMA. Thank you for that.

Back to the Mayor, we have heard support from each of you for investments in mitigation. Talk about the barriers in smaller communities, not just Appalachia but other places where they are more likely to have natural disasters of any kind. Talk about the barriers accessing Federal resources and managing floodplains and other kinds of natural disaster preparation.

Mr. PATTERSON. Thank you, Mr. Chair. You know, as I had mentioned earlier, the barriers become capacity, and some of the barriers become education. I look at my colleagues not just across the State of Ohio but across the Nation, who come from small cities, villages, and a lot of them do not know where to turn to seek insurance funding. A lot of them do not know about the funding. You know, it becomes capacity. So there is a disconnect, I think, in a lot of the smaller cities and villages. So that is of real concern to me.

We were talking earlier, you know—and thank you for your work on SSI and SSDI with Senator Cassidy—our individuals who are living on fixed incomes, you know, from a financial standpoint, especially as I have mentioned, and I have said it three times now, being in a distressed county where we have a lot of individuals living on significant fixed incomes, helping them understand how they can be able to access insurance if at all possible, it becomes a real issue.

Chair BROWN. Thank you. Senator Cortez Masto, from Nevada, is recognized.

Senator CORTEZ MASTO. Thank you, Mr. Chairman, and thank you, all three of you, for this important discussion. I am from Nevada. Flooding looks a little different in the desert, and I will tell you we do have challenges with flooding from heavy rains, flash floods—I grew up with those in southern Nevada—new land development that changes the natural drainage, and really the spring thaw of winter snow. So the questions I have for you are kind of based on the inland challenges that we have for flooding.

I guess my first question is I know the Department of Homeland Security developed 17 legislative proposals to reform the NFIP. One of those was a recommendation at the agency that FEMA differentiate between coastal and inland locations when determining premium rates for policies. Mr. Hecht, would you agree with that?

Mr. HECHT. Thank you, Senator. To the degree that making that differentiation allows for better data, more granularity, and for people to have more appropriate coverage, yes.

Senator CORTEZ MASTO. Good. Does anybody disagree with that? I would be curious.

[No response.]

Senator CORTEZ MASTO. OK. Thank you.

The next question, Dr. Kaniewski, let me ask you this. Unfortunately we are seeing a lot of wildfires now in the West, and that literally has an impact after the fire on the geography, and when a big rain comes then we see horrific flooding after the fire. So I guess my question to you is has the NFIP made any changes to maps or policies in response to devastating fires, because this is my

concern, Bureau of Land Management (BLM), local ranchers, we all have this concern that there is a challenge after a fire that we do not get mitigation dollars for, we are not able to address, when actually that is probably the worst flooding that can occur.

Mr. KANIEWSKI. I agree with you that this is a risk that many are not aware of, and unfortunately it adds additional pain and suffering. After one disaster it creates another. So yes, it makes a lot of sense to mitigate that flood risk, whether it be before or certainly after that fire, to prevent anything like a landslide or any other kind of devastating effect. It affects, obviously, all of the living organisms, including those that could prevent, you know, the grass and such, that could prevent future wildfires. So it is really a disaster onto another disaster.

Senator CORTEZ MASTO. Yes, and that is something I am hopeful that we try to address at many levels because it is devastating throughout the West, and anybody that has these devastating wildfires, there has to be remediation afterwards, appropriate remediation.

Mayor, thank you for being here. I really appreciate it. One of the challenges in Nevada is affordable housing, and I suspect it is a challenge of yours as well. I am curious. What are some strategies that you are dealing with to enable affordable housing developments to actually remain operational when insurance costs increase by 20 percent or more?

Mr. PATTERSON. It is a national problem. I think we all recognize that. It is certainly an issue that the National League of Cities has taken up and working through in earnest.

You know, one of the things that I have been working really hard on is there are levers that a mayor can pull to help with affordable housing being developed. We can use things like tax incremental financing for neighborhood revitalization, which is basically a 75/10, 75 percent capture of the new valuation with having houses that are either renovated or new housing that goes in, over the course of 10 years, and use that money to help pay for the infrastructure that has to go in place to support those new homes, whether it is new street surface or new street, period, water, sewer, storm. We have been using that to some effect in the City of Athens.

There are also some programs that I know that we are helping with some developers who want to build more affordable housing, with the single-family housing tax credit that we are encouraging them to use to build more housing.

And then the other thing that we have been looking at, and there is a challenge here as well, is looking at LIHTC housing within our community. We are fortunate that we are able to get to 9 percent LIHTC projects.

Senator CORTEZ MASTO. That is great.

Mr. PATTERSON. We have created 192 workforce housing units. The unfortunate with that is that we were told that there was a 4 percent LIHTC that was going to create 36 senior housing units in the City of Athens, and unfortunately the gap was too large for that developer to come in and cover that gap. They did come to the city and ask if we had \$1.5 million in our bankroll somewhere to

be able to fill that gap. If I had it I would certainly consider it, of course, predicated upon City Council.

But it is those gaps that become a real challenge. There are a lot of different financial gaps that we are experiencing when it comes to affordable housing. But we are working through and doing the best that we can.

Senator CORTEZ MASTO. Yes, and I think that is what I hear in my community, and that is the biggest challenge, and that is why I have to thank the Chairman, because this is an issue—there is legislation, and his focus is on how we address the affordable housing crisis in this country. One of them is addressing LIHTC. There are other ways that we can figure out how we help cobble together the financing to keep the costs low. There is legislation that he is supporting and introduced, and I think we need to get it done. This is not a partisan issue. This is bipartisan. We should be focused on how we address communities like yours, homeowners, individuals, renters, the like, to have a roof over their head, and it is affordable, and they can keep it.

Thank you.

Chair BROWN. Thank you, Senator Cortez Masto. Mayor, I liked how you said, “predicated on City Council.” Well said. As the only elected—we do not have a lot of elected officials at this table. I mean, last week we had Jelly Roll, who is decidedly not an elected official. But anyway, thank you.

Thanks. This is a very good hearing, and thanks for the wise, reflective, illuminating way that you explained this very, very complicated issue that this body, for years and years, has not been able to work its way through. And as Senator Cortez Masto said, it is certainly not a partisan issue. Almost half this Committee represents a coastal State and deals with these, but so does Nevada deal with them, so does Ohio deal with them, and so do other States. Thanks for being here.

For Senators who wish to submit questions for the record they are due 1 week from today, Thursday, February 1st. To the witnesses, you have 45 days to respond to any questions.

Thank you. The hearing is adjourned.

[Whereupon, at 11:27 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIR SHERROD BROWN

This hearing is a continuation of our efforts to enact a long-term reauthorization of the National Flood Insurance Program or NFIP. The program has been extended 28 times since September of 2017. The latest extension will expire on March 8th of this year.

Today, we will discuss local leaders' perspectives on the National Flood Insurance Program, and the challenges and potential solutions to the risks that flooding poses to communities across the country.

Local leaders are on the front lines of so many issues: transportation, how expensive housing is, the growing challenge of flooding. Each of these is a priority for this Committee.

As these leaders know all too well, flooding is the most common and costly natural disaster facing the country. It's devastating to families, businesses, and communities in every State.

And unfortunately, the risk is increasing.

Outdated flood maps, population growth in at-risk areas, land-use patterns, and over-stretched infrastructure all play a role.

And whether people want to admit it or not, climate change is only making it worse. It's making extreme weather events more frequent and less predictable—all across the country.

Just this month:

- Streams overflowed in our colleague Senator Reed's home State of Rhode Island;
- Torrential rains poured through homes in San Diego neighborhoods represented by Senator Butler; and
- Flash floods have been threatening communities across Louisiana, which is well represented by our colleagues in the room today.

Flooding isn't confined to communities on the coasts, or even on major bodies of water.

As we saw in 2022, the same mountains and streams that make our Appalachian towns beautiful also make family homes and local economies vulnerable to flooding in an era of more extreme rainfall. Often the only available land for development in Appalachia is in or near floodplains.

And disasters often fall hardest on the families and the communities that have fewer resources to prepare and respond to them. Smaller, rural communities often do not have easy access to resources to respond to the immediate effects of disasters, nor do they have access to the resources they need for long-term recovery and to prevent disasters in the first place.

We need to ensure our families and communities can adapt and become more resilient both to the flooding we face now, and to the increases we know are coming in the next several decades.

And whenever possible, we want to help communities avoid extreme flooding altogether, through pre-disaster flood mitigation.

The NFIP is critical to that effort.

Unlike a private insurance company, the NFIP does not just provide insurance. Its job is to prevent and minimize flood damage in the first place, not just help with recovery.

The NFIP combats the overall threat of flooding through four related components:

- Flood insurance, currently covering nearly 4.7 million homes and businesses;
- Floodplain management;
- Floodplain mapping; and
- Mitigation.

We must reauthorize and strengthen the NFIP, and invest in mitigation and floodplain management before disasters happen in communities.

In recent hearings, we heard from a wide range of stakeholders who discussed:

- The need for a long-term reauthorization to help communities and stakeholders plan for the future,
- The importance of helping communities and property owners understand their risk—by both improving mapping and other risk communications, and through disclosure of flood hazards to prospective owners and tenants, and
- The importance of building State and local capacity to carry out our floodplain management and mitigation programs, especially for small and rural communities.

We also heard FEMA's recommendations for strengthening the program, including forgiving the overhang of debt from previous disasters and providing means-tested assistance to help more families afford insurance.

I am interested in hearing today's witnesses' recommendations on how we can help strengthen the NFIP, so that it can help local communities meet their needs.

I am pleased to welcome Mayor Steve Patterson of the City of Athens, Ohio, here today to discuss some of the unique challenges faced by cities and towns in Appalachian Ohio.

NFIP is a complex program, with multiple goals and implications for many of the things people care about most—their homes and their communities.

However, I believe it is possible for us to come together to reauthorize and improve this program.

Today's hearing will help inform this effort.

I look forward to working with Ranking Member Scott and the Members of the Committee to strengthen the NFIP and the country's comprehensive approach to mitigating flood risk through a long-term reauthorization bill this Congress.

PREPARED STATEMENT OF SENATOR TIM SCOTT

Before we get started, I'd like to take the time to welcome a Charleston native, Mr. Kaniewski, as a witness today.

I can't think of a more helpful perspective in dissecting these issues that are really local in perspective.

Although you now live in Minnesota—I've never met someone who left Charleston actually—full time. Please come home soon, we really need you back. We need all the smart-thinking individuals back in Charleston, South Carolina. But we thank you for being here today.

The National Flood Insurance Program (NFIP) comes into play when we start thinking about how to mitigate the risks that are so impactful and negative to communities across the country.

As we consider potential reforms to the NFIP, we must keep in mind local perspectives and not just those of Washington bureaucrats.

Because we all know that the most effective policymaking typically happens closer to the problem, not farther away from that problem.

So our Federal programs should foster local, innovative solutions—not regulatory red tape.

You'll have heard me say this before, that as a lifelong Charlestonian and South Carolina resident, as well as an insurance professional for more than 20 years—having sold flood insurance policies—it's really important for us to understand and appreciate the devastation caused by flooding.

There's no doubt that if you're a Charlestonian and if you were around in 1989, Hurricane Hugo devastated our community in ways that very few natural disasters have before and frankly, since. The storm surge was so bad and so high, that it literally left boats in the middle of downtown in the streets of Charleston.

More recently, Hurricanes Matthew, as well as Florence devastated towns throughout my State, and left some towns submerged.

As a matter of fact, the town of Nichols, South Carolina—a very small town—was hit by both storms so bad that more than half of the houses in that small community found themselves underwater.

And the devastation of trying to rebuild 24 months later—again—was undeniably and frankly impossible. But the good news is when you're surrounded by your friends and your family, the impossible becomes possible. And they worked really hard to start the process of rebuilding very quickly, and frankly, very successfully.

This type of repeated flooding makes recovery harder, and naturally, can even cause some residents to lose hope—and certainly a part of the town—residents left.

It's one of the reasons why I've re-introduced the Repeatedly Flooded Communities Preparation Act, which would help communities suffering from frequent flooding plan for the next storm, and hopefully, lower the risk.

It's my hope that by encouraging flood-prone areas to reduce the impact of future storms, residents will be able to focus on long-term recovery—long after the storm surge recedes.

And recovery doesn't simply mean rebuilding, it also includes uplifting our communities. It includes making sure that families and neighbors learn to work together—that the synergy in the aftermath of a disaster is where community, and the glue of community, really manifests and reveals itself.

South Carolinians who have lived through repeated flooding know this, and my home State has taken action to prevent this outcome.

South Carolina's recent dedication of resources and strategic mitigation efforts are second to none.

In 2023, the State's budget included significant funding for mitigation efforts that would reduce flood damage from future storms.

Backing up that investment, the South Carolina Office of Resilience released a nationally praised "Statewide Risk Reduction Plan", identifying the communities most vulnerable to floods and targeting mitigation resources to protect those residents.

These are local solutions to local challenges—and they will make a huge difference in the lives of South Carolinians.

And while I recognize that what works in South Carolina may not work in places like Senator Cassidy's Louisiana or Chairman Brown's Ohio, I'm confident that similar, locally based solutions and approaches could make a huge difference, not only in those communities, but to the National Flood Insurance Program itself.

To support these levels, we must have substantial reform to the NFIP.

The status quo is not an option. The program is financially insolvent, with over \$20 billion—\$20 billion in debt.

Instead of educating communities and homeowners on the risks they face, the program's outdated flood maps and lack of transparent data often obscures the risks.

Without a well-functioning and financially solvent insurance system, the NFIP will fail to provide cities and towns with the tools they need to be resilient.

And, if the NFIP is unable to provide local communities with improved mapping and mitigation resources, the financial health of the insurance program will continue to deteriorate.

When I say that—especially with my legislation I've reintroduced—we have to recognize that the NFIP pays out 30 percent of its resources to about 1 percent of the properties that consistently and repeatedly are flood victims again, and again, and again.

One percent of the exposure absorbs 30 percent of the resources—and that's an opportunity for us to look to the local communities to create strategies to perhaps not rebuild there, and that will take a local engagement to mitigate that risk for the Nation, for the program, and frankly for the communities where they happen.

Comprehensive reform of the program is essential.

One final and important point before I close: Congress cannot allow the NFIP to lapse.

Most often we talk about States like Florida, or South Carolina, or Louisiana—where they pay a disproportionate share of the premiums that go into the NFIP. The truth is that whether you're in Ohio, or California, whether you're in the New Jersey, New York area, where Hurricane Sandy—\$8.8 billion—Hurricane Harvey—\$9 billion.

The number of flood insurance policies in place? Essentially nonexistent. So not only do we need to have a comprehensive reform of the program itself, we need to have a better education that floods don't simply happen when you live near the water. Floods today happen throughout the country.

PREPARED STATEMENT OF MICHAEL HECHT

PRESIDENT AND CEO, GREATER NEW ORLEANS, INC.

JANUARY 25, 2024

Good morning, Chairman Brown, Ranking Member Scott, and Members of the Committee. I am honored to speak to you today about reauthorizing and reforming the National Flood Insurance Program (NFIP).

My name is Michael Hecht, and I am the President and CEO of Greater New Orleans, Inc. (GNO, Inc.), the 10-parish economic development organization for Southeast Louisiana. Since April 2013, GNO, Inc. has led the Coalition for Sustainable Flood Insurance (CSFI), a national alliance of approximately 250 organizations across 35 States. The Coalition for Sustainable Flood Insurance sees NFIP as a critical program that allows critical communities across our country to keep working.

GNO, Inc. originally created CSFI to support NFIP reform as a Federal priority. Thus, we appreciate your longstanding leadership, as demonstrated today, and your continued recognition of the importance of available, affordable, and transparent flood insurance coverage for your respective districts and constituents. As you know, flood risk affects us all, and flood events have occurred in all 50 States and 99 percent of counties in the United States since 1996. Your work this Congress to address insurance challenges will shape the future of our Nation's environment and economy, and make for a more prosperous and resilient country.

Today, I will discuss the need to reauthorize NFIP—given its benefits to our Nation—and the need to reform the program—given FEMA’s administration of Risk Rating 2.0 and its associated impacts.

I. Reauthorization

First and foremost, CSFI aims to ensure the availability of flood insurance through a reauthorized NFIP. CSFI supports a long-term, multiyear reauthorization of NFIP to ensure program stability and to minimize ripple effects across the American economy. Since September 2017, NFIP has been operating under a series of short-term reauthorizations without comprehensive reform. Since then, NFIP has been extended on a short-term basis 28 times and has briefly lapsed three times. On March 8, 2024, NFIP’s current authorization will expire.

a. Effects of a Lapse

If NFIP lapses, NFIP will lose the authority to provide new flood insurance contracts, and existing policies will not be renewed. NFIP’s authority to provide new flood insurance contracts is a particular necessity based on the mandatory purchase requirement (MPR). This requires property owners to purchase flood insurance as a condition of mortgages made or guaranteed by Federal agencies, federally regulated lending institutions, and Government-sponsored enterprises. Property owners, both residential and commercial, are required to purchase flood insurance if their property is identified as being in a Special Flood Hazard Area (SFHA) and is in a community that participates in the NFIP. While private flood insurance coverage can now satisfy the mandatory purchase requirement, private flood insurance availability varies nationwide and is limited in many States, and can be prohibitively expensive.

Thus, NFIP’s reauthorization is consequential to the national housing market and real estate transactions. During a June 2010 lapse, about 1,400 home sale closings were canceled or delayed each day, representing over 40,000 sales per month. There are approximately six million homes located in SFHAs and subject to the MPR nationwide.

A lapse also jeopardizes NFIP’s ability to satisfy claims. NFIP can still process and pay claims on flood insurance policies as long as funds are available; however, NFIP’s borrowing limit would be decreased from \$30.425 billion to \$1 billion.

b. NFIP’s Success

NFIP covers nearly five million policyholders with an annual premium of \$3.5 billion and \$1.3 trillion insurance in force. NFIP’s policyholders are often misperceived as rich, second-homeowners in beachfront communities. However, in 2017, a CSFI study found that that 98.5 percent of all NFIP policies are in counties with a median household income below \$100,000, and 62 percent of all NFIP policies are in counties with a median household income below the national average of \$53,889. According to FEMA, incomes are higher outside the SFHA than they are inside the SFHA. 26 percent of policyholders inside of the SFHA are low income, compared to 21 percent of policyholders outside of the SFHA. Despite the MPR, 51 percent of nonpolicyholders in the SFHA are low income, compared to 41 percent of nonpolicyholders outside the SFHA. Thus, NFIP works to serve working Americans in need of sustainable, reasonable flood insurance.

David Maurstad, Deputy Associate Administrator for Insurance and Mitigation, said, “over the last 50 years, NFIP has collected \$60 billion in NFIP premiums, but has paid \$96 billion in costs (including losses, operating expenses, and interest).” That said, a difference of \$36 billion to assist about 5 million American property owners today—and many millions more over the course of the program—is a good financial deal for the American public. According to FEMA, NFIP’s flood management standards save the Nation almost \$2.4 billion annually in flood losses avoided. Thus, over a 50-year period, these savings total \$120 billion in flood losses avoided—for a net benefit to the American public of nearly \$85 billion.

NFIP should be reauthorized to fulfill its original objectives, and administered in a manner that respects these objectives. Congress, in the National Flood Insurance Act of 1968, declared the purpose of NFIP: “a reasonable method of sharing the risk of flood losses is through a program of flood insurance which can complement and encourage preventive and protective measures . . . if such a program is initiated and carried out gradually, it can be expanded as knowledge is gained and experience is appraised, thus eventually making flood insurance coverage available on reasonable terms and conditions to persons who have need for such protection.”

Congress, in 1968, did not create NFIP to charge full-risk rates, if those premiums were onerous and exacerbated risk exposure. Rates were supposed to be “adequate, on the basis of accepted actuarial principles, to provide reserves for anticipated losses, or, if less than such amount, consistent with the objective of making flood

insurance available where necessary at reasonable rates so as to encourage prospective insureds to purchase such insurance and with the purposes of this chapter.” Yet, only 4 percent of structures in the United States are covered today, and more policyholders are being priced out of the program as we speak.

NFIP was given the authority to borrow money from the U.S. Treasury from the beginning, with Congress foreseeing the possibility of collecting less in premiums than claims paid. The Congressional Research Service (CRS) affirms that, “The NFIP was not designed to retain funding to cover claims for truly extreme events; instead, the National Flood Insurance Act of 1968 allows the program to borrow money from the Treasury for such events.”

For most of the NFIP’s history, the program—exclusively on the backs of policyholders, without any other support from taxpayers—has been able to cover its costs. Prior to Hurricane Katrina in 2005, NFIP’s largest level of debt was \$917 million in 1997, which was reduced to zero by the end of FY 2003. Since 2005, the NFIP—through premiums collected from its policyholders—has made six principal repayments totaling \$2.82 billion and has paid \$6.17 billion in interest. NFIP has not borrowed from the Treasury since 2016.

Unless debt is forgiven, only current and future participants in the NFIP—via premium revenues—are responsible for repaying NFIP’s debt and accruing interest. The October 2017 cancellation of \$16 billion of NFIP debt represents the first time NFIP debt has been cancelled. The outstanding \$20.525 billion in debt—and \$619 million in interest paid by policyholders annually to Treasury—continues to hamper NFIP policyholders, and NFIP’s success as both an insurance company and a Federal program. This \$619 million in interest would be much better invested in mitigation.

Recent administrative changes by FEMA further threaten NFIP’s success. This change—Risk Rating 2.0—further diverts the program from its original dual purposes of providing flood insurance and reducing the Nation’s flood risk.

II. Risk Rating 2.0

CSFI was formed in the wake of the implementation of the Biggert-Waters Act, when homeowners across the county were facing skyrocketing rate increases through a combination of the removal of grandfathering and new maps, which often times were inaccurate. CSFI was a driving force behind the passage of the Homeowner Flood Insurance Affordability Act (HFIAA), which was signed into law in March 2014.

Today, we find ourselves in a similar position. As we did a decade ago, CSFI will work with all partners—coalition members, members of Congress, FEMA’s public servants, and all other interested stakeholders—to successfully address challenges with Risk Rating 2.0.

a. Transparency and Accuracy Concerns

Risk Rating 2.0 is a “*deja vu*” of sorts, although this time around, Congress did not pass legislation to cause this change to NFIP, nor has Congress had any substantial input in its development. FEMA, through what they claim is their administrative authority, has removed historical processes and replaced them—without a rulemaking process, an economic impact analysis, or even requested Congressional briefings. In short, transparency has been an issue in Risk Rating 2.0’s rollout.

Risk Rating 2.0 represents the largest change to NFIP’s premium calculations since the program began in 1968. Risk Rating 2.0 was implemented on October 1, 2021 for new policies, and April 1, 2022, for existing policies. FEMA, in April 2023, finally released average full-risk rates for States, counties, and ZIP Codes. Beforehand, FEMA had only released an analysis of premium increases per month (ex: policyholders on average see premium increases of \$8 per month). This is ironic, as FEMA doesn’t yet allow for payments in monthly installments, despite having the statutory directive from HFIAA in 2014 to provide policyholders with the option of paying premiums monthly. FEMA’s former demonstration of premium cost changes in terms of per-month increases also hid full-risk rates, given HFIAA’s annual premium increase limit for existing policies.

With Risk Rating 2.0, FEMA has “moved the goalline” for policyholders and communities who have historically followed the rules by maintaining flood insurance coverage and satisfying floodplain management requirements. For example, past recipients of FEMA Flood Mitigation Assistance (FMA) grant assistance for home elevations agreed to maintain flood insurance coverage in perpetuity, expecting large premium discounts for mitigation, and not expecting Risk Rating 2.0 to change their premiums. Now, they cannot drop coverage, despite current conditions that they did not accept. CSFI’s floodplain manager members have reported cases of property owners eligible for elevations denying FMA assistance. These property owners feel

as though Risk Rating 2.0 discounts for mitigation are unclear or insufficient to make even subsidized costs of elevation financially prudent. Thus, Risk Rating 2.0 is confounding and undermining FEMA's own programs, intended to mitigate risk.

Contrary to common misconception, FEMA has released the Risk Rating 2.0 methodology through a "Risk Rating 2.0 Methodology and Data Sources" document and appendixes. One appendix is the "premium calculation worksheet," an Excel document of four example properties in California, South Carolina, and Michigan to demonstrate the methodology's interaction of rating factors at the property-level. The "Appendix D Rating Factor" spreadsheet shows tables and scores for Risk Rating 2.0's dozens of rating factors—including State base rates, distance to water bodies, levee quality, drainage area, concentration risk, foundation type, first floor height, floors of interest, and much more. Flood zones from Flood Insurance Rate Maps (FIRMs) are not a rating factor. CSFI members and congressional staffers have questioned some factors, like why there are base rates by State, since NFIP is a national program and the new methodology intends to reflect an individual property's specific flood risk, as opposed to general risk.

Unfortunately, policyholders do not have access to their property-level rating factor inputs, beyond the few listed on their declaration pages, which is made available only after purchasing coverage. Furthermore, there is no public-facing, interactive Risk Rating 2.0 premium calculator. So, it still isn't clear to policyholders how modifying each of these factors (like elevation / first floor height) may affect their premium at the property level. With Risk Rating 2.0, FEMA is communicating flood risk through price of flood insurance coverage. Alternatively, FEMA could now use its wealth of rating factors—procured through many vendors—to demonstrate how, where, and why policyholders are at risk, and how policyholders can most cost-effectively mitigate this risk.

Recently, FEMA has taken additional strides towards transparency, like through the release of a "Flood Insurance Discount Tool." FEMA also commits to future transparency improvements, in response to the July 2023 Government Accountability Office (GAO) report on Risk Rating 2.0 (GAO-23-105977). For example, FEMA says that they will "enhance policyholder communication productions and public-facing websites" by April 30, 2024; "pilot online quoting tool" by April 30, 2025; and "publish final draft" of an annual actuarial report by September 30, 2025. FEMA should be encouraged, if not legislatively required, to honor their commitments.

To date, FEMA's communications, materials, and tools still leave much to be desired by policyholders, stakeholders, and local communities. FEMA's Office of the Flood Insurance Advocate (OFIA), in its latest annual report, underscores concerns about Risk Rating 2.0's transparency and accuracy. For example, "Policyholders, insurance agents and community officials expressed to OFIA that premiums rates do not seem to adequately reflect mitigation activities. For instance, they have indicated that they believe insufficient credit is given for certain mitigation techniques . . . This makes it harder for homeowners to take action to reduce their flood premiums, and harder for OFIA to advise customers of their mitigation options."

