

**TESTIMONY OF DONALD L. GRIFFIN  
BEFORE  
SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE  
CONCERNING  
THE NATIONAL FLOOD INSURANCE PROGRAM  
ON BEHALF OF  
THE PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA**

**October 2, 2007**

My name is Don Griffin and I am Vice President of Personal Lines for the Property Casualty Insurers Association of America. PCI is a trade association representing over 1,000 property/casualty insurers. Of the 88 companies in the NFIP's "Write-Your-Own" program, 57 are PCI members. Our members write almost 47 percent of the WYO flood business.

Thank you, acting chairman Carper, ranking member Shelby and members of the Senate Banking Committee for the opportunity to appear before you today on behalf of PCI and to present our views on the National Flood Insurance Program (NFIP) and how this federal program could be improved.

**Introduction**

The committee requested comments on five key areas:

- The current status of the NFIP;
- Any proposals to strengthen and reform the NFIP;
- The effectiveness of the NFIP in providing coverage to those most at risk;
- The status and adequacy of the flood maps and the map modernization program; and
- How to ensure that people in flood-prone areas purchase flood insurance.

PCI believes that the National Flood Insurance Program is a necessary public policy response to an uninsurable peril and should be continued. It has undergone significant changes over the years, and as it approaches its 40<sup>th</sup> year, it continues to provide vital protection to policyholders nationwide. However, the program as currently structured does not provide the level of protection needed by consumers and has not achieved the breadth of participation (i.e., the take-up rate) needed. Greater participation in the NFIP and program reforms are essential so that our nation can prepare for and respond to future catastrophic events.

**Current Status**

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

Significant reforms were made to the NFIP following the passage of the Flood Insurance Reform Act of 2004. This important legislation (P.L. 108-262) contained several key provisions that help policyholders and claimants better understand their purchase and what is covered by a flood policy, including how to file a claim and, if necessary, an appeal of that claim. This legislation also included a pilot program to “buy-out” severe repetitive loss properties and facilitation of the flood map modernization program.

Unfortunately, these informative materials were not ready for distribution when the Hurricanes Katrina, Rita and Wilma hit in 2005. The NFIP policyholder disclosures, claims handbook and the appeals process are now complete, and we believe that these reforms will be beneficial when the next major flooding event occurs. However, the severe repetitive loss program was not funded until 2007 and the map modernization project is not yet complete. Also, according to a recently released GAO report, as of May 2007 the NFIP has had to borrow more than \$17.5 billion to pay its losses from the events of 2005. This is more than in its prior 36-year history for paid losses which, again according to the GAO, totaled \$14.6 billion.

### **Proposals to Strengthen and Reform the NFIP**

We believe that there are several key issues that must be addressed to make the NFIP: 1) more responsive to purchasers, 2) fiscally responsible, and 3) better able to ensure that properties built or rebuilt are protected against future losses. Of the numerous elements that should be part of any reforms to the program and we believe the most important are as follows:

- First and foremost, we encourage Congress to forgive the outstanding debt incurred by the NFIP as a result of Hurricane Katrina and ensure that the NFIP has the ability to access funds when needed without constantly coming back to Congress (as was necessary in 2005 and 2006) to increase its borrowing authority, needlessly slowing the claims-paying process to those who need it most, those with flood claims.

We believe that this is an extremely important step toward moving forward. The GAO reports that the “interest-only” payments on this debt will cost more than \$900 million annually. The NFIP will collect about \$2.5 billion in premiums in 2007. The costs of the program, paying for events during the year and the fact that the NFIP will need new loans about every six months to cover the annual interest alone means that, given its current premium base, it is unlikely that the NFIP will ever be able to retire this debt.

- The program should be reauthorized on a long-term basis (e.g., for 10 years) as the current program will expire on September 30, 2008. This will ensure that there will be no gaps, such as occurred at the beginning of 2004, in making the protection available to purchasers and policyholders and provide for the smooth operation of the program.
- In order to reduce litigation which significantly raises operational costs for all stakeholders including the federal government, Congress should affirm federal court

jurisdiction over all disputes relating to procurement of a policy and adjustment of claims under the NFIP.

- The program should include revised and enhanced mitigation efforts such as encouraging adoption of a strong, statewide minimum building code that considers all the risks of loss (including, for example, life safety and wind-borne debris for hurricanes) due to natural disasters and that cannot be weakened by local jurisdictions, as a condition for federal disaster assistance being provided to a community. Land-use programs should also be evaluated as we cannot continue to over-develop and rebuild in areas subject to such high potential for loss.
- The maximum coverage limits should be increased above current \$250,000/100,000 limits for residential property to accommodate increasing property values. The last time these limits were changed was in 1994. The limits offered should facilitate replacing the average home based on today's construction costs.
- FEMA should be given more flexibility in determining rate changes as well as charge pre-FIRM properties, either through a phase-in period or when the property changes ownership, risk-based, actuarially-sound rates.

### **Effectiveness of the National Flood Insurance Program**

The program does not provide the same level of coverage that is found in the private marketplace (e.g., no additional living expense coverage) and the number of purchasers of the product by those who need it are too low.

Every time Congress “reforms” the flood program, they have attempted to strengthen the requirements for the purchase of flood insurance. However, these requirements have had limited success. For example, in New Orleans, only 39 percent of property-owners carried