Amongst other suggestions, OFIA recommends that:

- "FEMA's Federal Insurance Directorate (FID) should make information about premium rates more accessible to the public and should update language on NFIP's Pricing Approach / *FEMA.gov* to describe in further detail how risks are aggregated and tailor new materials to wider audiences."
- "FID should make information available about who policyholders, agents, insurers, and other stakeholders can go to within FEMA when questions arise about premium rates that are not addressed in the public material."
- "FID should require standardized information on quotes and declarations pages to include a description of a property's flood risk, including the types of flood risk and other specific rating factors that most influence the individual premium so that customers can understand their risk of flooding."
- "FID should ensure that deductible discounts are applied in a manner that meaningfully reflects the financial risk assumed by either the insurer or the insured."

OFIA also expresses accuracy concerns of Risk Rating 2.0's methodology and data sources, suggesting that:

- "FID should update the rating engine to allow agents and insurance companies to provide more accurate geographic coordinate data."

- “FID should consider establishing a process to allow agents and policyholders an opportunity to provide other sources of information to demonstrate replacement cost value used for flood insurance rating.”
- “FID should explore ways to incorporate more data from communities into the catastrophe models.”

In further detail, OFIA explains issues with geolocation in Risk Rating 2.0: “Policyholders want to provide additional detail to FEMA to refine the flood insurance price including correctly identifying latitude and longitude for geolocating the structure. To determine elevations and distance to flood sources, FEMA geolocates the address provided and determines the latitude and longitude. For almost all existing construction, the latitude and longitude are correct. However, in newer developments and very rural areas, the geolocation may be off enough to raise concerns about rating accuracy. Currently, there is not a mechanism for agents or policyholders to correct inaccurate latitudes and longitudes.”

Risk Rating 2.0 intends to calculate flood insurance premiums for individual properties based on actual flood risk. But, as explained by OFIA, there are cases where Risk Rating 2.0 incorrectly identifies latitude and longitude for the structure.

There are other known issues with data granularity across rating factors, from distance to coast to levee quality. Yet, there is no appeals process—for policyholders or communities—to ensure that FEMA’s data is accurate and that rating factors are refined at the property-, community-, or State-level. Furthermore, there is no disputes process for policyholders to challenge the accuracy, or fairness, of chargeable premiums.

In the “Risk Rating 2.0 Methodology and Data Sources” document, FEMA’s contractor speaks to data reliability: “In performing the services, we relied on data and other information provided to us by FEMA and other sources. We did not audit, verify or review the data and other information for reasonableness and consistency. Such a review is beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. In that event, the results of our analysis may not be suitable for the intended purpose.”

It also appears that there has never been an independent third-party peer review of the Risk Rating 2.0 methodology. GAO has conducted a review of Risk Rating 2.0; however, it was not a technical review nor an audit for accuracy. GAO said, “In performing this analysis, we relied on actuarial reports and documentation provided by FEMA. We reviewed the documents for reasonableness but did not audit them for accuracy. To the extent that there are material deficiencies in completeness and accuracy in FEMA’s actuarial reports, the actuarial premium estimates may be materially different from those shown in the reports had these deficiencies not been present. This review is not a technical review, and we did not verify the accuracy of the calculations performed by the actuaries who developed the full-risk premiums.”

Proper programmatic improvements to address data accuracy and methodology development are outstanding. To address this, FEMA can arrange for a third-party review of the methodology and data sources. FEMA can accept more input from agents, policyholders, floodplain managers, and technical experts. This will refine Risk Rating 2.0 based on specific, local, or technical knowledge. Furthermore, this can empower policyholders and communities, making them more likely to reduce their flood risk exposure and take on mitigation activities. Until then, identified frustrations above, and their impacts identified below, are expected to continue.

b. National Impact of Risk Rating 2.0

On average, under Risk Rating 2.0, an NFIP policy will be \$1,808, which represents a 103.6 percent increase over legacy rates. Although much of the public outcry about Risk Rating 2.0 has been from Louisiana, Louisiana is far from the most affected State. In terms of full-risk rates, there are 17 States with higher average rates than Louisiana. Rates will increase by over 50 percent in 41 States. States with the highest average full-risk rates are:

1. Hawai'i: \$3,653 (+154.1 percent)
2. West Virginia: \$3,074 (+171.2 percent)
3. Connecticut: \$3,000 (+88.6 percent)
4. Maine: \$2,700 (+183.2 percent)
5. New Hampshire: \$2,545 (+109.2 percent)
6. Vermont: \$2,248 (+87.7 percent)
7. Florida: \$2,213 (+131.1 percent)

8. Kentucky: \$2,201 (+107.6 percent)
9. New York: \$2,197 (+85.5 percent)
10. Mississippi: \$2,137 (+149.1 percent)

In CSFI's 2022 white paper, "An Evaluation of Risk Rating 2.0 on NFIP Affordability", a literature review of NFIP price elasticity found that a price increase of 1 percent causes a decreased demand of 0.11 percent to 0.87 percent for flood insurance policies. Before Risk Rating 2.0 was implemented, an internal FEMA study estimated that that 20 percent of policyholders nationwide would ultimately leave the program due to premium increases. We are watching this prediction unfold.

NFIP's participation peaked around 5,700,235 in 2009. On the day before Risk Rating 2.0's implementation in October 2021, there were 4,899,114 policies in force nationally. As of December 2023, there are now 4,683,971 policies in force nationally. Thus, NFIP has lost over 215,000 policyholders, or 4.39 percent of all policyholders, since Risk Rating 2.0's implementation. 121,739 policies have been lost in Texas alone. Participation has already fallen by over 5 percent in 26 States and by over 10 percent in 14 States. These 14 States with the greatest declines in policies in force, by percentage of policies, are:

1. West Virginia: -2,428 (-19.44 percent)
2. Oklahoma: -2,050 (-17.74 percent)
3. Texas: -121,739 (-15.50 percent)
4. North Dakota: -1,198 (-14.55 percent)
5. Iowa: -1,602 (-14.10 percent)
6. Minnesota: -919 (-11.29 percent)
7. South Dakota: -327 (-10.89 percent)
8. Missouri: -1,933 (-10.64 percent)
9. Louisiana: -53,558 (-10.54 percent)
10. Nebraska -886 (-10.54 percent)
11. Kansas: -848 (-10.35 percent)
12. Arkansas: -1,354 (-10.15 percent)
13. Ohio: -2,665 (-10.07 percent)
14. Mississippi: -6,086 (-10.00 percent)

Clearly, Americans are not yet benefitting from Risk Rating 2.0. Risk Rating 2.0 is proving cost prohibitive to policyholders and is posing a burden to FEMA itself. David Maurstad said that, "Since 2017, hundreds of FEMA staff, over a dozen contractors pursuant to over two dozen different contracts, thousands of staff and insurance agents from the 47 WYO companies participating in the NFIP, and 5 vendors have worked on the development and implementation of Risk Rating 2.0. This effort has cost the Federal Government over 80 million dollars, all of which would be wasted if the implementation of the current rates were permanently enjoined."

CSFI supports congressionally proposed, FEMA-supported, and private market-backed provisions that can provide coverage. For example, CSFI supports allowing for private flood coverage to satisfy continuous coverage requirements, which would allow policyholders to switch between public and private coverage without permanently sacrificing benefits of NFIP's annual rate increase limit. This priority is more urgent with a growing private market and a less affordable NFIP.

c. Regional Impact of Risk Rating 2.0

Across the country, NFIP allows working communities to continue working. Our region—Greater New Orleans—is essential to the national economy, and even global food and energy security. NFIP simply does not take these factors into account. NFIP has not conducted a comprehensive assessment of the economic and social impacts of implementing Risk Rating 2.0, which would demonstrate ripple effects on Government revenues, property values, national security, and more.

Illustrating the importance of Greater New Orleans, over 50 percent of all U.S. grain exports travels through the Port of South Louisiana. Under Risk Rating 2.0, flood insurance premiums are increasing by 239.2 percent in St. Charles Parish, where many of the port's workers reside. While many Federal levees in the National Levee Database are considered by Risk Rating 2.0—like the \$14.5B Hurricane & Storm Damage Risk Reduction System surrounding our region. However, St. Charles Parish has invested in local levees and pump stations which are not accounted for in ratemaking. For example, near a local flood control structure that FEMA doesn't recognize, an X-Zone home in Des Allemandes, LA, will see premiums increase from \$572 to \$6,131.

Higher costs of living and higher costs to employ logistics and trade workers will be passed on to consumers nationwide. Eventually, by pricing out workers within our region, farmers in Nebraska and agricultural workers across the Midwest won't be able to export grain produced. Moreover, the United States would lose competitive advantages in logistics and trade. The United States would also sacrifice the agility to stabilize global markets, as seen in recent years, when Ukraine's grain exports are constricted.

The largest private investment human history—a \$21B LNG export facility—is currently under construction in Plaquemines Parish, near the mouth of the Mississippi, for the benefit of the American economy, global security, and global climate (switching Asia from coal to gas). In Plaquemines Parish, the average full-risk premium is \$5,431 per year, an increase of 545.3 percent compared to legacy rates. A property in Belle Chasse, LA is seeing an increase from \$572 to \$8,828. This is a parish with a poverty rate of 16.4 percent, 5 percentage points above the national average. The median value of owned-occupied homes is \$253,300, compared to \$281,900 nationally. And, due to NFIP floodplain management requirements, in some parts of the parish, a new home (or a substantially damaged property) must be built or elevated to a base flood elevation of 18 feet. NFIP is wreaking havoc on critical communities like this, which will inevitably have cascading consequences, without congressional intervention.

Meanwhile in Plaquemines Parish, in addition to historic industry investment, there is historic environmental investment. The largest ecosystem restoration in the Nation's history has broken ground. The \$2.9B Mid-Barataria Sediment Diversion will harness the land-building power of the Mississippi River to build and sustain up to 26,000 acres of wetlands in the Barataria Basin. This project is part of Louisiana's 50-year, \$50B Coastal Master Plan, which is not clearly factored into rates. Since 2016, Louisiana has restored and maintained 26,000 acres of coastal land and improved 83 miles of levees. The projects identified in the 2023 Coastal Master Plan will restore and maintain over 300 square miles of Louisiana's coastal wetlands and reduce expected annual damage by up to \$15 billion. Instead, through catastrophe modeling and Risk Rating 2.0's "disaster to coast" factor, Louisiana may be being punished for a century of coastal land loss, largely due to Federal management of the Mississippi River and largely out of communities' control.

Implementing all projects in Louisiana's Coastal Master Plan over 50-year period could reduce risk from tropical storms and hurricanes to coastal communities to less than what the current risk level is today, even considering sea level rise projections. But, communities—and entire States—are not necessarily being given credit for their investments in resilience nor incentivized to do so. Thus, considering residents' cost-prohibitive premiums, communities could be left with fleeing populations and cratering tax bases. They will be unable to pay for necessary adaptations from their self-generated revenues, and they will have to rely more heavily Federal funding, both for public improvements and for residents' flood losses.

Still, the city of New Orleans is wisely investing in green infrastructure and smarter storm water management practices, as advised by GNO, Inc.'s 2013 Greater New Orleans Urban Water Plan. The Mirabeau Water Garden is converting the site of a former convent, flooded by Hurricane Katrina, into a 10 million gallon detention pond and an urban water management educational center. Despite being funded through FEMA's own Hazard Mitigation Grant Program (HMGP), this project won't necessarily reduce neighbors' NFIP premiums, although it will reduce flooding by up to 14 inches. Moreover, when neighbors drop NFIP coverage or move due to heightened premiums, this can affect a projects' benefit cost analysis (BCA) of projects and impact their eligibility for Federal funding.

Throughout the Gentilly neighborhood where Mirabeau lies, through a "community adaptation program," approximately 200 households have installed various property-level retrofits to reduce their flood risk. These property-level flood adaptations—permeable pavement, stormwater planter boxes, tree plantings, infiltration trenches, rain barrels, and rain gardens—are also not considered in Risk Rating 2.0. While these property owners have reduced flood risk for themselves and their neighbors, they are not being credited by NFIP for doing so.

Across the State, we're also adapting by installing FORTIFIED roofs, a construction method that reduces the chance of wind-related losses through stronger roofs. The FORTIFIED Program, a program of the Insurance Institute for Business & Home Safety (IBHS), is a strong model for resilient building practices and relevant incentivization. In Louisiana, State law requires actuarially sound premium discounts to be provided to policyholders who install FORTIFIED roofs. Similarly, NFIP policyholders could be incentivized to install floodproofing adaptations, from permeable pavements to rain gardens, in exchange for appropriate NFIP premium discounts.

Oddly, rates in our region are being treated as an anomaly, according to FEMA’s “Risk Rating 2.0 Methodology and Data Sources” technical document. With no further explanation, the document reads, “As in the nonleveed analysis, GLMs were used to develop geographic rating factors for leveed areas. For the nonleveed analysis, separate models were fit by segments that consisted of groups of States. For the leveed analysis, there was a smaller volume of data that was more highly geographically concentrated. Using the same segments as the nonleveed analysis would have produced policy counts that were too low within a segment. Instead, the GLMs were fit on the countrywide data. Upon reviewing the residuals, Milliman created an interaction term in the Inland Flood model to allow for elevation as a rating variable in Louisiana. Without this rating variable, AALs were underpredicted in low elevation areas, especially areas with negative elevation in New Orleans. Milliman also found it necessary to create separate GLMs for Louisiana Storm Surge.”

Maybe regions like ours—communities that are economically important to protect, and imperative for the national economy to exist near water—should be treated differently in ratemaking than some second-home, vacation communities. This differentiation is seen in some parts of NFIP. For example, the HFIAA surcharge is \$25 for primary residences and \$250 for second homes. Annual premium increases are capped at 18 percent for primary residences but at 25 percent for secondary home and severe repetitive loss properties. A future affordability program to help working Americans could be only open to primary residences that are not severe repetitive loss properties.

Our community is like many of the 22,500+ in NFIP—a hardworking community that serves America through water resources. Over half of America’s population lives in a coastal county, and over half of all jobs are located in coastal counties. Moreover, 57 percent of the country’s GDP is produced from counties by the coast (Emsi). A flood insurance program should allow coastal economies to not only exist, but provide for rest of our country through trade, logistics, agriculture, advanced manufacturing, energy production, and all industries that are dependent on proximity to water.

And beyond the coast, flooding still occurs—as you’ll remember 99 percent of U.S. counties have been impacted by a flooding event since 1996; in 2019, of the 10 States with the most flooding events, only three were coastal States (FEMA). Fairly priced flood insurance—and complementary investments in mitigating flood risk—is essential to the American economy, in Greater New Orleans, and everywhere.

III. Reform Priorities

With this understanding of NFIP’s importance and current concerns, NFIP should be reauthorized and reformed. Although Congress did not cause the Risk Rating 2.0 predicament, fortunately, it can take action to address it in a manner that improves economies, empower communities, and protects policyholders.

We underscore the following reform priorities for consideration by the 118th Congress. These priorities are informed by legislation introduced this Congress, like the National Flood Insurance Program Reauthorization and Reform Act (NFIP-RE) of 2023, as well as CSFI’s white paper on affordability and our coalition members’ insight.

1. *Require a peer-review of the Risk Rating 2.0 methodology and an analysis of Risk Rating 2.0’s economic impacts*—An independent actuarial review performed on an ongoing basis by a team of experts could heed improvements to the Risk Rating 2.0 methodology, while establishing insight into Risk Rating 2.0. This review may work to improve data resolution issues and a perceived undervaluation of certain factors, like first floor height and other mitigation measures. Congress can simultaneously require FEMA to review national impacts of Risk Rating 2.0. For example, the Risk Rating 2.0 Transparency Act would mandate FEMA that “complete and publish a comprehensive assessment of the economic and social impacts of implementing Risk Rating 2.0” over a 20-year period.
2. *Mandate FEMA’s transparency through the release of a public-facing rate calculator and establishment of rating factor appeals process*—Policyholders demand a way to review rating factors, validate property-level inputs, understand their comprehensive risks, and see the impact on premiums from undertaking mitigation measures. The NFIP-RE Act would mandate that FEMA “establish a tool that allows members of the public to estimate premium rates for covered properties under the Risk Rating 2.0 program (or any similar methodology) within a reasonable margin of error based on user inputs.” Furthermore, the NFIP-RE Act would “establish a fair, transparent, and streamlined process to manage disputes regarding chargeable premium rates

prescribed.” This appeals process is necessary so that policyholders can ensure Risk Rating 2.0’s data accuracy at the property level.

3. *Lower annual premium increases to nine percent*—Cutting the annual rate hike cap in half, from 18 percent to 9 percent, cuts anticipated NFIP participation decreases in half, according to statistical models of NFIP price elasticity. NFIP participation has already decreased by over 4 percent since Risk Rating 2.0’s implementation. Congress should cap single-family primary residential annual premium increases to a maximum of 9 percent each year, to stabilize program participation and serve as a bridge to a permanent affordability program. The Flood Insurance Affordability Act would accomplish this.
4. *Enact a means-tested assistance program with housing burden as a targeting factor*—Under Risk Rating 2.0, the median percentage of household income represented by the full-risk premium will exceed 1 percent in 45 States and will equal or exceed 2 percent in 10 States. FEMA has proposed to administer an affordability program for certain NFIP policyholders, but this requires congressional authorization. This program should be authorized and made available to both current and prospective policyholders, with scaled discounts to assist those most in need, in order to encourage NFIP participation growth. The NFIP-RE Act proposes eligibility for policyholders earning up to 140 percent of AMI, which CSFI supports. However, in lower-income areas with higher costs of living, 140 percent of AMI may still be insufficient to reach homeowners in need. Beyond AMI, there are other cost of living measures—most relevantly housing burden—that can be used to determine eligibility or discount distribution.
5. *Forgive NFIP’s debt or freeze interest payments*—Congress should forgive NFIP’s debt, given that it was accumulated under a legacy pricing system. FEMA will pay the U.S. Treasury \$619M this year to service \$20.5B of NFIP debt, much from policyholders who have left the program or mitigated their properties. According to FEMA, approximately 11 percent of each current policyholder’s premium is applied towards these payments, equating to about \$132 per policyholder per year. At the least, Congress should grant forbearance for interest payments over a defined period of time. The NFIP-RE Act would pause interest payments for 5 years, and deposit these savings into a National Flood Mitigation Fund.

The policies above—intended to resolve common equity, affordability, transparency, and accuracy concerns—would serve to stabilize participation, sustain the program, and support communities across the country.

These policies are just the beginning. Other reforms called for by NFIP stakeholders include Increased Cost of Compliance modernization, flood mapping modernization, claims process reform, among many more. Furthermore, Congress could work to address global insurance challenges that put pressure on NFIP, such as skyrocketing reinsurance costs. For example, a Federal reinsurance commission could be established to study options for Federal intervention, as well as associated savings to FEMA and other Federal agencies, and then propose solutions.

Again, thank you for the opportunity to testify today about the reauthorizing and reforming the National Flood Insurance Program. We appreciate your recognition of NFIP’s value to local communities and the American economy.

All stakeholders across the country interested in sustainable flood insurance are welcomed to join our coalition. CSFI stands ready and willing to assist the Committee as we work to reauthorize the NFIP by March 8, and as we pursue long-term solutions that improve NFIP and our country’s sustainability.

PREPARED STATEMENT OF DANIEL KANIEWSKI
MANAGING DIRECTOR, PUBLIC SECTOR, MARSH MCLENNAN
JANUARY 25, 2024

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Marsh McLennan

Marsh McLennan is the world's leading professional services firm in the areas of risk, strategy and people. Our more than 85,000 colleagues advise clients in 130 countries. We help corporate and public sector clients navigate an increasingly dynamic environment and address the most complex challenges of our time through four market leading businesses — Marsh, Guy Carpenter, Mercer, and Oliver Wyman.

We have a deep understanding of flood-related risk and insurance issues, having been engaged with property insurance challenges since our beginning more than 150 years ago. We work with clients — including individuals, businesses, organizations, governments, and communities — to analyze their flood risk exposures; help them implement solutions before, during and after an event; and to address and mitigate the financial impact of natural disasters, including flooding, through insurance and other risk transfer tools.

Executive Summary

Flood risk in the US is systematically underestimated, contributing to gaps in the insurance coverage and the resilience measures that can help communities minimize and recover from losses. Federal policies and programs, including the National Flood Insurance Program (NFIP), are essential, but state and local officials and homeowners play essential roles in flood resilience.

Closing the flood resilience gap

There are several ways to improve risk readiness and mitigate the impact of floods. These include NFIP reforms and complementary solutions:

- Strengthen the NFIP with a long-term reauthorization and reforms, and protect it with reinsurance.
- Grow the private flood market and promote additional coverage to complement the NFIP.
- Address gaps in NFIP coverage.
- Embrace parametric insurance.
- Leverage existing NFIP incentive programs such as the [Community Rating System](#) (CRS).

Actions at the state and local levels are also necessary.

State resilience programs such as [South Carolina's Strategic Statewide Resilience and Risk Reduction Plan](#) with \$200 million primarily directed at flood risks, as well as hurricane mitigation grant programs for homeowners including [Strengthen Alabama Homes](#), [My Safe Florida Home Program](#), [South Carolina Safe Home](#), and Louisiana's [new hazard mitigation grant program](#), are examples of non-federal approaches to reducing disaster impacts.

Community-based catastrophe insurance

[Community-based catastrophe insurance](#) (CBCI) is an innovative approach to boosting insurance purchasing, providing property coverage arranged by a local government, quasi-governmental body, or community group. The benefits of CBCI include enhancing financial resilience, providing affordable coverage, and creating incentives for risk reduction at the community and individual

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levels. A CBCI pilot program is boosting financial resilience of a community in New York City.

A comprehensive flood resilience strategy

Federal, state, and local officials need a clear vision that strikes a balance between addressing crises and fostering resilience. Insurance and risk transfer have an important role to play, but must be combined with a broader, coordinated resilience strategy that includes risk reduction measures. Incentives for such measures exist now in the form of federal grant programs. To fully close the flood resilience gap, innovations beyond these programs and a broader range of stakeholder engagement will be necessary, including:

- Building code adoption, enforcement and retrofits, as well as zoning laws.
- Stafford Act incentives.
- Community Disaster Resilience Zones
- Engaging cross-industry stakeholders as co-beneficiaries of resilience investments

The flood resilience gap

Despite being one of the most common and destructive natural hazards, flood risk is systematically underestimated, which contributes to inadequate insurance, underinvestment in flood resilience, and policy decisions that, in many cases, may not be helping. And the gap between economic and insured losses from flood has only been widening. Between 2007 and 2021, only 17% of global flood losses were insured, according to a [Marsh McLennan analysis](#).

With the increasing frequency and severity of flood events, together with population growth, economic development, and urbanization, the nation's people and infrastructure are at greater risk. Significant flooding events in the US in 2023 included:

- Tropical Storm Hilary was the first such storm to hit southern California in more than 80 years, setting rainfall records for Los Angeles and elsewhere.
- Record rains caused catastrophic flooding in four counties in western Kentucky.
- More than 25 inches of rain fell in Fort Lauderdale, Florida in six hours, bringing flash floods, overwhelming local water infrastructure, and forcing the airport to close.
- Historic rainfall in Vermont led the state to declare a disaster in all 14 of its counties.

Gaps in flood risk protection exist not only in insurance coverage, but in resilience measures that can help communities minimize and recover from losses.

In inflation-adjusted 2021 dollars, global economic losses from floods increased from \$504 billion in the 15-year period between 1992 and 2006 to \$729 billion between 2007 and 2021. According to the [Marsh McLennan Flood Risk Index](#), 18% of the global population is currently threatened by flooding, a number projected to rise considerably in the coming years.

We believe that risk reduction and risk transfer are key to increasing the resilience of communities to the pervasive risk of flooding. Federal policies and programs, including the National Flood Insurance Program (NFIP), are essential, but communities and individuals are ultimately responsible for managing and mitigating flood losses. Whether investing in flood mitigation measures, including public infrastructure upgrades and retrofitting homes and buildings, or purchasing flood insurance, local officials and homeowners play essential roles in flood resilience.

As highlighted in our recent report—[Staying above water: A systemic response to rising flood risk](#)—we believe that local officials must consider how to manage flood risk and build resilience, in addition to flood insurance. This entails:

1. Learning to live with floods through a cross-societal push for resilience, with communities, businesses, and governments implementing small-scale measures to mitigate risks and minimize damage.
2. Building strategic protection by deploying large-scale systemic interventions to protect critical assets and ensure financial resilience.
3. Preparing for relocation by facilitating resettlements of people and assets from high-risk areas in a timely, equitable, and financially viable way.

Funding and implementing these strategies will require decisive action, effective leadership, and innovations such as those being tested now in Community-Based Catastrophe Insurance (CBCI)

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projects. Critical enablers across governance and risk culture, land use and building codes, and engagement and incentive structures involving a range of industries and all levels of government are necessary to turn the flood resilience vision into reality.

Closing the flood resilience gap

Flooding disproportionately affects lower-income communities, which are more vulnerable and more exposed to flooding. One way to help bridge the divide is by increasing participation in flood insurance. [Studies have shown](#) that individuals and communities with flood insurance recover better and faster than those without.

It's important to keep in mind that insurance is but one piece of a flood resilience strategy, along with investment in risk reduction measures, enhanced access to flood risk data, and smarter land use planning. But, while insurance is a critical part of recovery from natural disasters, many households and businesses simply do not have adequate coverage for repairs and rebuilding.

The reasons for low coverage rates vary and include affordability constraints, limited risk awareness, poor understanding of insurance, and behavioral biases in decision-making. The continuing flood resilience gap in the United States means that many individuals, businesses, and communities do not have the financial resources to effectively recover following a flood or other disaster.

Flood Insurance

We believe there are several ways to improve risk readiness and mitigate the impact of floods. These include:

Strengthen the NFIP. With current debt of more than \$20 billion and hundreds of millions of dollars in interest payable annually, the NFIP needs reform and long-term reauthorization to become a sustainable source of flood insurance. A [sound financial framework](#) for the NFIP authorized by Congress would help reinforce the program.

A key part of FEMA's sound financial framework is its new pricing methodology, Risk Rating 2.0. The rating program is intended to make NFIP premiums more actuarially sound to better reflect the underlying flood risk and recognize loss mitigation efforts. To address affordability concerns associated with the new risk-adjusted rates, Congress could consider authorizing targeted assistance, such as [a means-tested assistance program](#).

Protect the NFIP with reinsurance solutions. Guy Carpenter, a business of Marsh McLennan, is FEMA's broker, providing reinsurance for the NFIP. Reinsurance is backed by professional reinsurers and capital market investors; these programs help supplement the financial resources of the NFIP following significant flooding events while at the same time protecting the NFIP and taxpayers by transferring risk. For example, Hurricane Harvey triggered a full reinsurance payout, saving taxpayers over \$850 million.

Grow the private flood market. The Biden administration has proposed a package of NFIP reforms in which it recognizes the role of a private flood insurance market in supplementing and supporting the government-backed program. Private flood insurance can offer options that make purchasing flood coverage easier and more attractive. Each property that obtains flood coverage in the private market is a risk the NFIP and US taxpayers do not have to bear. The private market offers the possibility for innovation and products to further close the flood insurance gap.

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Address gaps in NFIP coverage. The NFIP has gaps in coverage for residential and commercial properties. For residential properties, additional living expenses (funds to pay living expenses while the flooded property is repaired) are not included in NFIP policies. For commercial properties, business interruption is not covered by NFIP. As we have seen in previous flood events, those homeowners and businesses without these types of coverage struggled to recover. Of note, private flood policies often do cover these expenses for homeowners and businesses, respectively.

Embrace parametric insurance. A form of alternative risk transfer that is growing in demand as a tool to improve disaster resilience, parametric insurance solutions deploy a measurable index with predefined triggers. Unlike most forms of traditional property insurance, pricing is based primarily on the probability of the loss indexed being triggered rather than the specific risk of damage suffered by the benefit's recipients. This is particularly effective where it is either not possible, feasible, or desirable to assess the underlying exposed interests. Parametric solutions offer a more expedited contract payout, typically getting funds into the hands of those who have suffered loss in a matter of days, which can accelerate recovery. This is particularly important when it comes to flood as a delay in restoration can result in proliferation of mold, which over time contributes to health problems.

Promote excess flood coverage to complement the NFIP. While the NFIP remains a valuable source of flood insurance, its coverage limits are insufficient for many higher-value properties with flood exposure. Such properties need excess coverage to supplement NFIP protection. For example, in the third quarter of 2023, the median price of homes sold in the US was \$431,000, according to Federal Reserve data; this substantially exceeds the NFIP dwelling limit of \$250,000.

Leverage existing NFIP incentive programs such as the [Community Rating System \(CRS\)](#). CRS is a voluntary incentive program that recognizes and encourages community floodplain management practices that exceed the NFIP's minimum requirements. Over 1,500 communities participate nationwide.

In CRS communities, flood insurance premium rates are discounted to reflect the reduced flood risk that results from community efforts to address the program's three goals:

1. Reduce and avoid flood damage to insurable property
2. Strengthen and support the insurance aspects of the NFIP
3. Foster comprehensive floodplain management

Tulsa, Oklahoma, and Roseville, California, are the only two communities to have achieved the highest rating of Class 1. NFIP policyholders in these cities receive the CRS program maximum discount of 45%. Both communities made concerted efforts to invest in flood resilience following catastrophic flooding events.

Miami-Dade, Florida is the latest community to receive an upgraded CRS rating. The Insurance Information Institute [highlighted this achievement](#), specifically noting how the city's investments in flood resilience will benefit the community. With its new Class 3 rating, NFIP policyholders in Miami-Dade will receive a 35 percent discount on flood insurance premiums—an estimated \$12 million in savings.

"This is a huge step forward in resilience for our county," Miami-Dade County Mayor Daniella Levine Cava said after FEMA announced that Miami-Dade had leaped ahead two rankings in the flood-risk rating. "It indicates that we have been able to demonstrate that we can create more

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resilience, more protection for our community.”

To encourage further participation in the CRS program, FEMA offers tailored [products and guides](#) for local officials. FEMA could potentially provide additional assistance and resources to flood-prone communities, such as the [Repeatedly Flooded Communities Preparation Act](#), which received broad support from the insurance industry and other stakeholders.

Innovative state and local resilience programs

While federal resilience grants often receive the most attention, several states are allocating state budgets and leveraging other funding sources to build resilience programs. Some are primarily focused on flooding, such as [South Carolina’s Strategic Statewide Resilience and Risk Reduction Plan](#), released in June 2023. The plan is especially notable because the state provided \$200 million to fund the plan’s identified project priorities, a move that caught the attention of national flood stakeholders:

“The budget that Governor McMaster signed into law today puts \$200 million into projects that will help the state withstand flooding exacerbated by increasingly more frequent and severe weather-related disasters,” Mathew Sanders, a senior manager with [The Pew Charitable Trusts’](#) flood-prepared communities project, said in a prepared statement. “This unprecedented funding is an impressive commitment for a state of this size, positioning South Carolina as a leader.”

In addition to funding state and municipal infrastructure and other government projects, some states offer resilience grant programs directed to homeowners. While these programs often focus on home retrofits for wind events, they can serve as models for states aiming to directly support flood-prone residential structures.

Florida: [My Safe Florida Home Program](#) aims at strengthening homes against hurricanes. Owners of single-family homes and townhouses may apply for a free home hurricane inspection. If recommended by the inspection, homeowners become eligible to apply for improvements to roofs, doors, and windows. It is a matching program — for every \$1 invested by the homeowner the state will provide \$2 toward the project, equivalent to two-thirds of the project cost, up to \$10,000. The program also waives state sales tax (6%) on the retail purchases of impact-resistant doors, garage doors, and windows. The Florida legislature provided over \$176 million for the program.

South Carolina: The [South Carolina Safe Home](#) program, administered by the South Carolina Department of Insurance, provides matching and non-matching grant funds to help coastal property owners retrofit their homes to make them more resistant to hurricanes and high winds. The funds provided by the program are for the sole purpose of retrofitting owner-occupied, single-family homes.

Alabama: The [Strengthen Alabama Homes](#) program provides grants for homeowners to fund wind mitigation measures for single-family homes. The grants pay 100% of mitigation costs up to \$10,000 to meet the [Insurance Institute for Business and Home Safety \(IBHS\) FORTIFIED™ standard](#), designed to reduce wind and wind-driven water impacts caused by hurricanes. Funding for this program is provided by the insurance industry, rather than the government (which administers the program).

Given the program has been providing homeowners grants for a decade, researchers from the University of Alabama, Auburn University, and the University of Mississippi sought to determine the benefits of the program, and of hazard mitigation investments more broadly. Their landmark [study](#)

empirically demonstrated the value of hazard mitigation investments, providing strong incentives for homeowners to invest in hazard mitigation:

- **Lower insurance premiums:** *Fortified* homes have 16% to 40% lower property insurance premiums.
- **Higher resale value:** *Fortified* homes sell for 6% to 7% more than other homes.

This is not a federal program, but a standard promulgated by a non-profit organization (IBHS) together with a state statute linked to insurance premiums and real estate market dynamics. The study's findings demonstrate that a homeowner can be incentivized to invest in hazard mitigation even in the absence of federal funding.

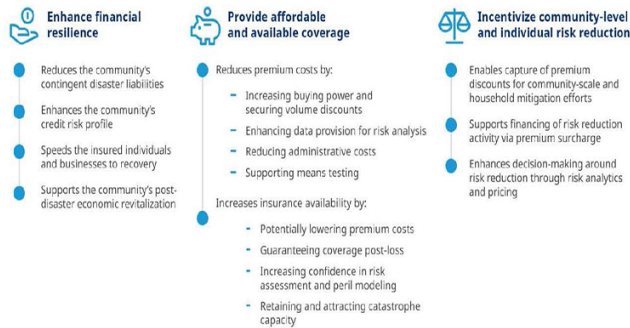
Louisiana: Louisiana officials [announced](#) a \$30 million hazard mitigation grant program for residential and commercial buildings, modeled on the above-mentioned Alabama program. The grants will provide up to \$10,000 to retrofit roofs to a *Fortified* home standard, thereby making Louisiana homes and businesses more resilient to hurricanes. Unlike the Alabama program, which is insurance-industry-funded, the Louisiana program is state-funded. Similar to what researchers found in Alabama, Louisiana residents who retrofit or build their homes to the *Fortified* standard could save 20% to over 50% on the wind portion of their homeowner's insurance.

Community-based catastrophe insurance

An innovative approach to boosting insurance purchasing that Marsh McLennan is involved in is known as [community-based catastrophe insurance](#) (CBCI). Essentially, CBCI provides disaster insurance arranged by a local government, quasi-governmental body, or community group to cover a group of properties.

The benefits of CBCI fall into three main areas: enhancing financial resilience; providing affordable coverage; and creating incentives for risk reduction at the community and individual levels (see Figure 1).

Figure 01: Potential benefits of CBCI



Source: Marsh McLennan

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This type of program is flexible and can be created to cover a single hazard or a range of natural disasters for a given community, including flood, but also wildfire, earthquake, and others. Such broad applications can further incentivize a community's risk management efforts — risk reduction, risk communication, and risk transfer — across multiple perils. For flood risk, this could mean levee improvements and/or ecosystem-based interventions, including wetlands enhancements, and more.

Within broad parameters, CBCI has much flexibility in its structure and design, with varying degrees of community responsibilities possible (see Figure 2). These range from a facilitator model, where the community members contract with insurers, to a captive insurer, in which the community establishes and operates its own risk-bearing entity.

Figure 2: CBCI delivery models

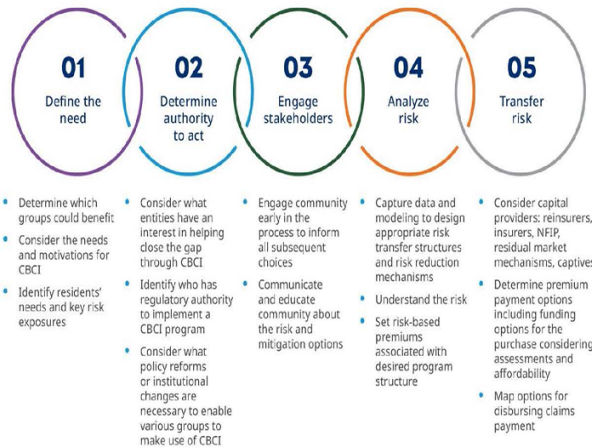
Models	Description	Community roles
	The community helps to establish a beneficial arrangement with an insurer for community members. Community members contract directly with the insurer.	Member education; data provision; engage and educate members; administer means-testing program (if any); adopt regulations to encourage or compel purchase ¹ and negotiate discounts for community resilience enhancements.
	The community arranges a group policy on behalf of its members (e.g., similar to an employee benefit arrangement). Community may facilitate premium payment, but the community members maintain a relationship with the insurer for claims management.	Same as facilitator model; plus management of enrollment/distribution negotiations of premium; and facilitation of payment.
	The community buys bulk parametric catastrophe insurance and makes community members aware of this community benefit, charges for it, such as via taxes, and ensures claims are distributed to members after qualifying events.	Obtain adequate coverage to meet community member recovery needs; ensure premium charge and claims payment mechanisms are in place; and raise awareness of benefit amongst community members.
	The community establishes its own risk-bearing entity (e.g., a captive) and uses it to administer policies for members.	Same as group model plus capitalize and govern risk bearing entity; finance portion of risk; purchase reinsurance ² ; manage claims payments; and set insurance policy terms and conditions ¹ .

Degree of community control, resources and expertise required: Low High

Note: Depending on community objectives, implementing a captive may require licensure procedures or a fronting carrier
Source: Marsh McLennan

The roadmap to implementing a CBCI program will vary depending on the unique needs of a given project and community. That said, there are five basic components to implementing a program (see Figure 3): defining the need, determining the authority to act, engaging stakeholders, analyzing risk, and transferring the risk. It should be noted that these steps are not necessarily sequential, and there may be back and forth among them depending on local circumstances.

Figure 3: Potential roadmap to CBCI implementation



Source: Marsh McLennan

To facilitate these types of transactions it would be helpful for FEMA to clarify whether the proceeds from a parametric insurance policy (specifically tailored to cover losses not eligible under the Public Assistance program) can count toward the state's Public Assistance matching requirement.

A CBCI pilot program: Boosting financial resilience in NYC neighborhoods

One benefit of community-based catastrophe insurance is the flexibility it allows in defining "community," which can be an agency or municipal government, a neighborhood association, a business improvement district, or any number of entities. The primary requirement is that the involved community has the authority to secure or facilitate insurance coverage on behalf of multiple properties.

Marsh McLennan is currently involved with a project in New York City, which is the nation's first CBCI. The project's goal is to increase the financial resilience of low- and moderate-income households to flood risk. These communities are increasingly vulnerable to flooding and are, in many instances, under-insured or uninsured.

Guy Carpenter, a business of Marsh McLennan, is [working with](#) the City of New York and the non-profit Center for NYC Neighborhoods (CNYCN), as well as the non-profits Environmental Defense Fund and SBP, reinsurer Swiss Re, and insurtech ICEYE, to pilot the program in designated neighborhoods. The pilot was jointly funded by the National Science Foundation and the Department of Homeland Security through a Civic Innovation Challenge award.

The program is built on a parametric basis, described earlier. In the NYC program, payouts will be

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made to CNYCN for qualifying flood events based on a mix of satellite data; on-the-ground, real-time sensors; and social media images. Once a qualified event triggers the payment, homeowners will be able to apply for assistance — on their own or with help from CNYCN's network partners. Qualified applicants can then receive a grant up to \$15,000 from CNYCN quickly following a major flood.

The intent of these payments is to support residents and their broader communities in getting back to normal faster. It also will allow them to avoid having to make such tough decisions as whether to pay for home flood repairs versus other critical family needs, like healthcare, food, and saving for education.

We are proud to have helped kickstart this innovative program and hope it will cause other communities to establish their own CBCI program. Federal grant funding could be a catalyst here.

A comprehensive flood resilience strategy

Given the scale and complexity of the challenges presented by flood risk, federal, state, and local officials need a clear vision that moves beyond unsustainable paradigms of protection and strikes a balance between addressing crises and fostering resilience. Insurance and risk transfer certainly have an important role to play, but must be combined with a broader, coordinated resilience strategy.

Ideally, insurance would be paired with risk reduction measures such as hazard mitigation, building codes adoption, enforcement, and retrofits, and as well as community resilience planning. While a few states (such as those mentioned earlier) have their own resilience grant programs, the preponderance of resilience grant funding is provided by the federal government.

For example, FEMA's Building Resilient Infrastructure and Communities (BRIC) and Flood Mitigation Assistance (FMA) grant programs, and HUD's Community Development Block Grant – Disaster Resilience (CDBG-DR) programs provide funding for communities to reduce risks and build resilience. These federal grant programs have a demonstrable benefit to society, with an [average savings of six dollars for every dollar invested](#).

Pairing these federal and/or state grants, with risk transfer solutions, such as supplemental flood insurance or CBCI programs, can be a force multiplier. We believe that CBCI projects, like the NYC pilot, demonstrates the value of risk reduction measures alongside the benefits of risk transfer. We would like to see FEMA encourage more such innovation and experimentation.

That said, CBCI and other private risk transfer programs could be more successful if disincentives baked into existing statutes and regulations are addressed. For example, the Stafford Act contains disincentives for homeowners and governments from purchasing insurance because FEMA's recovery programs provide funding to uninsured individuals and state and local governments after a disaster. As such, many individuals wrongly believe they will be made whole by FEMA assistance following a major disaster, including flooding. Meanwhile, governments are not inclined to insure their buildings and infrastructure because they will receive funding that covers most of their losses if the President declares a disaster. Mitigation investment will fall short of desired outcomes without corresponding risk transfer strategies.

Building codes and zoning laws

Local officials have significant influence over resilience of their communities because they can determine how and where residential and commercial structures are sited and built. This is best

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demonstrated through zoning and building code ordinances. By requiring that structures be sited outside of flood-prone areas or built to a higher elevation, local officials can reduce flood impacts to their communities. Adopting a flood-resistant building code has been shown to [save six dollars for every dollar invested](#).

The insurance industry and other stakeholders should work with FEMA and consensus-based model code-developing organizations, such as the International Code Council (ICC), to encourage additional flood mitigation opportunities and investments. For example, FEMA and the insurance industry could review ICC model requirements to encourage mitigation investments after a flood loss.

In an era of escalating climate risks and evolving environmental challenges, the insurance industry is at a crossroads. As we witness the increasing frequency and severity of natural hazards like flooding, there is a pressing need for proactive measures to mitigate risks and safeguard the well-being of communities. Embracing the transformative power of retrofits in the built environment is not just a strategy for sustainable urban development; it is a vital step toward fortifying NFIP and private markets against the uncertainties of our changing world.

The built environment, ranging from residential homes to commercial properties, is inherently vulnerable to the impacts of flooding. Rising sea levels and extreme weather events pose significant threats, resulting in a surge in insurance claims and payouts. By prioritizing retrofits, we have an opportunity to not only reduce the frequency and severity of claims but also to foster a more resilient and insurable built landscape.

The insurance industry and FEMA should work with national stakeholder organizations that advocate and educate on the importance of retrofits as force multipliers on the state and local levels. For example, [BuildStrong America](#) has advocated for the increased funding for retrofits and investments in resilience on the federal and state level before the next disaster, climate impact, or catastrophic failure for over a decade. Joining forces with firefighters, emergency responders, insurers, engineers, architects, contractors and manufacturers, as well as consumer organizations, code specialists, and many others committed to resilience, BuildStrong successfully pushed for the Disaster Recovery Reform Act of 2018, creating FEMA's BRIC program, as well as additional measures to enhance BRIC through proposals like the [Resilient AMERICA Act](#) which would create a set aside for building code adoption and enforcement and another set aside for residential retrofits.

The Federal Alliance for Safe Homes (FLASH) is the leading consumer advocate for strengthening homes and safeguarding families from natural and manmade disasters. Through programs like [Inspect2Protect](#)—which help local communities and individuals to understand the building code where they live—and [The Homeowner's Guide to Insurance](#), FLASH designs and develops effective and easy-to-use tools and techniques to foster mitigation behavior change.

Stafford Act incentives

FEMA has existing authorities to incentivize state and local governments to reduce their risks and to better protect federal taxpayers from disaster losses. One such authority was [granted to FEMA in the 2018 Balanced Budget Act](#). This authority amends Section 406(b) of the Stafford Act to increase the federal cost share of its Public Assistance programs for communities that take proactive steps to reduce hazards. The resilience measures identified in the statute — mitigation plans, insurance, emergency management programs, building codes, risk ratings, state/local mitigation funding, and tax incentives — aim to reduce financial losses and human suffering and get communities up and

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running faster after a disaster. By raising the federal cost share for FEMA Public Assistance on a sliding scale from 75% to up to 85%, a community that takes proactive steps could receive millions of dollars more in post-disaster funding.

We see the implementation of this provision as a significant opportunity to remove existing barriers to resilience investments and a strong incentive for communities to do the right thing before disaster strikes. However, FEMA has not yet implemented this authority. We strongly encourage the full implementation of this provision.

Similarly the [Community Disaster Resilience Zones \(CDRZ\) Act of 2022](#) amended the Stafford Act to reduce the barriers to entry for vulnerable communities to apply for BRIC grants. President Biden signed the Act into law in December 2022, and FEMA has since [announced the first 483 CDRZs in all 50 states and the District of Columbia](#).

The CDRZs are areas that FEMA deems most in need of hazard mitigation assistance, as identified by a risk analysis tool that considers such factors as social vulnerability, natural hazards loss exposures, and lack of resilience. CDRZ-designated communities are eligible for an increased federal share for BRIC grants, up to 90% (from the current 75%). This should encourage those communities that are unable to afford the previous 25% state/local match to apply for funding that they would have otherwise not pursued.

While the additional funding in both the Public Assistance resilience measures and CDRZ funding would only materialize if a disaster hit a community, it provides a strong incentive for all communities to invest in resilience with the confidence that FEMA would recognize and reward their investments.

Engaging cross-industry stakeholders as co-beneficiaries of resilience investments

More broadly, other industries, such as finance and real estate, can incentivize further flood resilience investments together with the insurance industry and government. The National Institute of Building Sciences (NIBS) developed a [roadmap for resilience](#) incentives, specifically focused on residential buildings subject to flood. NIBS identified "co-beneficiaries" of mitigation investments and highlighted how these co-beneficiaries can help pay for such investments (see Figures 4 and 5).

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Figure 4: How resilience provides value



Figure 5: How co-beneficiaries can help pay



Source: "National Institute of Building Sciences", Resilience Incentivization Roadmap 2.0, Page v, Figures ES1-A and ES1-B

As summarized in its report findings, NIBS called out the utility of flood resilience incentives, in the context of co-beneficiaries from multiple industries and governments:

1. **Mitigation saves, but it doesn't do so in proportion to individual stakeholder investments.** Investment in disaster resilience makes financial sense for society — but for individual stakeholders the cost can seem to exceed the benefits.

For example, the \$5,000 it might cost to retrofit an existing house benefits the current owner, future owners, insurers (by limiting the risk of flood-related claims, assuming the property is insured against flood), financial institutions holding the property owner's mortgage, and so forth. The retrofit saves society more than it costs in places with at least a 1-in-100 chance of basement flooding per year. It saves up to 13 times the cost in the highest hazard locations.

But, to the homeowner paying the entire cost, the investment can seem hard to justify. (Building for flood resilience at the time of initial construction is less expensive and more cost effective, and it makes sense even when flooding occurs less frequently.)

2. **Co-beneficiaries can share the cost of such investments — but they face similar challenges to those of the property owner.** In the \$5,000 basement-flood retrofit example, mortgage holders and governments would save in the long run by offering a total of \$3,300 in incentives anywhere with at least a 1-in-100 chance of basement flooding per year. Homeowners would end up paying only \$1,700 and saving more than they pay in both moderate- as well as high-hazard locations. Why don't co-beneficiaries provide these incentives? Because stakeholders' interests are intertwined but are not aligned.
3. **Public-private coordination is essential.** Stakeholders' interest in addressing the misalignment of incentives is as evident as the complexity of the challenge itself.

Conclusion

While the effects of flooding are felt most acutely in the communities where they occur, the human, economic, and social cost of flooding is felt more broadly. The ripple effects include supply chain disruptions, infrastructure failure, loss of crops, and hardship to the economy. Risk levels today are amplified by climate change, nature loss, and the concentration of people and assets in flood-prone areas. Conventional strategies are insufficient to address these rapidly changing risk levels, which is why we need a shift from a reactive to a proactive approach to flood resilience.

Closing the flood protection gap and improving flood resilience will require even more partnerships between governments and private industry. Together, the public and private sectors can improve community flood mitigation efforts and speed recovery following flood events.

Appendix: Flood market overview

The National Flood Insurance Program

The NFIP is the main source of flood insurance in the US. Created in 1968 to address the lack of a private market for flood coverage, the NFIP is administered by the Federal Emergency Management Agency (FEMA). The NFIP requires occasional congressional reauthorization; the program's current authorization is set to expire on February 2, 2024. Congress has held hearings to discuss long-term reauthorization, information sharing, and other issues, but so far has been unable to reach consensus and needs to perform a robust analysis of reauthorization proposals to extend the program for another multiyear term.

Federally backed flood policies are available through the following two channels:

- The Write Your Own (WYO) program, a group of roughly 50 insurance companies that use their own licensed agents and producers and are authorized by FEMA to act as a fronting insurer to issue and service NFIP-backed flood policies.
- NFIP Direct, which allows agents not appointed by a WYO insurer to write flood insurance directly through the NFIP.

Although a private flood insurance market has emerged since the NFIP's creation, it is small in comparison — the NFIP [accounted for more than 95%](#) of household policies purchased as of 2018. While the number of private policies is likely rising, the NFIP will continue to dominate the market for the foreseeable future. Even with the current public and private market offerings, as much as 85% of American households lack flood coverage.

Various factors explain the poor uptake, including some evidence that expectations of government relief reduce demand. More fundamentally, property owners generally do not fully understand their risk and, more often than not, underestimate it.

For example, property owners often make a buy/don't buy coverage decision based on whether they are "in or out" of a Special Flood Hazard Area (SFHA) — which is defined by FEMA as a zone with a greater than 1% annual probability of flooding.

Property owners outside of SFHAs often consider themselves safe, but, of course, flooding is not confined to administratively defined locations. For example, almost three-quarters of Houston properties that flooded during Hurricane Harvey were outside of SFHAs. And recent modelling indicates that millions of properties with a 1% annual probability of flooding are not even currently listed in SFHAs.

But the low uptake of flood insurance among households outside of SFHAs does not fully explain the protection gap. Even inside SFHAs, only 30% of homeowners are covered, despite a requirement that flood insurance be in place for federally backed mortgages in these areas.

Private flood insurance

Interest by private sector insurers in underwriting flood risks continues to grow, due in large part to improvements in risk technology and analytics that enable insurers to better understand flood risks and exposures.

Types of private flood insurance currently available include:

Primary residential flood, which can mirror NFIP coverage terms or provide enhanced coverage for residential properties.

Commercial “all-risk” is a broad form of coverage designed for large businesses. It can provide protection for various property risks, including flood and business interruption. The amount of coverage available in these policies is typically much greater than in a flood-only policy. However, in recent years, we have seen greater underwriting scrutiny of flood in all-risk programs, and in some instances a deterioration of coverage for specific locations. This amount of coverage is usually unsuitable for small businesses and is not applicable to homeowners.

Excess flood coverage sits on top of underlying private primary coverage or an NFIP policy. Excess flood insurance is available to individuals and businesses, and can provide higher limits of protection as well as enhanced coverages such as additional living expenses and business interruption.

Contents-only coverage was highlighted by Hurricane Ian, which served as a reminder that anywhere it rains, it can flood. The vast majority of people renting homes, apartments, and condos did not have a contents-only flood insurance policy. While both the NFIP and private market offer renters policies, this highlights an opportunity to help renters with this type of coverage for their financial peace of mind.

Standard NFIP coverage	Private market coverage*
Dwelling limits of \$250,000	Dwelling limits up to \$2 million +
Contents limits of \$100,000	Contents and personal property limits up to \$1 million
Contents-only limits for renters up to \$100,000	Personal property up to \$1 million
30-day waiting period	No waiting period or limited period, e.g., 7 days
No additional living expenses are currently offered via NFIP	Potential additional living expenses up to \$250,000

+ Some homeowners insurers also provide coverage for flood via endorsement
* Examples of private primary residential flood coverage

Standard NFIP coverage	Private market coverage*
Building limits of \$500,000	Building and contents combined limits up to \$10 million
Contents limits of \$500,000	
30-day waiting period	Often a limited period, e.g., 7 days
Business income coverage is unavailable at the moment	Business income coverage is often available privately

* Examples of private primary commercial flood coverage

Agents as Trusted Advisors

Relationships matter in insurance, and agents often have strong connections with homeowners and businesses in their communities. Talking with clients about their flood exposure and ways they can manage the risk is a good way for agents to demonstrate their value and enhance those relationships.

Steps that can simplify agents' ability to act as trusted flood risk advisors



Offer flood insurance with every policy quote – for renters, homeowners, and businesses.



Insist on clients signing a waiver if they decline flood insurance.



Educate clients about flood risk and discuss their perspectives.



Revisit flood coverage annually as part of account reviews.



Include private flood insurance solutions to complement the NFIP's standard coverage.



Make it easier to purchase flood insurance with auto-populated data and instant quote/bind from insurers.

Source: Marsh McLennan

Torrent Technologies, a Marsh McLennan business, is leading the way to make flood insurance more accessible, with a growing number of product offerings, an intuitive website interface with enhanced auto-populate capabilities, and improved customer experience in all aspects of flood resilience, from buying policies to claims service.

PREPARED STATEMENT OF STEVE PATTERSON

MAYOR, CITY OF ATHENS, OHIO

JANUARY 25, 2024

Good morning. I express my gratitude to Chairman Brown, Ranking Member Scott, and the esteemed Committee Members for extending the invitation to address you today. I also appreciate the Committee's ongoing support and dedication to the National Flood Insurance Program (NFIP) and their commitment to enhancing the resilience of our communities.

I'm Steve Patterson, the Mayor of the City of Athens, OH, and the 2nd Vice President of the National League of Cities (NLC), which advocates for 19,000 cities, towns, and villages across the Nation. I am honored to present testimony today on the critical significance of the National Flood Insurance Program for mayors, local officials, and all members of the National League of Cities.

Since the conclusion of the fiscal year 2017, the NFIP has undergone a series of 28 short-term extensions. This prolonged reliance on short-term measures underscores the pressing need for a more enduring solution. Recognizing the inherent challenges and uncertainties associated with recurring short-term extensions, the NLC believes that a sustained and well-defined reauthorization is imperative for ensuring the stability, effectiveness and resilience of the NFIP. The complexity of flood insurance issues demands a forward-looking legislative approach that addresses long-term sustainability and the evolving nature of flood risks.

In alignment with its commitment to fostering robust and enduring solutions, the NLC has officially endorsed the National Flood Insurance Program Reauthorization and Reform Act of 2023 (S. 2142). This legislative initiative is seen as a pivotal step toward providing the NFIP with the stability and resources needed to fulfill its crucial role in protecting communities against the financial devastation caused by flooding.

A long-term reauthorization not only ensures the program's continued functionality but also fosters confidence among local governments and residents who rely on the NFIP for financial protection in the face of flooding events.

Local Government Support for NFIP

NFIP serves as a critical tool in protecting homeowners, businesses, and municipalities from the devastating financial consequences of flooding. Flooding events have become increasingly frequent and severe, posing a significant threat to the stability and well-being of communities across the Nation. Without the support and provisions offered by NFIP, the financial burden on our residents would be overwhelming, hindering our ability to recover and rebuild in the aftermath of such disasters.

Here are key facts highlighting the importance of NFIP for local governments and residents:

1. Financial Protection for Homeowners:

- NFIP stands as a cornerstone in providing homeowners residing in flood-prone areas with comprehensive and essential insurance coverage. This coverage extends beyond the mere compensation for property damages; it encompasses the broader financial landscape affected by flooding events.
- One of the distinctive features of NFIP is its commitment to ensuring that affected homeowners can access funds promptly. This rapid disbursement is instrumental in expediting the recovery process and mitigating the economic strain experienced by individuals and families.
- Prompt access to funds enables homeowners to initiate immediate repairs and restoration efforts, preventing further damage and minimizing the duration of displacement. This, in turn, contributes to the overall resilience of the community by facilitating a swifter return to normalcy for residents.
- It is important that the NFIP recognizes the diverse needs of homeowners and offers flexible financial assistance tailored to individual circumstances. This can include temporary housing assistance for those displaced, funds for necessary living expenses, and additional financial support to address specific challenges faced by homeowners during the recovery period.
- The program's flexibility should extend to accommodating various property types, from single-family homes to condominiums, ensuring that a wide spectrum of homeowners can benefit from the financial protection and support provided by NFIP.

2. Economic Stability for Communities:

- Flood-related damage can have a cascading effect on the local economy. By ensuring that homeowners can promptly access funds, NFIP contributes to the maintenance of economic stability at the community level. Swift recovery translates to a quicker resumption of economic activities, preventing a prolonged downturn that could result from extensive property damage.
 - The economic stability fostered by NFIP not only aids individual homeowners but also has a ripple effect on local businesses, schools, and public services. By preventing a protracted economic downturn, NFIP supports the overall well-being and vitality of the community.
 - In essence, NFIP's commitment to providing financial protection goes beyond the immediate compensation for property damage. It encompasses a comprehensive approach that considers the broader financial needs of homeowners, ensuring swift and flexible assistance that fosters both individual and community-wide economic stability in the wake of flooding events.
3. Empowering Comprehensive Floodplain Management:
- Having a sustainable NFIP can serve as a catalyst for local governments to establish and implement comprehensive, long-term floodplain management strategies. This includes the development of detailed floodplain maps, risk assessments and mitigation plans tailored to the unique characteristics of the region.
 - Through NFIP, local authorities gain access to resources and technical expertise, enabling them to create and update floodplain maps regularly. This proactive approach aids in identifying high-risk areas and implementing targeted measures to reduce vulnerabilities.
 - NFIP helps municipalities to not merely be reactive to flood events; but to actively engage in proactive measures to enhance community resilience such as:
 - *Zoning Regulations*: Local governments are working to establish and enforce robust zoning regulations, ensuring that new developments and constructions adhere to flood-resistant standards. This proactive zoning approach minimizes exposure to flood risks and prevents the creation of vulnerable structures.
 - *Land-Use Planning*: Local governments are working to integrate flood risk considerations into our land-use planning processes. This involves designating appropriate land uses in flood-prone areas, avoiding high-risk zones for critical infrastructure, and promoting sustainable development practices that mitigate the impact of flooding.
 - *Infrastructure Improvements*: Municipalities are also investing in critical infrastructure projects that enhance resilience. This includes the construction of flood barriers, upgrading stormwater management systems, and implementing green infrastructure solutions. These improvements not only protect against flood-related losses but also contribute to the overall sustainability and livability of the community.
 - In essence, NFIP's support for local governments extends beyond mere risk transfer through insurance. It actively facilitates a culture of proactive risk reduction, enabling communities to withstand and recover from flood events with greater efficacy. Through collaboration, local authorities can implement a suite of measures that collectively build a more resilient and sustainable foundation for the well-being of their residents and the long-term prosperity of the region.

Investment in Flood Mitigation

In addition to the NFIP, unprecedented investments from Federal, State, and local sources are dedicated to minimizing losses caused by extreme climate events. Local governments express gratitude for the financial support allocated in the Infrastructure Investment and Jobs Act. This legislation includes a substantial commitment, with \$3.5 billion directed toward the Flood Mitigation Assistance Program and an additional \$2.3 billion allocated for the Building Resilient Infrastructure in Communities (BRIC) grant program.

These significant financial allocations present crucial opportunities for States and local governments to channel resources into strategic flood mitigation initiatives. By leveraging these funds, communities can enhance household and community resilience, implementing measures that fortify infrastructure against the impact of extreme weather events. The investments provided by the Infrastructure Investment and Jobs Act are pivotal in empowering local entities to proactively address and

mitigate the challenges posed by flooding, thereby fostering a more resilient and secure future.

While the increased Federal investment is greatly appreciated, it is crucial to acknowledge that it still falls significantly below the burgeoning demand for resources to combat the escalating risks of extreme weather events. The pressing need for additional resources is underscored by the alarming rise in the frequency and severity of weather-related incidents. The increased number of severe weather events makes it increasingly urgent to invest additional resources in fortifying communities against the escalating impacts of climate change.

The growing frequency and intensity of extreme weather events underscore the urgency of bolstering Federal, State, and local efforts to enhance resilience, protect communities, and ensure the long-term sustainability of our infrastructure.

Extreme Weather Events

Cities, towns, and villages are experiencing higher frequency and intensity of extreme weather events, including hurricanes, floods, heatwaves, and wildfires. These more severe and unpredictable weather conditions are leading to a heightened risk of disasters that can overwhelm existing infrastructure and emergency response capabilities.

Coastal communities are facing an increased risk of storm surges and flooding, with low-lying areas becoming more susceptible to inundation. This poses a threat to infrastructure, property, and the livelihoods of coastal communities.

Climate change is also exacerbating the urban heat island effect, where cities experience higher temperatures compared to surrounding rural areas. This can lead to heatwaves with adverse impacts on public health, particularly among vulnerable populations. Heat-related illnesses and stresses on energy and water resources become more prevalent challenges for cities.

Changes in precipitation patterns and increased evaporation contribute to water scarcity and drought conditions in many regions. Cities dependent on local water sources face challenges in meeting the demands of growing populations, agricultural needs, and industrial processes, leading to potential conflicts and disruptions.

Extreme weather events, including intense storms and flooding, can damage or destroy infrastructure such as roads, bridges, and utilities, disrupting essential services and posing risks to public safety.

We are also seeing that climate change influences the spread of infectious diseases, increases the risk of heat-related illnesses, and poses challenges to air and water quality. Cities must address these public health concerns, particularly in densely populated urban areas where the impacts can be more pronounced.

Vulnerable communities within cities, often characterized by lower socioeconomic status, may bear a disproportionate burden of climate-related risks. These communities may have limited resources and capacity to prepare in advance or recover from extreme weather events, exacerbating existing social and economic disparities.

Addressing the risks posed by climate change requires proactive measures at the local, national, and global levels. Cities play a crucial role in implementing resilient urban planning, sustainable infrastructure and community engagement strategies to mitigate the impacts of climate change and enhance overall resilience. Collaboration among stakeholders, innovative solutions, and a commitment to sustainable practices are essential for building climate-resilient cities that can withstand and adapt to the challenges of a changing climate.

Resilience Planning

Cities, towns, and villages are implementing a variety of initiatives to enhance their resilience and adaptability to various challenges, including climate change, natural disasters, and socioeconomic shifts. Here are some examples of how cities are working to make their communities more resilient:

- *Green Infrastructure and Urban Planning*—Many cities are investing in green infrastructure, including parks, green roofs, and permeable surfaces, to manage stormwater, reduce flooding, and enhance overall resilience. Strategic urban planning focuses on sustainable development practices that prioritize resilience to climate-related impacts.
- *Climate-Resilient Housing and Infrastructure*—Cities are incorporating climate-resilient design principles into the construction of housing and infrastructure. This includes building structures that can withstand extreme weather events, such as hurricanes or floods, and implementing technologies to enhance the overall durability and adaptability of buildings.
- *Community-Based Disaster Preparedness Programs*—Cities are engaging in community-based disaster preparedness programs that empower residents to be

more resilient in the face of emergencies. These initiatives involve community training, early warning systems, and the establishment of local response teams to ensure swift and effective action during crises.

- *Renewable Energy and Sustainable Practices*—Transitioning to renewable energy sources and adopting sustainable practices are key components of building resilient cities. Cities are investing in renewable energy infrastructure, such as solar and wind power, to reduce dependence on vulnerable energy systems and decrease their carbon footprint.
- *Smart City Technologies*—The integration of smart city technologies, including sensors, data analytics, and IoT devices, allows cities to monitor and respond to various challenges in real-time. This includes early detection of environmental changes, traffic management, and improved emergency response capabilities.
- *Diverse and Inclusive Planning*—Resilient cities prioritize diversity and inclusivity in their planning processes. This involves ensuring that all community members, including vulnerable populations, have equal access to resources, information, and services, thereby building a more cohesive and resilient society.
- *Collaboration and Partnerships*—Cities are forming partnerships with various stakeholders, including Government agencies, nonprofit organizations, businesses, and academic institutions. Collaborative efforts enable cities to leverage a diverse set of skills, resources, and expertise to address complex challenges and enhance overall resilience.
- *Investment in Social Infrastructure*—Resilient cities recognize the importance of social infrastructure, such as health care, education, and social services. Investing in robust social systems ensures that communities can better withstand and recover from shocks, including pandemics and economic downturns.
- *Adaptive Transportation Planning*—Cities are adopting adaptive transportation planning to address the challenges posed by climate change and natural disasters. This includes the development of resilient transportation networks, incorporating alternative modes of transportation, and designing infrastructure to withstand extreme weather events.
- *Circular Economy Initiatives*—Embracing circular economy principles, cities are exploring ways to minimize waste, promote recycling, and reduce environmental impact. By moving away from a linear consumption model, cities enhance their sustainability and resilience in the face of resource constraints.

These examples illustrate the diverse strategies and approaches that cities are employing to enhance their resilience, ensuring that they can thrive and adapt in the face of a rapidly changing world.

Mapping

Acknowledging the importance of accurate floodplain mapping in determining flood risk and insurance rates, it is crucial to recognize that the current criticism of inadequate mapping and outdated data underscores the need for closer collaboration between the Federal Emergency Management Agency (FEMA) and local governments. The outdated and inaccurate nature of the existing floodplain maps highlights the necessity for FEMA to actively engage with local authorities during the mapping process.

To address this concern, FEMA should work more closely with local governments, taking into consideration any recent actions or future plans implemented by cities to mitigate flood risk in designated flood zones. By incorporating local insights and initiatives into the mapping process, FEMA can enhance the accuracy of floodplain maps. This collaborative approach not only ensures that policyholders are more informed about their true flood risk but also contributes to setting more appropriate and reflective insurance premiums. Improved communication and coordination between FEMA and local governments are essential to maintaining up-to-date, reliable, and comprehensive floodplain mapping systems.

Communicating Flood Risk

Effectively communicating flood risks to the public is a multifaceted challenge that requires comprehensive attention and action. One of the primary issues lies in the widespread lack of awareness among individuals regarding the specific flood risks they face and the crucial importance of obtaining flood insurance. To address this, a concerted effort is needed to enhance public awareness and education about flood risks and available insurance options.

Many individuals residing in flood-prone areas may not fully grasp the extent of the flood risks associated with their locations. This lack of awareness can lead to a false sense of security, with property owners underestimating the potential impact of flooding on their homes and communities.

Communicating the importance of obtaining flood insurance is critical. There may be a misconception that standard homeowners' insurance policies cover flood-related damages, leading property owners to neglect securing specific flood insurance. Emphasizing the unique benefits of flood insurance and its role in safeguarding against financial losses is crucial.

Implementing educational initiatives at the community level is essential. This can include workshops, seminars, and informational campaigns aimed at providing residents with a comprehensive understanding of flood risks, potential consequences, and the protective measures offered by flood insurance.

Engaging with local communities and leveraging community leaders can enhance the effectiveness of awareness campaigns. Establishing partnerships with local organizations, schools, and neighborhood associations can facilitate targeted outreach efforts to ensure that information about flood risks and insurance options reaches a broader audience.

Recognizing the diversity of communities and property owners, tailored communication strategies are necessary. Information should be presented in a clear, accessible manner, considering cultural, linguistic, and socioeconomic factors to ensure it resonates with a broad spectrum of residents.

Exploring incentives to encourage property owners to enroll in flood insurance is a proactive approach. This could involve creating awareness about potential financial assistance, reduced premiums for proactive mitigation measures, or other benefits associated with having flood insurance coverage.

Despite the efforts to improve awareness, there is still a considerable number of properties at risk of flooding that remain uninsured. Addressing this issue requires a comprehensive strategy involving regulatory measures, financial incentives, and community engagement to encourage property owners to prioritize flood insurance as a vital component of their risk management.

Enhancing public awareness and education about flood risks and insurance options is not only a critical aspect of building a sustainable flood insurance program but is also a shared responsibility that involves collaboration between Government agencies, insurers, communities, and individuals. Through a concerted effort to inform and empower property owners, we can work towards reducing the number of at-risk properties that remain uninsured, ultimately fostering greater resilience in the face of potential flooding events.

Private Insurance Market

While private flood insurance policies offer consumers a range of options, including potential cost savings and broader coverage, the feasibility of the private sector providing flood insurance for a significant portion of those at risk remains doubtful. This skepticism arises from the inherent challenge of insuring against catastrophic risks at a price point that remains affordable for the general populace, as previously discussed. This challenge is expected to intensify with the escalating impacts of climate change and ongoing development, heightening flood risks in numerous regions across the country.

Moreover, local governments express valid concerns that private insurance providers may engage in cherry-picking, selecting lower-risk properties, and leaving the more vulnerable ones to be covered by the NFIP. Such a scenario not only raises equity issues but also poses a threat to the sustainability of the NFIP. If private insurers avoid high-risk properties, the NFIP may bear the brunt of covering the most vulnerable areas, potentially straining its resources and diminishing its overall sustainability.

The looming threat of climate change and increased development renders private flood insurance potentially unattainable for many households at risk. The severity of flood losses, coupled with their potential to jeopardize insurer solvency, dissuades many private insurers from assuming such risks at any reasonable price point. This cautious approach is evident in the retreat of private insurers from various climate-related perils. For instance, insurers in States like Louisiana and Florida are reducing their willingness to provide homeowner's insurance, while some in California are scaling back their presence in high wildfire-risk areas of the State.

In light of these challenges, including the concern of cherry-picking by private insurers, and the reluctance of private insurers to cover high-risk properties, the NFIP is poised to maintain a dominant role in offering comprehensive indemnity flood insurance for the foreseeable future. The NFIP's capacity to address the unique challenges associated with catastrophic flood events positions it as a crucial

player in providing financial protection to communities at risk, ensuring a level of coverage that may prove elusive in the private sector.

CDBG-DR Reform

One major concern for local governments is with the Community Development Block Grant Disaster Recovery (CDBG-DR) Program. While the purpose of the program is for long-term recovery efforts after a disaster the sluggish pace of funding disbursement is very problematic to local governments. The bureaucratic hurdles and lengthy processes associated with the program often mean that much-needed funds take too long to reach our community in the aftermath of a disaster. This delay hampers our ability to address the urgent needs of our residents and businesses promptly, slowing down our recovery efforts and impacting the well-being of our residents.

Additionally, the complexity of the CDBG-DR application and approval procedures is a significant challenge. Navigating the intricate requirements can be daunting, especially for communities with limited resources. Simplifying these processes is crucial to ensure that all eligible communities can access the funds efficiently. We need a more straightforward and accessible application system that aligns with the urgency of post-disaster recovery.

Moreover, the lack of flexibility in fund utilization poses another obstacle. Communities vary in their recovery needs, and rigid guidelines limit our ability to tailor the use of funds to our specific circumstances. We advocate for a more adaptable framework that empowers us to allocate funds in ways that best address the unique challenges faced by our community, fostering a more effective and responsive recovery process.

That is why NLC supports the bipartisan Reforming Disaster Recovery Act (S. 1686). We are encouraged that this important legislation would make significant improvements to the CDBG-DR program to help our communities recover faster from major disasters.

Conclusion

In conclusion, the National Flood Insurance Program is an invaluable resource for our community, providing financial protection for our residents and supporting our efforts to build a more resilient and sustainable future. I urge the Senate Banking Committee to continue its commitment to the NFIP and consider enhancements that will further strengthen the program's effectiveness in safeguarding communities across the Nation.

Thank you for your attention to this matter, and I am available to provide any additional information or answer any questions you may have.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK
FROM MICHAEL HECHT**

Q.1. In your testimony, you cite data from the Coalition for Sustainable Flood Insurance (CSFI) that denotes that 98.5 percent of National Flood Insurance Program (NFIP) policies are in counties with a median household income below \$100,000.¹ You also note that 62 percent of all policy holders are in an area with an annual income below the national average. Given the rise in property and casualty insurance premiums nationally and inflationary costs,² many working families are already struggling to maintain existing levels of insurance coverage, let alone federally backed coverage through the NFIP.

How can we ensure that homeowners, specifically those from lower- and middle-income communities and communities of color, are aware of the importance of flood insurance coverage?

A.1. Thank you, Senator Warnock, for your question, “how can we ensure that homeowners, specifically those from lower- and middle-income communities and communities of color, are aware of the importance of flood insurance coverage?” As put forward in my testimony, NFIP works to protect working communities—coastal and inland—across our country. Higher-income households are more likely to have flood insurance than lower-income households, yet household incomes are lower within Special Flood Hazard Areas. This means that those who are more prone to flooding, according to Flood Insurance Rate Maps (FIRMs), are less able to pay for flood insurance coverage.

Communicating flood risk through price, rather than geographic factors, actual loss, and anticipated loss assessments, widens the insurance gap, since price is the key variable identified as depressing flood insurance purchases. Currently, under Risk Rating 2.0, FEMA is using premium as its primary means of communication flood risk, which is not effective in communicating the importance of flood insurance coverage. This is actively evidenced by significant decreases in participation nationwide, including a decrease of 7 percent in Georgia, since Risk Rating 2.0’s implementation.

Higher premiums and fees lead to fewer policies in force and less coverage in force, creating greater risk exposure. FEMA should consider communication through employing other data points and publicizing the dozens of rating factors unique to individual properties—like distance to coast or levee quality—that are factored into the Risk Rating 2.0 methodology “black box,” ultimately generating premiums seen.

As outlined in our “An Evaluation of Risk Rating 2.0 Impacts on National Flood Insurance Program” white paper, from past studies, a price increase of 1 percent causes a decreased demand of 0.11 percent to 0.87 percent for flood insurance policies, while causing a larger decrease in demand for coverage in force. Conversely, recent flood damage, distance to coast, and higher incomes—affecting ability to afford insurance—increase demand.

¹ Coalition for Sustainable Flood Insurance (CSFI), <https://csfi.info>.

² Arthur Fliegelman, “Wind, Fire, Water, Hail: What Is Going on in the Property Insurance Market and Why Does It Matter?”, Office of Financial Research (Dec. 14, 2023), <https://www.financialresearch.gov/the-ofr-blog/2023/12/14/property-insurance-market>.

There is also a misperception that those outside of Special Flood Hazard Areas are safe from flooding. FEMA has stated that “between 2015 and 2019 policyholders outside to high-risk areas filed more than 40 percent of all NFIP flood insurance claims” and “one-third of disaster assistance for flooding” are outside of high-risk areas. These losses, and the associated miscommunication, place a burden on homeowners, lenders, and the general public who carry the tax burden for federally funded disaster recovery.

Discussion around the expansion of flood zones and purchase requirements may spread awareness of flood risk and improve coverage. For example, according to their Draft 2023 Annual Report, FEMA’s Technical Mapping Advisory Committee (TMAC) is recommending use of the 95 percent confidence value for identifying the area in which the mandatory purchase will apply. TMAC says this “will reduce risk (and surprise) to homeowners, lenders, and the general taxpayer in areas just above the current mean 1-percent-annual-chance.”

Following flood events of Hurricane Katrina and Hurricane Rita in 2005, Congress considered legislation, H.R. 4320, “National Flood Insurance Program Commitment to Policyholders and Reform Act of 2005”. This bill would have expanded the definition of the Special Flood Hazard Area to the “500-year floodplain.” The bill, which did not pass, was eventually amended to instead require “a study regarding the impact, effectiveness, and feasibility of amending the . . . mandatory flood insurance coverage purchase requirements . . . to all properties located in the 500-year floodplain.” Congress could consider advancing a study like this one proposed nearly two decades ago.

To make flood insurance important, it has to be attainable. Thus, Congress must prioritize authorization of an affordability program. Housing burden is high in many markets with high NFIP participation; thus, a means-tested affordability program, involving housing burden as a factor, can offset and more equitably address rising costs of flood insurance relative to a program based on Area Median Income (AMI) alone. Considering housing burden in affordability program qualifications will prevent communities with a lower AMI from being unduly disadvantaged by short-sighted policymaking. Rather, it would particularly benefit cost-burdened communities, which may now be able to purchase or renew NFIP coverage.

We appreciate all outreach efforts of FEMA as well as elected officials, insurance agents, floodplain managers, and more interest groups involved in our Coalition for Sustainable Flood Insurance (CSFI). Their work is essential in spreading awareness of the importance of flood insurance within communities, while uplifting it as a Federal priority.

Q.2. Many homeowners do not realize that their standard home insurance policy does not cover flood damage.³ Flood insurance differs from other insurance products in that, provided their community is enrolled, a homeowner may purchase coverage at any time.

³National Flood Insurance Program, “Am I Required To Have Flood Insurance?”, <https://www.floodsmart.gov/am-i-required-have-flood-insurance>.

What have been the most effective ways you have articulated and messaged the importance of purchasing flood insurance coverage?

A.2. Thank you again, Senator Warnock, for your question, “What have been the most effective ways you have articulated and messaged the importance of purchasing flood insurance coverage?”

Louisiana has the highest per capita uptake of flood insurance largely because of cultural awareness of flooding, not necessarily because of higher inherent risk. In Louisiana, we talk often about flooding, and we know friends and family who, in current or past generations, have experienced flood events. Louisiana also has high coverage due to the availability heuristic—we have had some of the largest-profile flood events in the Nation’s history. Even though this risk has been largely mitigated through investments in flood protection, immediately available examples of a hazard influence purchase of coverage. However, as seen with recent NFIP participation decreases of over 10 percent in Louisiana, recent flood events only temporarily increase purchases. According to literature, this effect fades after 3 years.

Studies have found that publicly funded mitigation assistance has a positive effect on the decision to purchase flood insurance. This contradicts assumptions that insurance and mitigation are substitutes. So, Congress’s prioritization of appropriations for U.S. Army Corps of Engineers and community-level flood protection projects may actually increase flood insurance purchase. Key Federal grant programs, like FEMA’s Building Resilience in Communities (BRIC) and Flood Mitigation Assistance (FMA) programs, should reduce risk while improving coverage.

The glidepath of 18 percent for most residential policyholders helps policyholders understand the importance of renewing coverage. As policyholders may face higher prices for flood insurance in the future if they do not maintain coverage, they are more likely to stay in the NFIP, especially if they understand glidepath benefits. According to participation projections based on flood insurance price elasticity research, authorizing a rate hike cap of 9 percent, compared to 18 percent, may cut expected long-term NFIP participation decreases, due to Risk Rating 2.0, in half. According to NFIP, only about 4 percent of homeowners nationwide have flood insurance, so we cannot afford to lose more policies and further expose the country to risk.

Meanwhile, two-thirds of Americans incorrectly believe that their homeowners or renters policy will provide coverage for flood damage, according to a study by Neptune Flood. Federal all-peril solutions would subvert this misunderstanding. For example, the recently introduced “Incorporating National Support for Unprecedented Risks and Emergencies (INSURE) Act”, H.R. 6944, would stabilize the home insurance market while ensuring vulnerable communities are not excluded from coverage. The INSURE Act would offer a Federal reinsurance backstop, while requiring participating insurers to cover all natural disasters, so policyholders would indeed have flood insurance coverage.

We appreciate your consideration of all-perils solutions, annual premium increase limitations, and Federal investments in mitiga-

tion, which should all serve to improve flood insurance understanding and uptake.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK
FROM DANIEL KANIEWSKI**

Q.1. According to the Financial Stability Oversight Council (FSOC), “Climate risk might increase the costs associated with housing such as insurance premiums and the frequency and cost of repairs, further exacerbating the home-ownership challenges for low-income and majority-minority communities.”¹ In your testimony, you discuss a comprehensive flood resilience strategy, that includes Federal, State, and local officials engaging with stakeholders.

Can you detail what an effective model of Federal, State, and local government officials coordinating with stakeholders, like insurance companies, to improve resilience efforts could look like? What type of Federal resources and authorities would be needed to support such an effort?

A.1. An innovative approach to boosting insurance purchasing that Marsh McLennan is involved in is known as community-based catastrophe insurance (CBCI). Essentially, CBCI provides disaster insurance arranged by a local government, quasi-governmental body, or community group to cover a group of properties.

The benefits of CBCI fall into three main areas: enhancing financial resilience; providing affordable coverage; and creating incentives for risk reduction at the community and individual levels.

This type of program is flexible and can be created to cover a single hazard or a range of natural disasters for a given community, including flood, but also wildfire, earthquake, and others. Such broad applications can further incentivize a community’s risk management efforts—risk reduction, risk communication, and risk transfer—across multiple perils. For flood risk, this could mean levee improvements and/or ecosystem-based interventions, including wetlands enhancements, and more.

Within broad parameters, CBCI has much flexibility in its structure and design, with varying degrees of community responsibilities possible. These range from a facilitator model, where the community members contract with insurers, to a captive insurer, in which the community establishes and operates its own risk-bearing entity.

Federal resources and authorities could help facilitate CBCI transactions. For example, if communities were permitted to purchase insurance (CBCI or otherwise) through various Federal grant programs, such as FEMA’s Building Resilient Infrastructure and Communities (BRIC) grant program, communities would be better able to protect themselves from the financial impacts of disasters. We recommend FEMA include insurance premiums as an eligible type of assistance in its BRIC grant guidance and consider doing so for its other preparedness and hazard mitigation grant programs as well.

¹ Financial Stability Oversight Council, “Financial Stability Oversight Council Annual Report 2023” (Dec. 14, 2023), <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/studies-and-reports/annual-reports>.

Additionally, FEMA has existing authorities to incentivize State and local governments to reduce their risks and to better protect Federal taxpayers from disaster losses. One such authority was granted to FEMA in the 2018 Balanced Budget Act (<https://www.nibs.org/blog/disaster-resilience-trillion-dollar-challenge-heres-what-fema-can-do-help>.) This authority amends Section 406(b) of the Stafford Act to increase the Federal cost share of its Public Assistance programs for communities that take proactive steps to reduce hazards. The resilience measures identified in the statute—mitigation plans, insurance, emergency management programs, building codes, risk ratings, State/local mitigation funding, and tax incentives—aim to reduce financial losses and human suffering and get communities up and running faster after a disaster. By raising the Federal cost share for FEMA Public Assistance on a sliding scale from 75 percent to up to 85 percent, a community that takes proactive steps could receive millions of dollars more in post-disaster funding.

We see the implementation of this provision as a significant opportunity to remove existing barriers to resilience investments and a strong incentive for communities to do the right thing before disaster strikes. However, FEMA has not yet implemented this authority. We strongly encourage the full implementation of this provision.

Q.2. How would such an effort help mitigate increasing insurance costs on low-income and communities of color?

A.2. Such an effort would help mitigate insurance costs on low-income communities of color by providing a financial safety net that largely does not exist today. Marsh McLennan is currently involved with a project in New York City, which is the Nation's first community-based catastrophe insurance (CBCI). The project's goal is to increase the financial resilience of low- and moderate-income households to flood risk. These communities are increasingly vulnerable to flooding and are, in many instances, underinsured or uninsured.

Guy Carpenter, a business of Marsh McLennan, is working with the City of New York and the nonprofit Center for NYC Neighborhoods (CNYCN) <https://climate.cityofnewyork.us/mcej-and-cnycn-launch-innovative-pilot-to-address-flooding-2/>, as well as the nonprofits Environmental Defense Fund and SBP, reinsurer Swiss Re, and insurtech ICEYE, to pilot the program in designated neighborhoods. The pilot was jointly funded by the National Science Foundation and the Department of Homeland Security through a Civic Innovation Challenge award.

In the NYC program, payouts will be made to CNYCN for qualifying flood events based on a mix of satellite data; on-the-ground, real-time sensors; and social media images. Once a qualified event triggers the payment, homeowners will be able to apply for assistance—on their own or with help from CNYCN's network partners. Qualified applicants can then receive a grant up to \$15,000 from CNYCN quickly following a major flood.

The intent of these payments is to support residents and their broader communities in getting back to normal faster. It also will allow them to avoid having to make such tough decisions as wheth-

er to pay for home flood repairs versus other critical family needs, like health care, food, and saving for education.

We are proud to have helped kickstart this innovative program and hope it will cause other communities to establish their own CBCI program. Federal grant funding could be a catalyst here.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK
FROM STEVE PATTERSON**

Q.1. Given the rise in property and casualty insurance premiums nationally and inflationary costs,¹ many working families are already struggling to maintain existing levels of insurance coverage, let alone federally backed coverage through the NFIP.

How can we ensure that homeowners, specifically those from lower- and middle-income communities and communities of color, are aware of the importance of flood insurance coverage?

A.1. Addressing the rising costs of flood insurance amidst national premium hikes and inflation requires a focused approach on education and financial support, particularly for lower- and middle-income families and communities of color. Initiating community engagement and education programs, utilizing multiple languages for information dissemination, and forming partnerships with local businesses and nonprofits for financial assistance are key strategies. It's vital to make flood insurance information accessible and comprehensible to everyone, ensuring materials are available in various languages and formats, and leveraging technology and social media to reach a wider audience.

Furthermore, advocating for policy changes at State and Federal levels to make flood insurance more affordable is essential. This includes seeking reforms within the National Flood Insurance Program to ensure equity and pushing for investments in resilient infrastructure to reduce flood risks. By combining education with actionable support and infrastructure improvements, we can ensure that all community members understand the importance of flood insurance and have the means to protect their homes and families against the increasing threat of flooding.

Q.2. In your testimony, you discuss the importance of resilience planning, specifically as it comes to addressing the effects of climate change, natural disasters, and socioeconomic shifts.

Are there currently cost-based or other barriers to homeowners' ability to access mitigation incentives? What needs to be done to raise awareness of and increase access to mitigation incentives?

A.2. One of the primary barriers hindering homeowners' access to mitigation incentives is the upfront cost associated with implementing mitigation measures, such as retrofitting homes to be more flood-resistant. These costs can be prohibitive, especially for low- and middle-income families, despite the long-term savings and environmental benefits.

Additionally, there is a significant information gap regarding the availability and benefits of these incentives. Many homeowners are simply unaware of the programs available to them or find the

¹Id.

application process overly complex and discouraging. To overcome these barriers, a multipronged approach is necessary.

First, the application process for mitigation incentives should be simplified and streamlined. This can involve creating a centralized online portal where homeowners can easily find information and apply for all relevant incentives. Secondly, there needs to be increased funding for these programs to reduce the initial cost burden on homeowners. This could include direct subsidies, low-interest loans, or tax incentives.

Addressing the barriers to accessing mitigation incentives requires a combination of reducing financial burdens, simplifying the application processes, and engaging in robust community outreach to ensure homeowners are informed and empowered to protect their properties against the effects of climate change and natural disasters.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

www.namic.org**Introduction**

The National Association of Mutual Insurance Companies (NAMIC) is pleased to provide comments to the U.S. Senate Committee on Banking, Housing, and Urban Affairs on the reauthorization of the National Flood Insurance Program (NFIP).

NAMIC is the largest property/casualty insurance trade group with a diverse membership of more than 1,500 local, regional, and national member companies, including seven of the top ten property/casualty insurers in the United States. NAMIC members companies write \$323 billion in annual premiums. Our members account for 68 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets.

Unique Role of Insurance Industry in Managing Climate and Flooding Risk

NAMIC greatly appreciates the Senate Banking Committee holding today's important hearing examining flood insurance and the reauthorization of the NFIP, a critically important program that impacts the lives of millions of Americans that has grown even more paramount in the face of increasing climate risk.

For its part, the insurance industry has been highly engaged in resiliency efforts as the threat of climate change grows more severe. For example, the Insurance Business and Home Safety Research Center continues to engage in practical and meaningful scientific research to learn about building safety more than a decade after its opening, and those lessons are shared with the public. Around the same time IBHS began its work, the industry further embraced the fight to combat the effects of severe weather and flooding risk through coalition building and bringing together a diverse group of stakeholders to work on resilience and resiliency funding. NAMIC has consistently expressed support for stronger building codes and mitigation funding. NAMIC helped lead efforts to support the passage of the Disaster Recovery Reform Act and the creation of the Building Resilient Infrastructure and Communities Program (BRIC), which is making billions of dollars available to communities across the nation to mitigate against the effects of natural disasters and flooding events.

Important Role of the National Flood Insurance Program

Congress created the NFIP in 1968 to address the increasing costs of taxpayer-funded disaster relief for flood victims and reduce the amount of uninsured damage to private property caused by flooding. Over the last 50 years, the program has been instrumental in helping millions of American property owners minimize the serious financial losses



they would otherwise have suffered due to catastrophic flooding. However, the NFIP – which has been operating through a series of short-term extensions – would benefit from targeted reforms to better protect policyholders and taxpayers.

Since the end of fiscal year (FY) 2017, the NFIP has had 28 short-term reauthorizations. While avoiding a lapse in the program's authorization is crucial to policyholders across the nation, reauthorizing the program on a long-term basis is also essential to providing certainty and stability to the millions of policyholders and the many sectors of our economy that rely on a functioning NFIP. Policyholders relying on continuing coverage at renewal and those involved with supporting the program deserve stability rather than the uncertainty of short-term extensions.

The current NFIP authorization is set to expire on March 8, 2024, and reforms to the program are long overdue. Most notably, the NFIP remains on a fiscally unsustainable path for both the housing and insurance markets, with the debt load of the program in excess of \$20 billion.

As Congress crafts legislation to reauthorize the program, NAMIC offers the following suggestions to address the shortcomings of the NFIP.

The Use of Actuarially Sound Rates

Inadequate rates that do not reflect the actual costs and risks of living in a high-risk flood zone have historically been a source of many of the NFIP's problems. This encourages poor land use and irresponsible development in high-risk areas, thereby increasing the total potential losses incurred in a flooding event.

Since the NFIP was established, there has been a substantial population increase in flood-prone coastal states, which now account for a very large portion of the NFIP's portfolio. One reason for the population increase in flood-prone areas is that NFIP subsidies mask homeowners' true flood risk. Masking risk also has the effect of residents not taking necessary mitigation measures or utilizing resilient construction techniques, which leave them even further exposed to risks associated with flooding. The NFIP must continue to move toward the use of risk-based rates, which is the premise of the Federal Emergency Management Agency's (FEMA) Risk Rating 2.0.

Risk Rating 2.0 is the largest overhaul of the NFIP since the program's inception in 1968 and leverages data to calculate the real flood threat for each individual home covered by the program. FEMA's Risk Rating 2.0 – using pricing methodology that is more accurate and tailored to risk – has now been implemented for both new business and existing business on a rolling basis, as renewed. NAMIC supports this move to risk-based pricing within the NFIP.



Through Risk Rating 2.0, every home is rated on an individual basis instead of on outdated and often inaccurate flood maps. Gradually, over time, Risk Rating 2.0 will help regions most impacted by the climate better align rates with actual flood risk to increase equity; ensure homeowners are aware of their true flood risk; and place the program on a path towards improved fiscal soundness. In fact, FEMA has estimated 96 percent of policyholders will see either a decrease in their premium or an increase of no more than \$20 per month. This improved rating methodology will lower premiums for individuals who have made updates to their homes and surrounding property to increase resilience and mitigation ahead of natural disasters such as flooding. Under FEMA's old model, such improvements did not matter in the rate setting process as premiums were tied solely to the risk of an entire floodplain, which allowed high-risk properties and states to continue to be subsidized by less risky properties and states, adding to the program's sizeable debt.

The Critical Role of WYOs

Companies in the NFIP's Write-Your-Own program write 87 percent of all NFIP policies, filling an essential role for millions of policyholders. In 2004, there were 107 companies participating in the WYO program. By 2016 that number had fallen to 75, and in 2019, 59 companies remained in the program, and today, that number is at 50 companies. One could argue that due to the significant negative impact on a WYO's "reputational risk," there is a net negative value of being in the program, especially coupled with the fact that WYOs already operate on very small margins and are prohibited from generating earnings in the form of investment income. Additionally, the interface and work WYOs have to perform with FEMA, including adapting to their systems and changes is a unique aspect of the Program. In the Fiscal Year 2019 Arrangement, FEMA took away one percent of the WYO reimbursement specifically designed to assist WYOs in dealing with the complexity of the NFIP, which has become even more immense with the implementation of Risk Rating 2.0. If the remaining 50 WYOs are not able to cover the costs of selling and servicing NFIP policies, many, if not all, will undoubtedly leave the program. This will lead to fewer choices for policyholders and could leave them with one choice - to have to call 1-800-621-FEMA in order to purchase and receive customer service related to their policy.

In recent years, as a result of fees and other administrative costs to WYOs created by federal legislation, the "written premium" on which the WYO is being reimbursed has become a significantly smaller percentage of the "total written premium" dollars WYOs are bringing into the NFIP. For instance, WYOs were once reimbursed on about 95% of the dollars they are remitting to the federal government; today, it ranges from about 75% to 77.8%. It is dangerous to create disincentives for the partners in the NFIP that are critical to serving so many millions of flood insurance policyholders - whether that is through policies that attempt to cap the reimbursement rate or onerous changes to the claims process that would harm the ability of WYOs to continue serving policyholders.



Addressing Affordability

Affordability is a critical part of flood insurance reform. While NAMIC supports the program moving more towards actuarially sound rates, such a move could create affordability issues for some homeowners. To reduce potential issues, Risk Rating 2.0 follows statutory guidance limiting annual premium increases to 18 percent so they can be phased-in over a number of years to prevent an instant and undue hardship for homeowners currently paying subsidized rates. NAMIC recognizes that some will need continued assistance because rate increases phased-in slowly over time could still prove too costly. As such, NAMIC supports establishing a targeted, need-based program to assist homeowners facing affordability issues. However, any subsidies that the government believes are necessary must be fully transparent. Subsidies cannot continue to be hidden within the insurance mechanism, and homeowners should be fully aware of the real risks of where they live.

Increasing Choices for Policyholders

The vast majority of households are without sufficient flood coverage, and robust stakeholder collaboration is necessary to ensure that more Americans are prepared to protect their homes financially and physically from a flood. The private market may offer additional options to sufficiently insure more American households, which is particularly important as some consumers begin to shop the marketplace due to the recent NFIP overhaul and full implementation of Risk Rating 2.0. The largest impediment to increasing private-sector involvement and creating more choices for flood insurance policyholders has been the subsidized rates of the NFIP. Since private-sector insurance companies must charge risk-based premiums to remain viable and in compliance with state laws governing rates, it is difficult to compete with government rates that do not reflect the cost of the risk. Efforts to increase private-sector participation in the flood insurance marketplace must consider that, where there are government subsidies that are not fully transparent, private companies would be asked to sell a similar product at in many cases a much higher price.

The current NFIP "continuous coverage" requirement may be a barrier to policyholders opting for private flood insurance. If a policyholder leaves the NFIP, they are barred from preferred treatment if they later elect to return to the program. Today, homeowners with lapsed NFIP policies could be subject to a substantial rate increase whether they go uninsured or elect to protect their home with private flood insurance. To treat those that chose private flood insurance the same as those that go uninsured unfairly burdens the private market. A commonsense way to help encourage more private involvement in the flood insurance market could be to expand what qualifies as continuous coverage. If a consumer with a grandfathered policy finds a less expensive policy in the private market and later decides to return to the NFIP, they should not experience a substantial rate increase based on having left and



returned to the program. S. 2110, the Flood Insurance Consumer Choice Act, introduced by Sen. Rick Scott, seeks to solve this exact problem and NAMIC encourages the committee to include this legislation as a part of any comprehensive NFIP reform legislation.

Looking forward, NFIP reauthorization legislation should also take steps to foster private-sector participation and ensure maximum participation from insurers in FEMA's WYO Program, which serves the vast majority of all flood insurance policyholders. The NFIP should avoid complicating claims processing or attempting to further suppress flood insurance rates, which could limit options for consumers and may ultimately raise costs for taxpayers. In this vein, it will be integral to the long-term success of the NFIP that FEMA continues to work closely with its partners, including those in the WYO program and in the agent community, to better serve their customers.

Increasing Investment in Mitigation

The insurance industry plays a unique and meaningful role in the disaster mitigation and recovery process. The industry serves as a leader in promoting pre-disaster loss-prevention techniques and stands shoulder-to-shoulder with the federal government and emergency responders to help victims recover and rebuild after a catastrophe. As we have seen in recent years, mitigation efforts are fundamental to reducing risks and therefore to improving the solvency of the NFIP. Mitigation activities would protect homeowners' property and possessions, as well as reduce the costs of claims associated with the NFIP. According to the National Institute of Building Sciences, mitigation measures and the use of more resilient construction have been proven to better protect properties from damage caused by natural disasters. One such measure the Committee should look to is S. 2153, the Repeatedly Flooded Communities Preparation Act, introduced by Sens. Tim Scott and Brian Schatz. The legislation provides resources for preventative, pre-disaster mitigation measures to help flood-prone communities end the costly cycle of repeated flooding and rebuilding.

Smart investments in mitigation result in saving lives, properties, and taxpayer dollars. However, the upfront costs of such measures may be beyond the means of some homeowners. Congress could meaningfully change the resilience trajectory for many people and places by including in NFIP reauthorization legislation new tools that facilitate homeowners in undertaking retrofits to protect their homes from flooding risk. Indeed, enabling a scaled approach to additional retrofit work acknowledges the reality that 70 percent of the built environment is aging and not close to meeting current building standards. An increased commitment to retrofits will strengthen the foundation of residential resilience and contribute significantly to decrease flood losses in the nation.



A Path Forward

More than 90 percent of natural disasters in the United States include severe flooding, so it is imperative that Congress take the needed steps to provide long-term NFIP stability to policyholders. Congress must move swiftly to enact public policies that will ensure our nation's communities – and importantly, underserved communities – are fortified against the devastation caused by severe flooding. As lawmakers on the Senate Banking Committee work to craft legislation, NAMIC urges Congress to provide a long-term reauthorization of the NFIP that contains reforms to create more certainty for policyholders by putting the program on a path towards solvency. It should be noted that, since 2005, the NFIP has paid over \$6 billion in interest to the U.S. Department of the Treasury. Due to catastrophic floods as far back as 2004, the program currently carries significant debt. In 2017, Congress forgave \$16 billion of NFIP debt but today the program still has over \$20 billion in debt owed to Treasury.

So, what is the path forward? NAMIC encourages the committee to consider sustainable approaches that address affordability concerns for low-income policyholders while avoiding those that would suppress the use of actuarial, risk-based rates. Additionally, NFIP reauthorization and reform legislation should include provisions designed to create more choices for policyholders while protecting the NFIP's existing delivery mechanism, increase funding for mitigation activities, and create new tools and incentives for communities, including underserved communities, to take steps to protect themselves from the risk of flooding.



January 25, 2024

NFIP Reauthorization: The Community Bank Perspective

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing: "Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges."

Congress created the National Flood Insurance Program (NFIP) in 1968 to help property owners protect themselves financially from the risk of flooding at a time when flood insurance was not readily available in the private market. The NFIP sells flood insurance to homeowners, renters, and business owners at subsidized rates in participating communities that agree to adopt and enforce ordinances that meet or exceed Federal Emergency Management Agency (FEMA) requirements to reduce the risk of flooding. Homes and businesses located in Special Flood Hazard Areas and secured by federally backed loans are required to maintain flood insurance on the property. This mandate is enforced by the lenders and their federal regulators.

Long-Term Reauthorization Needed

The NFIP has been funded through a series of continuing resolutions since 2017. The current CR is set to expire on March 8, 2024. The last long-term reauthorization of the NFIP in 2012 extended the NFIP for five years. While we always expect Congress will reauthorize the NFIP, it is unclear for how long and what, if any, reforms Congress will seek. This uncertainty creates uneasiness in the market, especially as expirations loom and lapses in the program become a possibility. A long-term reauthorization is needed to bring stability and confidence to the market.

ICBA will advocate for community bank priorities in NFIP reform, and above all, ensure that we avoid a lapse in the program that would disrupt the market and delay loan closures.

Fiscal and Actuarially Sound Program Management is Imperative

Congress also needs to strike a delicate balance between setting the program on sound financial footing and making sure that rates are affordable for the homeowners and businesses who depend on flood insurance coverage. Congress should review the NFIP operations and organization and make those changes necessary to improve service to policy holders while reducing overhead in a prudent manner and reducing taxpayer risk.

Many Members of Congress would like to shrink the program and have more properties insured in the private market. ICBA is supportive of increased private market participation as long as community banks are not responsible for certifying that private policies satisfy mandatory purchase requirements and consumers are allowed to return to the NFIP without losing their grandfathered status. Consumers will only leave the NFIP to obtain private policies that are cheaper and better.

Preserve Mandatory Purchase Requirement for Commercial Properties

ICBA opposes efforts to remove the mandatory purchase requirement for commercial properties, believing this will put community banks at a disadvantage relative to regional and national banks when competing for loans in flood zones. Larger banks will be more willing and able to tolerate the collateral risk and allow borrowers to forgo flood insurance, while a small community bank is less able to tolerate that risk on their books. Given the choice, a borrower may choose to go with the lender who does not require the flood insurance. Small businesses, those operating on the thinnest margins, will be most likely to opt out of purchasing flood insurance in the absence of a mandate. They are also the least likely to be able to recover after a flood without insurance.

The effort to remove the mandatory purchase requirement is driven by the biggest megabanks who can afford to spread flood risk over a diverse national (or regional) portfolio.

Maintain Community Bank Escrow Exemption

The expense of creating and maintaining escrow accounts for flood insurance premiums would be prohibitive for many community banks. While larger lenders have the scale necessary to absorb such costs, many community banks would be driven from the market, thereby reducing competition. Community bank lenders have every incentive to ensure that insurance policies are maintained to protect their collateral. An escrow requirement would be unnecessary and costly.

Closing

Thank you for convening today's hearing to examine the key policy questions associated with NFIP reauthorization. ICBA and community banks, representing a significant portion of the residential and commercial mortgage markets, look forward to the opportunity offer our input as reauthorization legislation is developed.



January 24, 2024

The Honorable Sherrod Brown
 Chairman
 U.S. Senate Committee on Banking,
 Housing, and Urban Affairs
 503 Hart Senate Office Building
 Washington, D.C. 20510

The Honorable Tim Scott
 Ranking Member
 U.S. Senate Committee on Banking,
 Housing, and Urban Affairs
 104 Hart Senate Office Building
 Washington, D.C. 20510

Dear Chairman Brown and Ranking Member Scott:


On behalf of 1.5 million members of the National Association of REALTORS®, thank you for holding this hearing on reauthorization of the National Flood Insurance Program (NFIP).

Unless Congress acts, NFIP's insurance writing authority will expire on March 8, leaving countless property owners, buyers, and renters unable to purchase the flood insurance required to protect their homes. Congress should not only act to extend the program, but also make comprehensive reforms to ensure properties' true risks are understood, incentivize pre-flood mitigation, and strengthen the program's long-term fiscal viability.


REALTORS® support a long-term flood insurance reauthorization coupled with meaningful reforms:

- **Reauthorize the NFIP for five years.** Congress has passed 28 short-term NFIP extensions since 2018, increasing uncertainty in real estate markets and risking 40,000 home sales each month. It is time for Congress to come together and support a long-term NFIP reauthorization with meaningful reforms to modernize mapping, incentivize risk mitigation, and strengthen consumer choice between NFIP and private flood insurance.
- **Encourage a more robust private market to help close the flood insurance gap.** According to FEMA, less than 4 percent of U.S. homes are covered by flood insurance. Removing two regulatory obstacles to private flood insurance would help close the gap:
 - Clarify that federal continuous coverage requirements can be satisfied by NFIP or private flood insurance policies; and
 - Refund NFIP premium when there is duplicate private flood coverage.
- **Modernize mapping for better risk assessments.** The following provisions would enable FEMA to use more accurate risk assessment tools to map more of the U.S. while accounting for additional flood risk factors, including urban and future floods:
 - Authorize additional funding authority for flood mapping;
 - Expand mapping from one-third of U.S. stream miles to all areas of the U.S.;
 - Provide for the future of flood risk data initiative including property-specific mapping and a digital display like North Carolina's;
 - Assist communities with mapping urban and future flood risk; and
 - Add a real estate representative to the Technical Mapping Advisory Council.

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 500 New Jersey Ave, NW
 Washington, DC 20001

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- **Ensure consumers are charged actuarially fair rates while enhancing affordability through mitigation.** REALTORS® support more accurate and transparent pricing through Risk Rating 2.0: Equity in Action. Subsidizing premiums ultimately keeps homeowners in harm's way, but a mitigation-centered approach will ensure that rates remain reasonable while preventing devastating flood losses:
 - Authorize funding for flood mitigation grant programs;
 - Expand NFIP coverage for the increased cost of compliance after flooding;
 - Allow NFIP to consider community repetitive flood loss efforts when making financial assistance determinations.
 - **Require NFIP to exchange property "flood facts" data with private insurers and disclose the claims history directly to buyers and renters.** While all 50 states require the disclosure of known material facts and conditions, including past flood damage, and realtor.com® has augmented state laws by displaying flood risk factors on home listings, lack of public awareness remains an issue. REALTORS® would not support conditioning NFIP eligibility on a FEMA disclosure form, but we believe making NFIP claims data available would achieve the same objectives at a lower cost.

All the above reforms have broad bipartisan support. Packaged together, these provisions would help create a more financially stable program while ensuring that NFIP better communicates risk, emphasizes mitigation, and strengthens insurance choices so more consumers can and will purchase flood insurance.

Again, thank you for holding this hearing. We look forward to continuing to work with you and your colleagues in Congress to find a way forward on reauthorizing and reforming this critical program while encouraging a more robust private flood insurance market.

Sincerely,



Kevin Sears
2024 President, National Association of REALTORS®





January 25, 2024

The Honorable Sherrod Brown
 Chairman
 Committee on Banking,
 Housing and Urban Affairs
 U.S. Senate
 Washington, DC 20510

The Honorable Tim Scott
 Ranking Member
 Committee on Banking,
 Housing and Urban Affairs
 U.S. Senate
 Washington, DC 20510

Dear Chairman Brown and Ranking Member Scott:

Re: Today's Hearing: Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges and Solutions

On behalf of America's Credit Unions, I am writing regarding the Committee's hearing entitled, "Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges and Solutions". America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their nearly 140 million members nationwide.

America's Credit Unions shares the Committee's goals of finding long-term solutions to improving the National Flood Insurance Program (NFIP) in ways that protect homeowners and their families from ever increasing natural disasters. As not-for-profit, consumer-owned financial cooperatives, credit unions have a focus on meeting the needs of their members, including helping families attain safe and affordable mortgages in areas covered by flood insurance requirements.

America's Credit Unions strongly supports efforts to pass long-term reauthorization of the NFIP with substantive reforms necessary to improve the actuarial footing of the program and to ensure stability in the housing market in affected areas. At the same time, it is vital that flood insurance premiums remain affordable so that families in parts of the country where flood insurance is required are not shut out of the opportunity to own a home.

Beyond the necessary long-term reauthorization of the NFIP, we encourage the Committee to focus on solutions that ensure the cost of flood insurance premiums are rooted in the actual flooding risk of the property, including the improvement, expansion, and modernization of floodplain mapping; the refunding of premiums paid on properties inadvertently included in special flood hazard areas; and the reduction of premiums based on the implementation of flood mitigation steps.

America's Credit Unions also strongly supports reforms that ensure flood insurance premiums are affordable to working families, especially as the NFIP is set to mark one year since the full implementation of Risk Rating 2.0. This new system, in practice, will allow more transparency and accuracy into the true cost of flood insurance coverage, while also empowering consumers to make

informed decisions since the subsidies for insurance are no longer hidden as they were in the old rating system. We remain hopeful this new rating methodology will continue to create a more equitable and sustainable flood insurance program by addressing rating disparities.

A strong, sustainable, and affordable NFIP will serve the best interests of our nation's housing market for years to come and will also ensure communities' ability to remain resilient amid uncertain threats from natural disasters. The program's effectiveness will only be enhanced if a broad range of actuarially sound and science-based solutions are included in proposed legislation. We commend your work to reauthorize this vital program in a fiscally responsible way.

On behalf of America's Credit Unions and the 140 million credit union members, thank you for holding this important hearing and considering our views on the subject.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Nussle". The signature is fluid and cursive, with a large initial "J" and "N".

Jim Nussle
President and CEO



February 2, 2024

Chairman Sherrod Brown
 Ranking Member Tim Scott
 Senate Committee on Banking, Housing, and Urban Affairs
 Dirksen Senate Office Building 534
 Washington, DC 20510

VIA ELECTRONIC MAIL to

Re: Letter for the Record on Full Committee Hearing, "Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges and Solutions."

Dear Chairman Brown and Ranking Member Scott,

Thank you, on behalf of the Nooksack Indian Tribe and the Theodore Roosevelt Conservation Partnership, for holding the full Committee [hearing](#) on Thursday, January 25, 2024 to hear testimony from municipalities on the challenges and solutions that are possible in the reauthorization of the National Flood Insurance Program (NFIP).

Restoration Community is an Important Local Perspective on NFIP Reauthorization. The restoration community provides another important local perspective on solutions to the challenges posed by increased frequency and intensity of flood events. Tribes, local and state governments, watershed groups, conservation organizations, and landowners across the country are engaged in pro-active restoration of riparian floodplains. These restoration projects help attenuate peak flows and provide more access to floodplain area for flood flow inundation.

Major Challenge—NFIP Treating Floodplain Restoration the Same as Development in the Floodplain. A major obstacle to effective implementation of these restoration projects, however, is requiring restoration projects to meet the same permit requirements as built development in the floodplain. In particular, the expensive and time-consuming analyses required for those permits pose a major obstacle to carrying out restoration projects. While those required analyses are appropriate for built development in the floodplain, restoration interacts with rivers in fundamentally different ways than built structures in the river environment. Attached is an example from the Nooksack Tribe in the Pacific Northwest where the analysis required has already added \$300,000 to the project cost, delayed the restoration by years, and the restoration project still lacks a permit.

The local government entity the [Puget Sound Partnership](#) has also collected over 26 [stories](#) of projects facing similar permit challenges. As detailed [here](#), the lack of alignment between the permit process and the restoration project type means that these restoration projects have collectively been delayed by an

average of 17 months, have experienced \$4.56 million in cumulative cost increases, and has resulted in stalling the deployment of \$128.5 million in federal dollars and \$47.6 million in Washington state funding. Some projects have been shelved entirely due to the misalignment between the permit process and the restoration activity being permitted.

Requested Solution—Define Restoration in NFIP. We request that the Committee amend the NFIP’s definition of “development” to include a specific definition for restoration activities and maintenance of restoration sites. In addition, we urge the Committee to encourage the Federal Emergency Management Agency (FEMA) to develop guidance specific to restoration activities, incorporating a safe level of flexibility for “no-rise” analyses and providing an expedited review and floodplain map revision process for proposed activities meeting the definition of restoration.

Thank you for your consideration. We look forward to meeting with your staff on this important issue.

Please do not hesitate to contact Treva Coe, Nooksack Indian Tribe, tcoe@nooksack-nsn.gov, Lindsay Fratus-Thomas, Nooksack Indian Tribe, lfratus@nooksack-nsn.gov, or Alex Funk, Theodore Roosevelt Conservation Partnership, afunk@trcp.org, if we can provide any additional information or background that would be helpful to you.

Yours sincerely,

RoseMary LaClair, Chair
Nooksack Tribe

Alex Funk, Senior Counsel and Director of Water Resources
Theodore Roosevelt Conservation Partnership

Cc: John Richards

john_richards@banking.senate.gov



IMPROVE FEMA NO-RISE POLICY FOR RESTORATION



South Fork Nooksack River Example

Winter

Erosion & channel changes with seasonal flooding

Spring

Projects re-designed & re-modeled. CLOMR submitted to FEMA.

Summer

FEMA 90-day review. Any comments trigger another 90-day review.

July - Aug.

Fish window. Without a CLOMR in early August, the **project cannot be constructed & the process repeats**

Communities across the country are developing integrated solutions to reduce flood risk and meet federal recovery goals for ESA-listed and treaty-protected species. Solutions often involve restoration projects that include the safe placement of wood in streams and rivers. These efforts are increasingly challenged by FEMA's Conditional Letter of Map Revision (CLOMR) process, which regulates restoration the same as development (such as building homes, etc.) and does not accommodate dynamic river processes.

REQUEST

Provide more tolerance in the no-rise requirement for restoration projects, with willing landowners, that pose No Adverse Impact to existing insurable structures. As part of FEMA's current rulemaking on the National Flood Insurance Programs Floodplain Management Standard or through legislation, we request FEMA:

- Revise the NFIP's definition of development and add specific definitions for restoration and maintenance activities.
- Develop guidance specific to restoration projects, incorporating to the extent possible a safe level of flexibility for no-rise analyses.

These requests are intended to create a simple, low-cost, and equitable permitting path for restoration projects moving forward.

BACKGROUND

Aquatic restoration projects are developed in close coordination with adjacent landowners. Projects are designed to not increase flood risk to adjacent structures, but effective restoration often results in localized increases in water surface elevations elsewhere in the floodplain. Forcing restoration projects to secure a CLOMR for any increase in water surface elevations greater than 0.00', even though they pose No Adverse Impact to structures, poses undue technical and financial burden to project sponsors and is delaying implementation, creating hundreds of thousands of dollars in cost overruns, and undermining federal investment in ESA recovery.

Until July 2020 when it was rescinded, a FEMA Region 10 policy afforded some flexibility to restoration projects in meeting no-rise requirements. Rescinding of that policy is hitting Native American Tribes particularly hard as they have limited staff capacity already to recover ESA-listed salmon populations on their usual and accustomed grounds. The Washington Department of Transportation (WSDOT) also views this policy rescinding as one of the largest threats to meeting their obligation to correct almost 1,000 culvert barriers as part of a federal court injunction.

SOUTH FORK NOOKSACK RIVER

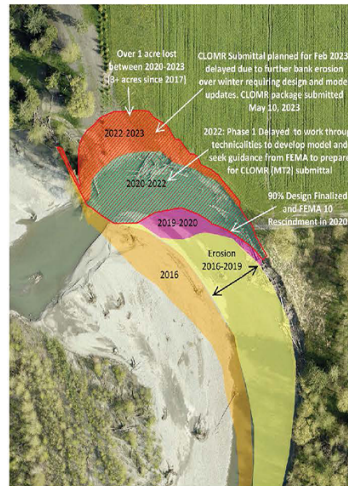
In 2021, elevated water temperatures and degraded habitat caused over 2,400 Chinook salmon to die before spawning in the South Fork of the Nooksack River. The Nooksack Tribe and Lummi Nation petitioned the Governor to address the crisis but federal policy change is needed. Average wild salmon returns for the South Fork are only 2% of the recovery goal.

Seven restoration projects are planned on the South Fork Nooksack River in the next few years. The Homesteader project specifically has been funded for implementation since 2021 and seeks to improve habitat and reduce erosion to a nearby farm but cannot get a CLOMR and is stuck in a vicious cycle of inaction.

2-year delay & \$355,000+

increase in the Homesteader engineering costs due to this policy so far. Further delays could compromise landowner willingness, project funding, and prolong ESA-salmon recovery.

Similar situations exist across the Northwest and the country.



Homesteader Project Erosion Continues: The CLOMR process has delayed restoration efforts, thereby allowing for further erosion of active agricultural land. The recommendations we are proposing could be a win-win for habitat restoration, farms, and floodplain management.



For more information on this issue please contact:

- Treva Coe, Nooksack Indian Tribe: tcoe@nooksack-nsn.gov
- Lindsie Fratus-Thomas, Nooksack Indian Tribe: lfratus@nooksack-nsn.gov
- Brandon Parsons, American Rivers: bparsons@americanrivers.org
- Alex Funk, TRCP: afunk@trcp.org



STATEMENT BEFORE THE U.S. SENATE COMMITTEE ON BANKING, HOUSING AND
URBAN AFFAIRS FOR A HEARING ON THE REAUTHORIZATION OF THE NATIONAL
FLOOD INSURANCE PROGRAM:
LOCAL PERSPECTIVES ON CHALLENGES AND SOLUTIONS

January 25, 2024

Founded in 1931, PIA is a national trade association that represents independent insurance agencies and their employees. Our members sell and service all kinds of insurance, but they specialize mostly in property & casualty insurance. They represent independent insurance agents in all 50 states, Puerto Rico, and the District of Columbia.

I. Background

The National Flood Insurance Program (NFIP) was created in 1968 to provide property owners in the U.S. with flood insurance coverage for their homes. At the time, the private insurance market viewed flood as an uninsurable risk, and, as a result, flood insurance products sold through the private market were cost-prohibitive or unavailable. In the decades since its inception, the NFIP has remained the primary source for flood insurance products.

The Federal Emergency Management Agency (FEMA) administers the NFIP, and, over the past several years, FEMA has been updating the NFIP's risk rating process using a methodology known as Risk Rating (RR) 2.0. As of April 1, 2023, all NFIP policies were being rated using RR 2.0. PIA strongly supports the new rating system, which calculates premium rates using substantially more granular data, and ideally aligns rates more closely with each property's actual level of flood risk. The implementation of RR 2.0 represents a chance for the NFIP to approach solvency while also providing policyholders with more accurate, detailed information about their property's flood risk. With better information available to them, policyholders and potential policyholders may be encouraged to learn more about their property's flood risk, engage in mitigation efforts where appropriate, and, ultimately, purchase flood insurance that matches their risk.

Affordability and accessibility for the NFIP can only be achieved with a long-term reauthorization of the NFIP. PIA supports the growth of the private market for flood insurance products, but private flood insurance is not available nationwide and is sometimes unavailable in the areas where it is needed most.

II. Essential Role of the Independent Agent

The NFIP is a public-private partnership between the federal government and insurance companies, which are referred to as "Write-Your-Own" (WYO) carriers. The federal government enters into a contract with each WYO selling NFIP products, and each WYO uses insurance agents to sell those products to consumers. Independent agents have separate contracts with each WYO whose NFIP policies they sell.

Flood insurance accessibility for consumers begins with consumer access to independent flood insurance agents. Independent insurance agents generally serve as the first point of contact for a potential policyholder inquiring about flood insurance, and agents represent prospective customers as they navigate this complicated program. Independent agents are essential resources for property owners trying to make educated choices about the need for and purchase of flood insurance policies for their homes and businesses. Agents are committed to providing consistently excellent customer service, and, within the NFIP, where rates are outside the control of even the carriers, extraordinary customer service is often the only vehicle by which agents can distinguish themselves. In fact, a policyholder's first call after a flood loss is often to their agent.

Purchasing an NFIP policy is a difficult process for consumers; it requires the aid of agents with specialized knowledge, especially as we approach the point at which all NFIP policies will be subject to the new RR 2.0 methodology. Even before RR 2.0, the flood policy purchasing process was very different from and more complex than that of a standard homeowners' or auto policy, and it still is. Selling flood insurance demands far more effort from agents than selling other, simpler insurance products. With the private market growing, and the requirements imposed on it by state statutory and regulatory authorities always evolving, agents must compare the NFIP to the private market for eligibility, coverage options, and pricing; inform policyholders and prospects of their results; and offer options where appropriate.

To effectively serve their customers, agents must remain up to date on ever-changing laws and regulations governing flood insurance coverage requirements, and, historically, they have also had to keep pace with the constant evolution of applicable floodplain maps, flood zones, specialized terminology, and relevant community participation. RR 2.0 also requires them to gather data points about each of the properties they cover to provide the rating engine with a complete picture of the property.

At renewal time, agents review notices for accuracy (name[s] of insured[s], mailing address, location of insured property, scope of coverage, and identification of any liens and lienholders); research legal changes that could affect coverage or premium rates and the existence of other policies that could cause a gap in coverage; and obtain and enter data points required by RR 2.0. Agents work with policyholders to ensure renewal payments are received in a timely way, send policyholders reminders as the expiration date approaches, and warn of cancellation for nonpayment of a policy for which renewal is intended.

Perhaps most importantly for consumers, independent agents support their clients after a flooding event, even when that event also affects the agents' own homes and businesses. Once a flood occurs, agencies regularly make customer service representatives available nearly around

the clock in shifts. Agencies will sometimes hire extra staff to assist in navigating the complicated claims process. Often, the entire agency staff has itself been affected by the flood from which their clients are recovering; however, they recognize their responsibility to put their clients first. Because floods frequently damage an entire neighborhood or community at once, an agent usually does not have the luxury of handling just one claim arising from one flood; rather, a single agent or agency could be handling many claims, all arising from a single flood. Plus, as severe weather events become more frequent, the likelihood increases that agents will be faced with an influx of losses from floods and other catastrophic weather events, all at the same time.

Over the past couple of years, agents have also fielded a barrage of questions from lenders, builders, community floodplain managers, realtors, and clients about the effect of RR 2.0 on different aspects of the program. The flood insurance program has always been a complex program with a steep learning curve, but RR 2.0 exacerbated it by placing agents in the uncomfortable position of being unable to answer consumer inquiries.

Independent agents' businesses, like those of many salespeople, are built on their reputations. They use their skill and experience to answer clients' questions and alleviate their concerns.

III. "Direct to Consumer" Sales Proposal Must Utilize Expertise Available Only Via Independent Agents

About a year and a half ago, FEMA first proposed what it refers to as its "direct-to-consumer" (D2C) model, through which prospective NFIP consumers would be able to buy an NFIP policy online. Initially, it was unclear whether consumers purchasing NFIP policies that way would have any access at all to the independent agent expertise that undergirds the program. Today, it appears that agents may have *some* role in the D2C purchasing process, but the scope of that role remains unclear. This proposal risks limiting potential policyholder access to agents—the people most capable of giving consumers accurate information about, and thus convincing them to buy, flood insurance.

Additionally, PIA member agents have reported that many of their WYO partners already provide policyholders and prospects with interfaces and/or platforms offering them the ability to make online purchases of flood insurance, including both NFIP and private market products. For agents who partner with WYOs already making such platforms available, FEMA appears to be developing a duplicative model that would not offer consumers any increased access to flood insurance.

In its recent Request for Information¹ (RFI), FEMA suggested that the implementation of its online sales platform "will reduce some burden and barriers to customers" and that enabling the digital sale of NFIP policies via D2C will "ensure equitable access and outcomes," but we disagree. The Covid-19 pandemic demonstrated that access to the internet is inequitably distributed. Across the country, the digital divide left people struggling to connect to workplaces

¹ <https://sam.gov/opp/ab9d1bc5cb3448719e2c9ed555b87d71/view> (last visited January 23, 2024).

and schools.² If anything, the available evidence suggests that an overreliance on online sales could exacerbate existing inequities.

Plus, the NFIP has a well-documented affordability problem. Many property owners at risk of flood remain uninsured because they cannot afford flood insurance premiums.³ Those uninsured property owners may be among those least able to pay for the broadband or Wi-Fi access that would enable them to use a D2C system. Moreover, access to an online platform through which consumers can shop for an unaffordable product is no access at all.

RR 2.0 requires extensive, specific data to generate a policy quote. Each data point is comprehensively explained in the Flood Insurance Manual, a comprehensive, 400-plus-page guide to writing, renewing, and canceling NFIP policies. A D2C system presumes that consumers will have somehow acquired essential data points about their properties themselves, along with an understanding of the complex rules that govern each one. The concept purports to be an attempt to improve the consumer experience, but it fundamentally misunderstands the level of information a prospective NFIP policyholder has about their own property. Ultimately, a D2C offering will most confuse low-information consumers.

Flood insurance is complex, and, from a consumer standpoint, RR 2.0 has not alleviated that complexity. FEMA's plan to put the burden of 2.0's granular data requirements on consumers is untenable and unfair to current policyholders and prospective ones, whose recovery after a loss will depend on their knowledge—or, worse, their memory—of property details that no consumer routinely knows.

Given the importance of the NFIP to policyholders, and the many benefits that would emanate from increasing the number of policies in force, the NFIP should not be allowed to experiment with an online sales platform for NFIP policies—using your constituents as test subjects—without establishing a clear role for independent agents to educate consumers about the products available.

With the benefit of this context, PIA would like to assist Congress as it works to reauthorize the program by highlighting some opportunities to improve the NFIP going forward.

IV. Reauthorization Fundamentals

a. Long-Term Reauthorization

The program's most recent five-year reauthorization expired on September 30, 2017, six years ago. Leading up to that deadline, the 115th Congress was unable to agree on

² "The Internet and the Pandemic," Pew Research Center. <https://www.pewresearch.org/internet/2021/09/01/the-internet-and-the-pandemic/> (September 1, 2021).

³ *May 11, 2022 Letter from Alice Lugo, Assistant Secretary for Legislative Affairs of the U.S. Department of Homeland Security to Vice President Kamala Harris in her capacity as president of the U.S. Senate and Senate and House majority and minority leaders*, https://www.fema.gov/sites/default/files/documents/fema_flood-insurance-reform-proposal_5242022.pdf (recommending to Congress, among other policy proposals, the implementation of an affordability program).

reforms to the program. As a result, the NFIP briefly lapsed three times within a three-week period in early 2018. The NFIP has been subject to more than 25 extensions of varying lengths since the 2017 deadline, and its current extension will expire on March 8, 2024.

Every short-term extension brings with it the chance for the program to lapse. When the NFIP lapses, consumers are unable to renew existing policies or finalize the purchase of covered properties. Claims continue to be paid on existing, in-force policies, but consumers engaged in ongoing real estate transactions may experience disruptions in those processes, especially if they are purchasing a property in a mandatory purchase area, where federal law requires flood insurance. Plus, if a flood loss occurs during a lapse, some claims may not be processed until the program is reauthorized. Prior NFIP lapses are estimated to have disrupted over 1,000 home sales per day, and, of course, the longer the lapse, the greater the disruption.⁴

The series of short-term extensions over the last six years has been extremely disruptive for everyone associated with the NFIP, including policyholders. Even if the program does not lapse, the federal government and every facet of the insurance industry incurs costs associated with preparing for a lapse as the NFIP's next expiration date approaches. Agents, carriers, vendors, lenders, and FEMA itself all develop contingency plans for an anticipated lapse. They need to manage those expenditures whether the lapse occurs or not, and only a long-term reauthorization can avoid them. The program's effectiveness depends on certainty.

b. Maintenance of the Current Write-Your-Own Reimbursement Rate

The WYO reimbursement rate was developed by FEMA and is derived from an average of various industry property and casualty expense ratios for the following five lines of business: Fire, Allied Lines, Farmowners Multiple Peril, Homeowners Multiple Peril, and Commercial Multiple Peril (non-liability portion). The current WYO reimbursement rate is 29.9 percent.

The WYO reimbursement rate should remain 29.9 percent. Any reduction in the rate could prompt WYO carriers to leave the program. Fewer than 50 [WYOs participate in the program](#) now, and any WYO rate reduction could lead more to leave. Fewer WYOs in the program will mean even fewer options for consumers.

WYOs currently administer approximately 88 percent of NFIP policies.⁵ The NFIP Direct program, which administers the remaining 12 percent of policies directly, does not have the capacity to administer the volume of claims that the WYOs do. Plus, PIA agents who work with both WYOs and the NFIP Direct report greatly preferring to work with WYOs, thanks to their better customer service and faster response times.

⁴ See <https://www.nar.realtor/blogs/economists-outlook/how-many-home-sales-will-be-affected-by-a-nfip-lapse> (last visited on January 23, 2024).

⁵ See [GAO Report 23-105977](#) (last visited on January 23, 2024).

If Congress passes a reduction to the WYO reimbursement rate, WYOs may be forced to pass that cut on to agents through their commissions so that the WYO can absorb the lost income and remain in the program. In turn, a cut to agent commissions could result in an exodus of qualified independent agents from the NFIP, which would devastate the program and harm consumers who rely on agents to explain their flood coverage options in plain language.

Finally, the NFIP needs to increase the number of policies in force, not decrease it. Congress should not make programmatic changes that would harm both consumers and agents, who are the sales force of the NFIP. The NFIP is a complicated program; its learning curve alone is a significant barrier to entry for new agents. If Congress lowers the WYO reimbursement rate, independent agents may decide that the cut to their commission makes selling and servicing NFIP policies not worth the reputational risk and expenditure of agency resources. NFIP policyholders and potential policyholders will be hurt most by this because they will lose the expertise of the independent agents they trust to walk them through every aspect of the NFIP.

PIA strongly supported the House Financial Services Committee reauthorization bill that unanimously passed out of the committee in 2019. Notably, that package did not include a cut to the WYO reimbursement rate; PIA will oppose any legislation that includes a provision reducing the WYO reimbursement rate.

c. Continuous Coverage

One of PIA's top priorities is the inclusion of a continuous coverage provision in any NFIP reauthorization, so that policyholders can move between the private market and the NFIP without penalty.

Currently, consumers may be left in an untenable financial position if, for example, their private flood policy is cancelled for reasons outside their control. Existing law requires that, if such consumers live in an area where flood insurance is required, they reenter the NFIP as if they were brand-new policyholders, at which point they are immediately subjected to full-risk rates and denied access to the glide path afforded to renewing policies.

Continuous coverage would allow a former NFIP consumer who purchased a private flood policy to return to the NFIP at the same rate they were paying when they left. Without continuous coverage, consumers whose NFIP rates were on a glide path toward full risk rates will effectively be penalized with higher rates for attempting to return to the NFIP after leaving it for the private market.

The inclusion of a continuous coverage provision will free agents to offer, and consumers to purchase, flood insurance policies available in the private market without fear of losing an existing glide path toward full-risk rates.

d. Debt Forgiveness

The NFIP has not been financially stable since Hurricane Katrina hit the Gulf Coast in 2005. Hurricane seasons since have resulted in a mix of small and catastrophic losses, and, as a result, the NFIP's debt lingers, year after year. The debt is being paid back to the Treasury Department in annual \$400 million increments—and that just represents the interest.

Since 2005, the NFIP has repaid billions of dollars to the Treasury Department; even the Trump administration's decision to forgive \$16 billion of the debt did not substantially alleviate this burden. The program is finally moving in a direction of financial stability with the full implementation of RR 2.0; the existing debt represents a liability that, in the absence of debt forgiveness, the program may never be able to shed.

e. A Robust Affordability Framework

The NFIP is presently on a gradual track toward financial stability. However, as noted above, for RR 2.0 to succeed, and for the NFIP to remain a viable program, consumers need the program to acknowledge the issue of affordability. The past several years have been financially tumultuous for individuals, businesses, and for the national economy, and, in some parts of the country, some property owners will find their full-risk rates to be unaffordable, whether they are new policyholders subject to full-risk rates immediately or existing policyholders experiencing the statutory maximum in allowable annual increases.

One of the primary goals of the NFIP has always been to increase the number of flood policies in force; indeed, the program owes its very existence to that goal. Even though the NFIP has been available for more than a half century, as of December 2022, only 30 percent of homes in high-risk areas had flood insurance,⁶ and fewer than 25 percent of the properties flooded by Hurricanes Harvey, Sandy, and Irma were covered by flood insurance.⁷ To increase the take-up rate, particularly in high-risk areas, the NFIP needs an affordability framework with means testing to ensure that flood insurance is not out of reach for those who need it most.

Anecdotally, our agents reported that some NFIP policyholders with low-risk properties turned to the private market when faced with their first RR 2.0 renewal. If that trend bears out on a national scale, the NFIP will be increasingly composed of the properties with highest flood risk in the country. Without an affordability mechanism, RR 2.0 could create an adverse selection problem for the NFIP, where this federal government program is populated only by the highest-risk properties. If that happens,

⁶ See <https://www.iii.org/article/spotlight-on-flood-insurance#:~:text=Flooding%20is%20the%20most%20common%20and%20costly%20natural,natural%20disasters%20in%20the%20United%20States%20involve%20flooding> (last visited on January 23, 2024).

⁷ See <https://riskcenter.wharton.upenn.edu/policy-incubator/upgrading-flood-insurance/closing-the-flood-insurance-gap/> (last visited on January 23, 2024).

the benefit of putting all varieties of risk in one place will be effectively erased, because the flood risk within the NFIP will be largely homogenous. The NFIP's risk must remain diversified; it should not become, essentially, the federal flood insurer of last resort.

PIA supports both RR 2.0's progress toward full-risk rates and the development of an affordability framework. Consumers need the detailed, accurate information provided by RR 2.0 to enable them to make smart choices about their level of risk. However, some consumers may not be able to afford the rates associated with their property's level of risk as assessed by RR 2.0—if not now, then in the future. The program must be made affordable for policyholders who will never be able to afford their property's full-risk rate and for those who may find themselves priced out of their homes before their rates even reach full risk.

Because agents are in regular communication with existing and prospective policyholders, they witness the effects of rate increases in the communities they serve. Agents know firsthand that the NFIP does not have the luxury of choosing between full risk rates and an affordability framework.

f. Greater Rate Transparency

Consumers and agents need more information about how the new methodology's rating factors combine to calculate NFIP premiums, especially in the context of mitigation efforts. Reauthorization should include provisions demanding greater rate transparency from FEMA, including information about how the rating engine builds a rate, how some rating factors may be used to increase a rate, and how other rating factors may be used to decrease it. Everyone invested in the future of the NFIP would benefit from a more comprehensive understanding of how the system is intended to work.

g. Mapping Improvements

NFIP policyholders would benefit from a federal investment in mapping improvements. To the extent that the NFIP relies on mapping to evaluate risk, maps should reflect data available through the use of cutting-edge technology like geospatial intelligence and global positioning system (GPS) satellites. The NFIP should continue to collaborate with the U.S. Geological Survey and other federal agencies to maximize the accuracy and reliability of flood maps.

h. Mitigation

Mitigation helps control the NFIP's claims costs. Robust mitigation efforts allow communities, homeowners, and businesses to resume normal activity more quickly after a disaster. PIA continues to support expanding the amount allowable for increased cost of compliance (ICC) coverage for policyholders and allowing its use to fund pre-flood mitigation efforts.

However, the RR 2.0 methodology does not reward policyholder mitigation efforts with lower rates like they did in the legacy rating system.

i. Agent Advisory Council

Agents are the face, the sales force, and the first responders of the National Flood Insurance Program, and they deserve a voice in the regulatory process. An Agent Advisory Council housed within FEMA, but independent of the agency, could provide FEMA with recommendations to enhance the customer experience, including but not limited to improving the application and claims processes, improving communications about NFIP programmatic changes, and providing input on agent training needs and potential solutions. An Agent Advisory Council should include independent agents who are experts on flood insurance and routinely sell and service NFIP policies.

V. Conclusion

PIA supports the NFIP because it provides critical flood coverage to residential and commercial property owners, and we support Risk Rating 2.0 because it provides property owners with a more accurate estimate of their flood risk than was previously available to them. This additional information will help property owners make sound decisions about how to protect their investments. Plus, the progress towards risk-based rates will enable the NFIP to rebuild its long-term financial stability for the first time in nearly twenty years.

PIA would like to see more transparency in the rates produced by RR 2.0, particularly when those rates are at odds with the expectations of knowledgeable flood experts. We are also committed to the creation of an affordability framework to ensure that NFIP policyholders are not priced out of their homes as their rates increase along the glide path toward full risk.

PIA urges Congress to work towards a long-term NFIP reauthorization that will attract and retain policyholders and provide everyone associated with the program with the certainty they need to remain in the business of flood insurance.

PIA looks forward to continuing to work with Congress on this critical issue.



Statement for the Record

United States Senate Banking Committee

Hearing:

Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges and Solutions

Joel Scata Senior Attorney
Natural Resources Defense Council

January 25, 2024

Chair Brown, Ranking Member Scott, and other members of the Committee,

Thank you for the opportunity to share our recommendations for reforming the National Flood Insurance Program (NFIP). My name is Joel Scata, and I am the Senior Attorney for the Climate Adaptation Team at the Natural Resources Defense Council (NRDC). The Climate Adaptation Team is committed to helping communities prepare for and adapt to the impacts of climate change, including the growing risk of flooding.

Flooding poses a significant threat to life and property and is one of the most common natural hazards in the United States. Ongoing and future changes to the climate, combined with growing population density in coastal and other flood-prone areas, are increasing flood risk, and thus the likelihood of displacement, injury and illness, loss of life, damage to homes, and the failure of critical infrastructure and the essential community services provided by such infrastructure. Meanwhile, our nation's history of redlining, segregation, and other forms of structural racism and discrimination has left communities of color and other marginalized communities at higher risk of being exposed to flooding and with less public investment in measures to protect against flooding.

Congress intended the NFIP to be a key mechanism for protecting people and communities and reducing flood damages nationwide.¹ Yet, the rising incidents of flood damage across the nation, increasing numbers of repeatedly flooded properties, and the growing debts of the NFIP all indicate the program is failing to achieve its primary purpose.

One need only look at Federal Emergency Management Agency's (FEMA) statistics on Severe Repetitive Loss Properties (SRLPs) to see how the current NFIP is failing to address our long-term vulnerability to flooding, sea level rise, and the future impacts of climate change. A recent NRDC analysis of these data show that the number of SRLPs has increased each year since the NFIP's inception, in direct contrast to the NFIP's goals. Between the creation of the NFIP in 1968 and 2022, nearly 45,000 properties met

¹ See, 42 U.S.C. § 4001(e) (establishing a primary purpose of the NFIP is to encourage state and local governments to constrict development in and guide development away from flood prone areas).

the criteria to an SRLPs.² These properties, the most flood-prone structures insured under the NFIP, have flooded about five times each, on average. Only 24 percent of these properties have been mitigated, but 38 percent of these properties simply dropped NFIP coverage.³ For the properties that dropped coverage, their flooding problems did not end – they simply disappeared from the data demonstrating the enormity of the problems before us.

Expanding insurance coverage and reorienting the NFIP to center flood risk mitigation would help address these issues. I urge Congress to consider the following recommendations to broaden flood insurance coverage and improve flood mitigation options.

1. Provide homeowners, home buyers and renters the right to know a property's flood history.
2. Create a permanent, means-tested assistance program under the NFIP for low- and moderate-income households.
3. Incentivize flood-risk mitigation by enhancing the Increased Cost of Compliance Coverage.

Provide for greater disclosure and transparency of flood risks.

Prospective home buyers and renters deserve to know a property's flood history. Hundreds of thousands of Americans live in homes that have flooded. And a home that has flooded once is likely to flood again.

Information on a property's flood history and risk allows for informed decision-making about purchasing flood insurance, mitigating flood risk, and deciding whether to purchase or rent a property. Unfortunately, the provision of such information is not universal. Two-thirds of the states have either inadequate or no statutory or regulatory flood risk disclosure requirements.⁴

NRDC and Columbia University's Sabin Center for Climate Change Law reviewed all 50 states' real estate disclosure laws and found that in many places, home buyers are not given the information that they need to make informed decisions about whether they should buy a house, which is a major financial investment. Further, as of 2021, only seven states required renters to receive any information about potential flooding prior to signing a lease.⁵ In June 2022, New York State became the eighth state by adopting legislation to require renters to be informed about a property's history of flooding.⁶

Flood-related disclosures would provide prospective home buyers and renters with the information necessary to make an informed decision concerning a home's flood-risk, which could encourage the purchase of flood insurance. FEMA found "states with strong flood risk disclosure requirements often also have higher rates of residential flood insurance uptake."⁷

² NRDC, *Losing Ground: Severe Repetitive Flooding in the United States*, <https://www.nrdc.org/resources/losingground-severe-repetitive-flooding-united-states>

³ *Id.*

⁴ Natural Resources Defense Council, *How States Stack Up on Flood Disclosure*, (last visited Jan. 23, 2024), <https://www.nrdc.org/flood-disclosure-map>

⁵ Dan Mathis, *Risky Renting: Renters Should Have the Right to Know their Flood Risk* Next100, (May 26, 2022) <https://thenext100.org/risky-renting-renters-should-have-the-right-to-know-their-flood-risk/>.

⁶ Joel Scata, *New York Renters Will Soon Know Their Flood Risk*, NRDC (June 07, 2022) <https://www.nrdc.org/experts/joel-scata/new-york-renters-will-soon-know-their-flood-risk>

⁷ *Flood Risk Disclosure: Model State Requirements for Disclosing Flood Risk During Real Estate Transactions*, FEMA (July 11, 2022) https://www.fema.gov/sites/default/files/documents/fema_state-flood-risk-disclosure-best-

As such, states should be required to establish minimum flood risk reporting requirements for sellers or lessors as a condition for participation in the NFIP. The reporting requirements should establish an affirmative obligation on the part of sellers and/or lessors of residential properties to disclose information about flood risk to prospective buyers or renters.

The disclosure should be required as part of the real estate transaction to purchase or rent a home and must be delivered by, or on behalf of, the seller or lessor to the buyer or lessee before they become obligated under contract to buy or rent the property. Sellers of residential properties should be required to disclose, in writing, any actual knowledge of the following:

- prior physical damage caused by flood to any building located on the property;
- a prior insurance claim for loss covered under the national flood insurance program or private flood insurance with respect to the property;
- whether the home is in a FEMA-designated flood zone and, if so, flood zone classification (100-year or 500-year) of the property and the source and date of this information;
- any previous notification regarding the designation of the property as a repetitive-loss structure or a severe repetitive-loss structure, (as defined in 42 USC 4104c); and
- any obligation under Federal law to obtain and maintain flood insurance running with the property, such as any obligation because of a previous form of disaster assistance received by any owner of the property under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.).

Lessors of residential properties should be required to disclose, in writing, any actual knowledge of the following:

- any prior physical damage caused by flood with respect to the building and, if applicable, the unit being leased;
- whether the home is in a FEMA-designated flood-zone and, if so, flood-zone classification (100-year or 500-year) of the property and the source and date of this information;
- and the availability of coverage under this title for contents located in a structure on the property.

As FEMA has stated in a recently released report on the lack of flood disclosure requirements in states, "disclosing flood risk information during real-estate transactions is a timely and effective way to enable [home buyers] to make better risk-informed investment decisions."⁸ FEMA has proposed that Congress amend the National Flood Insurance Act and explicitly require states to have flood disclosure laws.⁹

However, such disclosure and transparency provisions should not be limited to disclosure requirements imposed on sellers and lessors – the NFIP should improve its own transparency when it comes to sharing flood history and risk information.

[practices_07142022.pdf](#)

⁸ *Id.*

⁹ *FEMA Flood Insurance Reform Proposal*, FEMA (May 11, 2022)
https://www.fema.gov/sites/default/files/documents/fema_flood-insurance-reform-proposal_5242022.pdf

Currently, FEMA will not provide property owners with their property's flood history unless they already have NFIP coverage. Even for NFIP policyholders, this information is not always provided consistently or in a timely manner (often a homeowner will not know their property's history of flood damages until *after* they make their first damage claim). Providing such information to a current homeowner would allow for an informed decision about whether to purchase or maintain coverage.

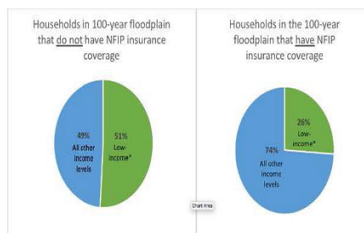
In the 117th Congress, NRDC strongly supported H.R. 5256 - *Flood History Information Act of 2021*.¹⁰ That bill would have provided for the sharing of NFIP policy and claim information. Specifically, the bill would have established that FEMA may share this data through an agreement with certain private insurance providers for the purposes of policy underwriting, establishing premium rates, and adjusting claims. Additionally, the bill directed FEMA to provide specified flood insurance information to a purchaser, lessee, or current owner of a property upon request. Both provisions of H.R. 5256 could have helped expand flood insurance coverage.

NRDC recommends a version of H.R. 5256 be introduced this Congress.

Create a permanent, means-tested assistance program under the NFIP for low- and moderate-income households.

Flooding does not discriminate, but a household's ability to recover after a flood differs greatly if the household has access to flood insurance. Due to high costs, low-income households are less likely to purchase flood insurance than higher-income households, even though low-income families are more likely to live in high-risk flood zones.

More than 50 percent of households located in the 100-year floodplain that lack NFIP insurance coverage are considered low-income.¹¹ Whereas only 26 percent of households located in the 100-year floodplain that have NFIP insurance coverage are considered low-income.¹² Further, the median income of households without flood insurance is only \$40,000, slightly more than half that of households located in the 100-year floodplain that have flood insurance.¹³



*Low-income is defined as having less than 80% of the Area Median Income

¹⁰ H.R. 5256 - Flood History Information Act of 2021 117th Congress (2021-2022) <https://www.congress.gov/bills/117/house/5256?q=%7B%22search%22%3A%5B%22luria%22%2C%22flood%22%2C%22flood%22%5D%7D&s=4&t=2>

¹¹ *An Affordability Framework for the National Flood Insurance Program*, Department of Homeland Security 76 (Apr. 17, 2018), https://www.fema.gov/sites/default/files/2020-05/Affordability_april_2018.pdf

¹² *Id.*

¹³ *Id.*

Currently, the NFIP provides older homes discounted insurance in comparison to newer homes built to be more flood resilient, through the practice of grandfathering, which is required of by statute. While this subsidy was established to entice owners of older homes to join the program, it has not necessarily succeeded at expanding flood insurance coverage and it completely undermines the need to provide policy holders with an accurate depiction of flood risk.

A much more effective way of helping economically disadvantaged renters and home owners, who may often live in housing stock that is older and more affordable, is for Congress to finally adopt an affordability provision for the NFIP. As such, Congress should establish a permanent, means-tested assistance program under the NFIP to address this protection gap. Under the National Flood Insurance Act (NFIA) as amended, FEMA lacks explicit statutory authority to establish a permanent program under which low-and moderate- income households may receive a graduated risk premium discount.¹⁴ FEMA recently proposed draft statutory language to establish a means-tested assistance program as part of their NFIP reform proposal.¹⁵ The proposed program would provide graduated discount rates based on income while communicating the “full-risk price” so households understand the property’s true flood risk. The proposed program would also provide eligible households greater access to flood mitigation assistance. This mitigation component will help reduce the flood risk to low-and moderate-income households and the overall exposure of the NFIP.

NRDC recommends Congress enact FEMA’s proposed means-tested assistance program.

Incentivize flood-risk mitigation by enhancing the Increased Cost of Compliance Coverage.

FEMA’s efforts to reduce repeated flooding are not keeping pace with current risk—let alone the increasing risk posed by sea level rise, increased severe weather, and other climate change impacts. Between the creation of the NFIP in 1968 and 2022, nearly 45,000 properties met the criteria to become what the program refers to as Severe Repetitive Loss Properties, or SRLPs.¹⁶ These properties, the most flood-prone structures insured under the NFIP, have flooded about five times each, on average. Only 24 percent of these properties have been mitigated.¹⁷

FEMA must provide more flexible and substantial assistance to help owners of repeatedly flooded homes to either mitigate their risk or, if desired, relocate. Breaking the cycle of flood damage, especially repeated flood damage, is an important objective of the NFIP. As such, the NFIP

¹⁴ Hannah Perl, *EELP submits statement on expanding flood insurance coverage to House Subcommittee on Housing and Insurance*, Harvard Env’t & Energy L. Prog. (March 10, 2023),

<https://eelp.law.harvard.edu/2023/03/eelp-expanding-flood-insurance-coverage/> (stating “Under the NFIA as amended, FEMA can charge “less than the estimated risk premium rates . . . where necessary”, 42 U.S.C. § 4015(a), including where doing so is “consistent with the objective of making flood insurance available where necessary at reasonable rates so as to encourage prospective insureds to purchase such insurance”, 42 U.S.C. § 4015(b). While the list of factors to be considered in rate-setting does not explicitly include income or cost burden, those factors must only be considered “insofar as practicable” and there is no statutory language or caselaw indicating that this list is exclusive. *Id.* However, this authority is applied on a case-by-case basis, and FEMA has consistently stated that legislative action is required to establish and fund a permanent means-tested assistance program under the NFIP”).

¹⁵ *FEMA Flood Insurance Reform Proposal*, FEMA (May 11, 2022)

https://www.fema.gov/sites/default/files/documents/fema_flood-insurance-reform-proposal_5242022.pdf.

¹⁶ NRDC, *Losing Ground: Severe Repetitive Flooding in the United States*, <https://www.nrdc.org/resources/losingground-severe-repetitive-flooding-united-states>

¹⁷ *Id.*

requires pre-FIRM buildings that are improved beyond a certain threshold or that incur a certain level of damage to be brought into compliance with current floodplain management regulations.

The NFIP's Increased Cost of Compliance (ICC) coverage provides funds – up to \$30,000 – to assist NFIP policyholders whose homes are repetitively or substantially damaged by a flood satisfy that requirement. ICC coverage is a mandatory part of most NFIP policies. For residential structures, ICC provides funds for mitigation measures, which include elevation, relocation, demolition, and floodproofing of certain residential structures with basements.¹⁸ The majority of ICC payments are used to elevate a structure.¹⁹

Unfortunately, ICC coverage often does not provide enough funds to cover the required flood mitigation expenses. The maximum payout of \$30,000 is insufficient to cover the cost of measures to elevate flood-damaged structures, which can easily be 3 to 5 times that amount.²⁰

While disasters do not themselves discriminate, a history of discriminatory policies like redlining and segregation as well as economic and social disparities have located low-income communities and communities of color in highly vulnerable floodplains in certain states.²¹ Socially vulnerable communities were some of those most heavily impacted by flooding after Hurricane Harvey.²² These vulnerable communities include the elderly, disabled, poor, and those who do not own a car or cannot speak English.

For several reasons, lower-value homes are more likely to become Severe Repetitive Loss Properties. NRDC analyzed damage claims from SRLPs and found that lower-value homes were more likely to suffer cumulative losses that exceeded a property's value. The disproportionate effect of flooding on vulnerable communities coupled with financing challenges is a crucial concern to address in any proposed reform to the NFIP. As noted above, existing ICC funds are unlikely to provide sufficient support for households with fewer financial resources.

As such, NRDC recommends Congress increase the ICC coverage limit to at least \$60,000. This increase is needed to reflect substantial increases in building construction and mitigation costs over past decades. Additionally, Congress should add a new optional ICC coverage option above \$60,000 that policyholders could purchase as added protection.

Further, Congress should expand eligible activities to be paid under ICC to be substantially like eligible items under the FEMA HMA grants, including acquisition costs associated with voluntary home buyouts. Congress should specify that ICC dollars can be used to meet non-federal cost-share requirements for other federal grants.

¹⁸ 44 CFR Pt. 61, App. A(1).

¹⁹ Carolyn Kousky and Brett Lingle, *Post-Flood Mitigation: The NFIP's Increased Cost of Compliance (ICC) Coverage*, 5 (2017).

²⁰ *Id.* at 4

²¹ See e.g., Tanvi Misra, *The Ugly Story of South Dallas*, City Lab (May 11, 2016)

<https://perma.cc/D2LE-323H>; Marilyn C. Montgomery and Jayajit Chakraborty, *Assessing the Environmental Justice Consequences of Flood Risk: a Case Study in Miami, Florida* 2015 ENVIRON. RES. LETT. 10,

<https://perma.cc/F3VG-P2N9>. For some of the difficulties in analyzing these trends at the national level, see NYU Furman Center, *Population in the U.S. Floodplains: Data Brief* (Dec. 2017), <https://perma.cc/289C-NHQ6>.

²² Jeremy Deaton, *Hurricane Harvey Hit Low-income Communities Hardest*, THINKPROGRESS (Sept. 1, 2017), <https://perma.cc/CM6B-ATAR>.



REINSURANCE ASSOCIATION OF AMERICA

STATEMENT FOR THE RECORD

**UNITED STATES SENATE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS**

**HEARING ON
“REAUTHORIZATION OF THE NATIONAL FLOOD INSURANCE PROGRAM: LOCAL
PERSPECTIVES ON CHALLENGES AND SOLUTIONS”**

January 25, 2025

Chairman Brown, Ranking Member Scott, and members of the Committee on Banking, Housing, and Urban Affairs, thank you for the opportunity to submit this statement for the record as part of today’s hearing on “Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges and Solutions.”

The RAA is the leading trade association of property and casualty reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

The RAA appreciates the Committee continuing the critical, formal conversation on reauthorization and reform of the NFIP. The RAA strongly supports a long-term reauthorization of the NFIP and reforms that greatly benefit policyholders and taxpayers, specifically:

- Strengthen NFIP’s financial framework and resiliency,
- Facilitate the development of a private flood insurance market,
- Close the flood insurance protection gap, and
- Create resilient and insurable communities.

Introduction

A guiding principle of the Federal government’s natural disaster policy should be to protect U.S. taxpayers by managing the nation’s escalating natural disaster risks, reducing those risks over the long-term, and promoting environmental stewardship. The NFIP was established on the fundamentally sound principles of encouraging natural disaster mitigation and promoting the use of insurance to reduce post event disaster assistance. In 1973, George Bernstein, the first Federal Insurance and NFIP Administrator, cautioned prophetically: “It is the combination of land use controls and full actuarial rates for new construction that makes the National Flood Insurance Program an insurance program rather than a reckless and unjustifiable giveaway program that could impose an enormous burden on the vast majority of the Nation’s taxpayers without giving them anything in return.”

For decades, Bernstein’s warning was ignored, and today the NFIP remains on the U.S. Government Accountability Office’s (GAO) “High Risk List,” where it has been since 2006.¹ As of FEMA’s most recent NFIP financial statement, the Program is \$20.5 billion in debt.² NFIP has borrowed \$36.5 billion from Treasury since 2005.³ A July 2023 GAO report stated that “...one third of [NFIP] policyholders are already paying full-risk premiums,” and “...many of these policyholders had their premiums reduced upon implementation of Risk Rating 2.0.” The majority of the remaining NFIP policyholders have subsidized premiums that will be phased out over time through around 2037.⁴ During this transition period, GAO has projected the NFIP will have a “...\$27 billion premium shortfall...,” the cost of which will not become evident until NFIP must again borrow from the U.S. Department of the Treasury after a catastrophic flood event to pay policyholder claims.⁵ Additionally, GAO noted that this approach is not based on a policyholder’s ability to pay and “keep[s] NFIP premiums artificially low, which undercuts private-market premiums, and hinders private market growth.”⁶

Subsidized rates were introduced early in the Program as an inducement for communities to enter the Program. Nearly 22,000 communities now participate. However, it was the intent of the original legislation that subsidized rates and the properties to which they apply would be gradually eliminated. For decades, rates in the NFIP have been subsidized without regard to the present character or ownership of the property. Additionally, the Program originally was designed to address primary residences, yet second homes, investment, and vacation properties received the benefit of subsidized rates for decades. Congress should recognize that subsidized rates and statutory caps on rates may be popular with beneficiaries, but subsidized rates and caps distort risk assessment by builders, local officials, property buyers and NFIP policyholders. They increase the cross subsidy from low or no risk persons and taxpayers to those living in high-risk flood areas. The Program’s subsidies also have facilitated the development of environmentally sensitive coastal areas, including those at high risk to flood losses.

¹ <https://www.gao.gov/products/gao-23-106203>

² <https://crsreports.congress.gov/product/pdf/IN/IN10784>; <https://www.fema.gov/flood-insurance/work-with-nfip/watermark-financial-statements>

³ <https://www.gao.gov/products/gao-23-105977>

⁴ <https://www.gao.gov/products/gao-23-105977>; https://www.fema.gov/sites/default/files/documents/fema_rr-2.0-equity-action_0.pdf

⁵ <https://www.gao.gov/products/gao-23-105977>; https://www.fema.gov/sites/default/files/documents/fema_rr-2.0-equity-action_0.pdf

⁶ <https://www.gao.gov/products/gao-23-105977>; https://www.fema.gov/sites/default/files/documents/fema_rr-2.0-equity-action_0.pdf

For the first four decades of the program, NFIP was modified by legislative compromises, rather than sound public policy, insurance principles and good practices. Congress and FEMA should be commended, however, for recently taking steps to address these fundamental flaws in the NFIP and toward removing inequitable and unjustifiable rate subsidies. As a result, the NFIP is today on a path toward a stronger financial framework and resiliency to pay claims without additional borrowing from taxpayers. The RAA urges Congress to avoid retreating from this progress and strongly encourages Congress to fully examine reforms that will improve the program to the benefit of those with homes, businesses, and communities facing flood risk and taxpayers alike.

Strengthen NFIP's Financial Framework and Resiliency

As it currently operates, the NFIP is not an insurance program. But it should and can be, and thanks to the "National Flood Insurance Program Extension Act" (NFIP Extension Act) and the "Biggert-Waters Flood Insurance Reform Act of 2012" (Biggert-Waters), it is on a path toward becoming an insurance program.⁷ That legislation introduced private sector risk assessment into the NFIP therein retaining the proper role for government in land use planning and hazard mitigation and re-establishing the flood risk management program as a public-private partnership. FEMA's implementation, over the last decade, of the NFIP Extension Act, Biggert-Waters, and the "Homeowner Flood Insurance Affordability Act of 2014 (HFIAA)," introduced fuller application of risk-based rates and an appropriate risk-bearing role for the private reinsurance sector, which have started to transform the NFIP. Specifically, FEMA improved NFIP's financial framework and resiliency by updating the NFIP's risk rating methodology through the implementation of Risk Rating 2.0 (RR 2.0), a new pricing methodology, and establishing the NFIP Reinsurance Program.

Future flood reform legislation, at a minimum, should preserve and support these initiatives to continue to strengthen NFIP's financial framework and resiliency so that it can pay claims, especially after catastrophic events. By continuing down this path, the NFIP could achieve the goal of protecting taxpayers and the Treasury, thereby returning the Program to its original goal of being fiscally sound.

Reinsurance

Background. Reinsurance is essentially insurance for insurance companies. It is a successful, critical, and efficient risk management tool used by private sector companies and government programs to provide a crucial safety net for low frequency, high severity natural and man-made events that result in extreme insured losses.

Reinsurance helps private sector companies and government programs improve capacity and financial performance, enhance financial security, and reduce financial volatility. Insurers rely on reinsurers to assume losses for a single event or, in many cases, for an accumulation of losses

⁷ Public Law No. 112-123, <https://www.congress.gov/112/plaws/publ123/PLAW-112publ123.pdf>; Public Law 112-141, <https://www.congress.gov/112/plaws/publ141/PLAW-112publ141.pdf>

from hurricanes, earthquakes, winter storms, wildfires, or terrorist attacks. Some historic events illustrate this. Hurricanes Katrina, Rita and Wilma in 2005 caused over \$92 billion in insured losses, and reinsurers bore around 28% of the losses from those events.⁸ Reinsurers assumed 55% of \$41 billion in insured losses from the terrorist events of September 11.⁹ Superstorm Sandy caused \$25 billion in insured losses with reinsurers taking 30% of those losses.¹⁰ In 2022, U.S. insurers booked nearly \$140 billion in reinsurance recoverables, which amounts to 25% of the \$558 billion in direct insured U.S. losses incurred that year.¹¹

Reinsurance also is the primary mechanism for spreading risk globally, thereby accessing a greater pool of capital to pay for inevitable catastrophic losses. Reinsurance is extensively used by the private markets to diversify risk and protect against future losses. Reinsurance is purchased for essentially four reasons: (1) to limit liability on specific risks; (2) to stabilize loss experience; (3) to protect against catastrophes; and (4) to increase capacity to provide insurance to American citizens. Depending on the purchaser's goals, different types of reinsurance contracts are available to bring about the desired result.

For federal programs, purchasing reinsurance can mitigate the financial impact of any large-scale future losses and help to prevent any future funding lags as it is pre-arranged financing for losses. Reinsurance also allows federal programs to gain financial flexibility and not be forced to rely on emergency federal funding in the event of defaults that could put programs in jeopardy. Reinsurance has been used by federal programs, including FEMA's National Flood Insurance Program (NFIP), the Export-Import Bank of the U.S. (EXIM), and the Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. It also has been used by state programs, including the California Earthquake Authority, California Wildfire Fund, Florida Hurricane Catastrophe Fund, and Florida Citizens Property Insurance Corporation.

Consistent with the intent of Congress, reinsurers believe the private sector can and should voluntarily assume more Federal government risk and help manage exposure to losses. The use of private capital provides and will increasingly provide protections for consumers, taxpayers, and communities, while spreading risk throughout the globe to insurers and other capital providers who are willing to assume such risk. Risk transfer via reinsurance and the capital markets strengthens government programs and private sector insurers by giving them the financial flexibility to ensure they continue to remain viable in the long term. Reinsurers are poised to work with the Congress and the Administration to expand and maximize the Federal government's utilization of the private market to the extent the industry can write the risk.

Reinsurance is not mandated for private sector insurers, the NFIP, EXIM, and the GSEs. It is voluntarily purchased by insurers and government programs. Insurers and government programs have options, including purchasing reinsurance, which is a form of rental capital, or they raise other forms of capital, such as equity or debt. As reported by Aon, "Reinsurance

⁸ Holborn Corporation, "Holborn Perspectives, Looking Closer At...SuperStorm Sandy," December 12, 2012

⁹ Holborn Corporation, "Holborn Perspectives, Looking Closer At...SuperStorm Sandy," December 12, 2012

¹⁰ Holborn Corporation, "Holborn Perspectives, Looking Closer At...SuperStorm Sandy," December 12, 2012

¹¹ RAA analysis of National Association of Insurance Commissioner's data via S&P Global Capital IQ Pro

remains an accretive source of capital for insurers when compared with debt and equity.”¹² In general, when insurers or government programs choose to buy reinsurance, it is because it works for them as a more cost-effective way than the alternatives for them to manage their catastrophic risk.¹³ On average, reinsurance capital is less than half the cost of equity capital.¹⁴

FEMA’s NFIP Reinsurance Program. The RAA supports FEMA’s NFIP Reinsurance Program and requests that it be preserved in NFIP reauthorization and reform legislation.¹⁵ The RAA has long advocated for the NFIP to utilize the private market to help manage the financial burden of the NFIP’s catastrophic flood risk. The NFIP Reinsurance Program has successfully enlisted private reinsurance and capital, which has strengthened the NFIP’s resilience and ability to pay policyholder claims after catastrophic floods and helped to protect taxpayers against NFIP losses following an extreme flooding event. The benefit of the NFIP Reinsurance Program was evident when over \$1 billion in reinsurance was recovered by FEMA to pay claims resulting from Hurricane Harvey in 2017 (additional details below). For over seven consecutive years, FEMA has successfully administered its NFIP Reinsurance Program that transfers risk from the NFIP to the capital markets, specifically through reinsurance placements and catastrophe bond issuances.¹⁶

As noted above, several Federal government agencies already have risk transfer programs in place. These programs highlight the ways in which risk transfer can succeed for government agencies. The best example of an ongoing Federal risk transfer program is FEMA’s NFIP Reinsurance Program. The NFIP Reinsurance Program enables the NFIP to utilize the private market to help manage the financial burden of the NFIP’s catastrophic flood risk by providing financial backing for the government’s flood risk, protecting taxpayers, and helping the program to be more resilient and pay claims. In 2016, FEMA, launched its NFIP Reinsurance Program via a pilot and, in 2017, transferred \$1.042 billion of the NFIP’s financial risk to 25 reinsurers, offsetting some of NFIP’s risk to the private sector instead of U.S. taxpayers. In the program’s first year (2017), FEMA collected the full \$1.042 billion from the private reinsurance sector to help pay the cost of NFIP losses and claims resulting from Hurricane Harvey. This 2017 coverage, which also improved NFIP’s financial viability and protected taxpayers, cost \$150 million, and the program successfully renewed the subsequent year. This is a true testament of successful private public partnerships. Following the 2017 placement, the program was renewed and currently has reinsurance coverage through 2026. For FEMA’s traditional reinsurance placements from 2017 through 2024 and capital market reinsurance placements from 2018 through 2024, FEMA paid a total of around \$2 billion in premium to reinsurers and the capital markets, received over \$1 billion from reinsurers as previously mentioned, and has up to \$1.9 billion available to collect after a qualifying 2024 loss event.¹⁷ The initial 2017 purchase marked key first steps towards

¹² <https://www.aon.com/insights/reports/2023/reinsurance-market-dynamics>

¹³ https://www.reinsurance.org/Fundamentals/Fundamentals_of_Property_and_Casualty_Reinsurance/

¹⁴ https://www.reinsurance.org/RAA/News/2023/RAA_Publishes_White_Paper_on_CA_Homeowners_Insurance_Market/

¹⁵ <https://www.fema.gov/flood-insurance/work-with-nfip/reinsurance>

¹⁶ <https://www.fema.gov/press-release/20240103/fema-announces-reinsurance-program-manage-future-flood-risk-2024>;

<https://www.fema.gov/flood-insurance/work-with-nfip/reinsurance>

¹⁷ <https://www.fema.gov/press-release/20220223/fema-expands-its-reinsurance-program-transfers-450-million-flood-risk>;

<https://www.fema.gov/flood-insurance/work-with-nfip/reinsurance>; https://www.fema.gov/sites/default/files/documents/fema_fy-2021-q4-watermark.pdf;

https://www.fema.gov/sites/default/files/2020-05/FIMA_Watermark_FY19Q4.pdf;

<https://www.fema.gov/sites/default/files/2020-05/fima-watermark-2018-q4.pdf>;

helping the NFIP achieve long term resilience and financial stability and was crucial in enabling the reinsurance program to be a long-term project.

The RAA also supports the “Taxpayer Exposure Mitigation Act” (H.R. 1306), which “requires FEMA to purchase reinsurance or some capital market alternative to protect taxpayers from footing the bill for future losses.”¹⁸ The bill enhances the NFIP Reinsurance Program and includes important factors for FEMA to consider as part of risk transfer.

Risk-Based Pricing

After enactment of the NFIP Extension Act, Biggert-Waters, and the HFIAA, FEMA undertook a process to better protect taxpayers and manage the nation’s escalating risk of flooding by improving its risk rating methodology. As stated on its website, “FEMA is updating the National Flood Insurance Program’s (NFIP) risk rating methodology through the implementation of a new pricing methodology called Risk Rating 2.0. The methodology leverages industry best practices and cutting-edge technology to enable FEMA to deliver rates that are actuarially sound, equitable, easier to understand and better reflect a property’s flood risk.”¹⁹

As previously noted, a July 2023 GAO report indicated that two-thirds of NFIP policyholders have subsidized premiums.²⁰ For NFIP policyholders, increases to achieve rate adequacy previous to RR 2.0 were determined “...predominantly based on relatively static measurements, emphasizing a property’s elevation within a zone on a Flood Insurance Rate Map...” but under RR 2.0 this shifted to reflect property-specific risk and home value.²¹ This shift will ultimately result in NFIP policyholders with low risk and/or low value properties no longer subsidizing premiums for policyholders with high risk and/or high value properties.²²

The RAA strongly supports RR 2.0, which more precisely reflects the real risk of flooding of properties with more advanced actuarial tools and catastrophe models.

Affordability. The RAA confirmed with FEMA that under the RR 2.0 pricing methodology, the maximum annual premium amount for a single family residence policy is \$12,125 (2022). Under FEMA’s previous pricing methodology, the maximum any NFIP single family policyholder paid was \$45,925.²³ In addition, single family residence policies that are primary residences will continue to be subject to the 18% statutory cap on annual rate increases, which Congress enacted as part of the HFIAA. That annual cap applies unless those structures are deemed severe repetitive loss properties. That said, the RAA recognizes that it may be challenging for some NFIP policyholders faced with significant flood risk to pay their flood insurance premiums. For example, some NFIP

https://www.fema.gov/sites/default/files/documents/fema_fy2022-q1-watermark.pdf; <https://www.fema.gov/press-release/20240103/fema-announces-reinsurance-program-manage-future-flood-risk-2024>

¹⁸ <https://www.congress.gov/bills/118th/congress/house-bill/1306/text?r=1&r=1&q=%7B%22search%22%3A%22Taxpayer+Exposure+Mitigation+Act%22%7D;https://luetkemeyer.house.gov/news/documentsingle.aspx?DocumentID=400824>

¹⁹ <https://www.fema.gov/flood-insurance/risk-rating>

²⁰ <https://www.gao.gov/products/gao-23-105977>

²¹ <https://www.fema.gov/flood-insurance/risk-rating>

²² RAA analysis of FEMA-NFIP RR 2.0 data, <https://www.fema.gov/flood-insurance/risk-rating>

²³ <https://www.nahb.org/-/media/NAHB/advocacy/docs/top-priorities/flood/risk-rating-fact-sheet.pdf>

policyholders with high risk but low value properties, may face affordability challenges, and the RAA offers its assistance to Members of Congress to help develop targeted, need-based solutions for individual policyholders and, in some cases, a community of policyholders. The RAA has a broader proposal, discussed below, to use a data-driven approach to identify communities that are the most in need and most at risk of natural disasters, especially those that are at risk of flooding, and prioritizing and directing public funding and private sector investments to improve resilience in those communities.

Build for Future Disasters. GAO anticipated an increase in the frequency and severity of floods, the number of catastrophic floods, and the number of repetitive loss properties, the latter of which accounted for \$22.2 billion (32%) of the \$69.7 billion in claims paid by NFIP from 1978 to 2019.²⁴ The RAA supports bipartisan legislation to “...help flood-prone communities end the costly cycle of repeated flooding and rebuilding...” that is “...perpetuated by the NFIP...”:²⁵

- The bipartisan “Repeatedly Flooded Communities Preparation Act” (S.1417) would require communities with areas repeatedly damaged by floods to mitigate continuing flood risks in those areas with assistance from the Federal Emergency Management Agency,²⁶ and
- The bipartisan “Build for Future Disasters Act of 2021” (H.R. 2632, 117th Congress) would end NFIP subsidies for newly constructed properties in areas vulnerable to flooding.

Both bills would put the NFIP on a path to stronger financial footing, reduce taxpayer risk, “reduce flood risk rather than simply rebuilding the same properties repeatedly,” discourage building in areas prone to flooding, and improve community awareness and resilience.²⁷ The RAA applauds Ranking Member Scott and the other sponsors of these bills for recognizing that the vicious cycle of build-flood-rebuild is not in the best interests of the NFIP, nor the American taxpayers who are ultimately on the hook for the costs associated with the program.

Meanwhile, the RAA opposes enacting provisions in legislation to: eliminate “catastrophic loss years” as part of the calculation of an “average historical loss year” as part of FEMA’s method to determine rates for NFIP policies; and reduce the current 18% cap to 9% for the maximum allowable cost increase (to include chargeable premiums, surcharges, and fees) for any individual policy.²⁸ These changes would result in an immediate reduction in the scheduled premium increases for second homes, vacation homes, and investment, business, and other commercial

²⁴ <https://www.gao.gov/assets/gao-20-508.pdf>

²⁵ <https://www.congress.gov/bills/117/congress/house/bills/2632?q=%7B%22search%22%3A%22h.r.-2632%22%7D&s=5&r=1>

²⁶ <https://www.congress.gov/bills/118/congress/senate/bills/1417?q=%7B%22search%22%3A%22S.1417%22%7D&s=6&r=1>;
<https://www.banking.senate.gov/newsroom/minority/scott-schatz-reintroduce-bill-to-protect-flood-prone-communities#:~:text=The%20Repeatedly%20Flooded%20Communities%20Preparation%20Act%20will%20help%20compel%20the,NFIP%20and%20threatens%20other%20policyholders>.

²⁷ <https://www.banking.senate.gov/newsroom/minority/scott-schatz-reintroduce-bill-to-protect-flood-prone-communities>;

<https://scott.peters.house.gov/media-center/press-releases/rep-peters-barr-reintroduce-bipartisan-bill-to-discourage-costly>;

<https://barr.house.gov/2021/4/rep-barr-peters-reintroduce-bipartisan-bill-to-discourage-costly-development-in-flood-prone-areas>

²⁸ <https://www.congress.gov/bills/118/congress/senate/bills/2142/text?&r=1>; <https://www.congress.gov/bills/118/congress/house/bills/4349?q=%7B%22search%22%3A%22Section+203%28%29+of+the+Robert+T.+Stafford+Disaster+Relief+and+Emergency+Assistance+Act%22%7D&s=9&r=9>

properties, Severe Repetitive Loss properties, mis-rated and lapsed policies, and policies where an offer of mitigation assistance has been refused by the owner. Enacting these provisions would reduce premiums, regardless of a policyholder's income level, and reduce the NFIP's ability to pay claims as a result of losses caused by a catastrophic event.

Facilitate Development of a Private Flood Insurance Market

Flood reform legislation should facilitate the development of a private flood insurance market with the NFIP risk-based pricing reforms mentioned above, by removing impediments to consumer choice, and by increasing flood insurance options for consumers.

Removing Impediments to Consumer Choice. Flood insurance uncertainty for consumers, as it relates to continuous coverage and potential rate increases when rejoining the NFIP, is the primary impediment to consumers buying private flood insurance and limits consumers' choices. Insurance agents and brokers have stated that "...the risk of a substantial NFIP rate increase should the consumer later wish to return to the NFIP often makes insurance agents and brokers hesitant to recommend private flood insurance policies."²⁹ It is important that Congress and FEMA provide consumers with clarity about continuous coverage compliance so that current and future NFIP policyholders are confident that they have complied with the law's continuous coverage requirements by having an NFIP or private flood insurance policy. For example, if a consumer leaves the NFIP to secure a private flood policy with better coverage and a better price and later re-assumes an NFIP policy, so long as the consumer had continuous coverage, that NFIP policy should be at the same rate and terms as if the consumer had continuously maintained an NFIP policy. The GAO agreed that Congress should remove this impediment to consumer choice and private market growth:

"...certain program rules continue to impede private-market growth. Specifically, NFIP policyholders are discouraged from seeking private coverage because statute requires them to maintain continuous coverage with NFIP to have access to discounted premiums, and they do not receive refunds for early cancellations if they switch to a private policy. By authorizing FEMA to allow private coverage to satisfy NFIP's continuous coverage requirements and to offer risk-based partial refunds for midterm cancellations replaced by private policies, Congress could promote private-market growth and help to expand consumer options."³⁰

The RAA supports H.R. 900, a bipartisan bill to amend the National Flood Insurance Act of 1968 (NFIA) to "consider any period during which a property was continuously covered by private flood insurance to be a period of continuous coverage, including for the purposes of NFIP subsidies."³¹ The House passed similar legislation in 2016 with a roll call vote and no opposition.

²⁹ <https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-wstate-heidrick-20190313.pdf>

³⁰ <https://www.gao.gov/products/gao-23-105977>

³¹ <https://www.congress.gov/bills/118th-congress/house-bill/900?q=%7B%22search%22%3A%22h.r.-900%22%7D&sr=1>

Increasing Flood Insurance Options for Consumers. Congress should modernize the part of the National Flood Insurance Act (NFIA) that has not been used or updated in over 40 years to give FEMA additional tools to encourage additional private market participation, including capital, in offering flood insurance, which would benefit consumers and taxpayers.

When enacted in 1968, over 50 years ago, the NFIA incorporated two approaches to provide consumers with flood insurance, Part A and Part B. The NFIP operates under Part B with the Federal government assuming the full underwriting risk subject to the risk transfer program mentioned above. Congress should modernize Part A of the NFIA and clarify that FEMA can use its authorities simultaneously with the Part B program. Re-purposing and modernizing the statutory language in Part A would give FEMA additional tools to partner with private insurers, facilitate the participation of private insurers in NFIP on a risk-sharing basis, further improve NFIP's viability, increase the NFIP's resources to pay claims, and increase flood insurance opportunities for consumers. Part A reforms also can lead to a stronger public-private partnership, give private insurers experience in underwriting flood risk, and help close the flood insurance coverage gap.

The Part A statutory language currently authorizes the FEMA Administrator to facilitate and assist the creation of a pool of insurers on a risk sharing basis with the federal government to provide flood insurance through their network of agents and policyholder relationships. Under the statute, the Administrator defines the qualifications of insurers for the pool and risk capital to be provided. The Administrator is authorized to enter a contractual relationship with the pool defining the insured risk to be retained and the government's risk through its reinsurance of the pool. Pursuant to the statute, the financial arrangement recognizes that the NFIP provides subsidies to certain policyholders.

The RAA specifically recommends that NFIP reauthorization and reform legislation include the amendment offered to the "National Flood Insurance Program Reauthorization Act of 2019" and then withdrawn by Representative Blaine Luetkemeyer (R-MO) during a 2019 House Financial Services Committee mark up.³² The amendment language would: (1) require FEMA to solicit ideas for risk-sharing demonstration programs; (2) provide FEMA with authority, but not require it, to conduct risk-sharing demonstration programs; and (3) make technical amendments to the NFIA Part A authority, which FEMA can use for risk-sharing demonstration programs.

Close the Flood Insurance Protection Gap

Homeowners and renters, property owners, mortgage investors, taxpayers, and communities face risks due to natural disasters and the lack of insurance coverage or underinsurance of such coverage. There is a serious and significant natural disaster insurance protection gap in the U.S. In 2023, U.S. Department of the Treasury Secretary Janet Yellen stated that, "According to one source, in 2022, insurance covered only 60 percent of \$165 billion in total economic losses from

³² <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=407747>;
<https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=403829>

climate-related disasters.”³³ Treasury’s Federal Insurance Office’s (FIO) Federal Advisory Committee on Insurance (FACI) has a subcommittee dedicated to addressing the insurance protection gap. Several RAA members serve on both the FACI and the “Subcommittee on Addressing the Protection Gap through Public-Private Partnerships and Other Mechanisms.” During FACI’s December 2019 meeting, the Subcommittee cited statistics to provide examples of the insurance protection gap in the U.S. and issued recommendations.³⁴ The National Association of Insurance Commissioners (NAIC) has published alarming statistics about the disaster insurance protection gap. For example, one NAIC statistic cited in the Subcommittee’s presentation is that “Only 1% of properties outside of flood zones have flood insurance, yet half of U.S. floods occur in these areas.” Milliman reported that only 4% of homeowners in the United States have a flood insurance policy, and around 80% of homeowners most impacted by Hurricane Harvey did not have flood insurance.³⁵ Verisk Analytics reported that “California experiences 90% of America’s earthquakes, yet only 13% of its residents have earthquake insurance.” Verisk Analytics also predicted that “By 2044, there is a 93% possibility that an earthquake... the size of the 6.7 magnitude, Northridge earthquake (1994) “or greater will strike California...,” and “...the total replacement value of all affected properties [insured and uninsured] is estimated to be about \$5 trillion.”³⁶ Given the likelihood of future, significant, and costly natural disasters throughout the U.S. and uninsured residential costs, it is important to have a coordinated effort focusing on closing the insurance protection gap.

Congress, the Administration, the NAIC, state and local officials, and the private sector, including reinsurers, should develop a comprehensive strategy to identify and address the natural disaster insurance protection gap in the U.S. and the risks it poses to homeowners and renters, property owners, individuals, businesses, and federal programs and taxpayers. It also is important to close the insurance protection gap. Congress and Federal regulators should help initiate efforts to close the insurance protection gap via traditional insurance and risk transfer. Congress and Federal regulators can further facilitate a private market for flood insurance, potentially providing consumers with more flood insurance options.

Primary Insurance

Traditional insurance solutions – such as primary property insurance protection, including flood insurance – are critical for people, property, jobs, businesses, and communities to be resilient in the aftermath of natural disasters. That is especially true since Federal disaster assistance is provided only when there is a Federally declared disaster and typically results in a fraction of what insurance assistance can provide. For example, according to FEMA, the average, annual flood insurance premium was \$700 (about \$58 per month) in 2019, and the average claim payout was \$53,000.³⁷ Meanwhile, in 2019, Federal disaster assistance was capped at \$34,900 with an

³³ <https://home.treasury.gov/news/press-releases/jy1375>

³⁴ https://home.treasury.gov/system/files/311/December2019FACI_ProtectionGapPresentation.pdf;

https://home.treasury.gov/system/files/311/December2019FACI_ProtectionGapProposedRecs.pdf

³⁵ <https://www.milliman.com/en/insight/unpriced-costs-of-flooding-an-emerging-risk-for-homeowners-and-lenders#:~:text=Milliman%20estimates%20that%20only%204,do%20not%20have%20flood%20risk>

³⁶ <https://www.verisk.com/insurance/visualize/are-property-owners-and-insurers-ready-for-the-next-big-earthquake/>

³⁷ <https://www.fema.gov/data-visualization/historical-flood-risk-and-costs>

prioritized funding, grants, and efforts to help CDRZ communities improve resilience.⁴³ For example, the U.S. Department of Housing and Urban Development (HUD) committed to supporting CDRZ-designated communities via its Green and Resilient Retrofits Program (GRRP) for “...eligible HUD-assisted multifamily properties...” that provide supportive housing for low-income persons, including persons with disabilities and the elderly.⁴⁴ The Shi Institute for Sustainable Communities at Furman University in Greenville, SC is part of an initial “Climate Ready America Southeast Partnership” led by the Geos Institute and supported by funding from the Walmart Foundation to help the 72 CDRZ-designated communities in Georgia, Florida, North Carolina, and South Carolina build climate and natural disaster resilience.⁴⁵

Additional Reform Priorities. The RAA encourages this Committee to consider legislation as part of NFIP reauthorization and reform that would help improve resilience in CDRZ-designated communities that have significant flood risk. Congress should increase funding for pre-disaster mitigation grants for FEMA programs, such as the Flood Mitigation Assistance (FMA) Program, Building Resilient Infrastructure and Communities (BRIC), and other agency programs.

Congress also should establish more cost-effective ways to improve U.S. resilience instead of only appropriating limited federal funding. For example, to support CDRZ-designated communities, Congress should enact tax legislation that would incentivize the private sector to invest in resilience obligations issued by Federal, state and local governments. These financing vehicles would leverage federal spending with private capital to fund pre-disaster mitigation projects that reduce risk, improve resilience, and create insurable communities.

FEMA’s FMA and BRIC program, additional HUD programs, Treasury’s Capital Magnet Fund, and other Federal programs should direct funding resources toward achieving housing and natural disaster resilience for “extremely low- and very low-income households” that face significant natural disaster risk and that expose taxpayer-backed Federal housing programs to natural disaster risks.⁴⁶

In general, the RAA also recommends that the Financial Stability Oversight Council (FSOC) and all its members prioritize natural disaster resilience efforts for federally funded and federally backed residential properties in communities that are the most in need and most at risk from significant natural disaster(s).

⁴³ <https://www.congress.gov/117/crec/2022/12/05/168/188/CREC-2022-12-05-pt1-PgH8742-2.pdf>; <https://www.fema.gov/press-release/20231024/community-disaster-resilience-zones-build-resilience-nationwide-create-new#:~:text=%22October%206%2C%202023%2C%20marked,events%20exacerbated%20by%20climate%20change.,and> <https://geosinstitute.org/initiatives/climate-ready-america/southeast-navigator-network/>

⁴⁴ <https://www.urban.org/sites/default/files/2023-12/Slides-CDRZ.pdf>; <https://www.hud.gov/GRRP>

⁴⁵ <https://www.furman.edu/news/furman-set-to-assist-at-risk-communities-in-building-climate-natural-disaster-resilience>; <https://geosinstitute.org/initiatives/climate-ready-america/southeast-navigator-network/>

⁴⁶ <https://www.hudexchange.info/programs/hff/>; <https://www.cdffund.gov/programs-training/programs/cmf>

The RAA also urges Congress to enact additional common-sense reforms to improve resilience in communities facing natural hazard risk, including:

- The bipartisan “Disaster Mitigation and Tax Parity Act” (S.1953/H.R.4070) to exempt state and local mitigation grants from federal taxation;⁴⁷
- The bipartisan “Strengthening Homes and Eliminating Liabilities Through Encouraging Readiness (SHELTER) Act” (S.2106/H.R.4305) to provide a disaster mitigation tax credit of 25% of qualifying mitigation expenses of up to \$2,500 for individuals and \$5,000 for businesses.⁴⁸

The RAA also is a member of the SmarterSafer and BuildStrong coalitions and supports their priorities related to NFIP reauthorization and reform.⁴⁹ For example, to further the achievements of the bipartisan “Disaster Recovery Reform Act of 2018,” which significantly increased America’s investment in pre-disaster mitigation to help communities protect against disaster risk, the coalitions and the RAA support the “Resilient Assistance for Mitigation for Environmentally Resilient Infrastructure and Construction by Americans (AMERICA) Act” (H.R. 5968, 117th Congress). The bill, which the House passed with overwhelming bipartisan support in 2022, would increase disaster mitigation funding for FEMA’s BRIC program and provide incentives for state and local communities to strengthen and enforce building codes.⁵⁰

Conclusion

The above-mentioned reforms can further facilitate the development of a private flood insurance market and improve the viability of the NFIP. The RAA strongly supports RR 2.0, which would more precisely reflect the real risk of flooding of properties with more advanced actuarial tools and catastrophe models. The reinsurance market is interested and has the capacity to underwrite flood insurance risk, including extreme flood risk, in the public NFIP program, private market, and any future public-private flood insurance partnerships. Actions taken in recent years by some states have demonstrated the interest and benefits of private insurers assuming a broad cross-section of risk, and the same would result from the above flood insurance reforms. Reinsurers stand ready to partner with both the private- and public-sectors as the flood market transitions.

The RAA looks forward to continuing to work with Chairman Brown, Ranking Member Scott, and other members of the Committee on legislation that provides a long-term reauthorization of the NFIP and reforms that strengthen NFIP’s financial framework and resiliency, facilitate the

⁴⁷ <https://www.congress.gov/bills/118/congress/118th-congress/senate-bill/1953?r=8&f=1&q=%78%22search%22%3A%22Disaster-Mitigation-and-Tax-Parity-Act%22%7D>; <https://www.congress.gov/bills/118/congress/house-bill/4070>

⁴⁸ <https://www.congress.gov/bills/118/congress/118th-congress/senate-bill/2106/related-bills?r=2&f=4&q=%78%22search%22%3A%22SHELTER%22%7D>; <https://www.congress.gov/bills/118/congress/house-bill/4305>

⁴⁹ <https://www.smartersafer.org/flooding/>; <https://www.smartersafer.org/2023/10/03/smartersafer-coalition-statement-on-passage-of-26th-short-term-nfip-reauthorization/>; <https://www.smartersafer.org/2023/09/28/smartersafer-urges-congress-to-prioritize-nfip-reauthorization/>; <https://buildstrongamerica.com/news/2023-priorities/>

⁵⁰ <https://buildstrongamerica.com/resources/>; <https://www.smartersafer.org/2023/04/28/bipartisan-disaster-mitigation-policy-can-save-lives/>

development of a private flood insurance market, close the flood insurance protection gap, and create resilient and insurable communities. Thank you for your consideration of our views and recommendations. The RAA and its members welcome the opportunity to meet with you about our views and recommendations, provide a briefing on FEMA's NFIP data, work with you to develop a long-term NFIP reauthorization and reform bill, or answer any questions you may have.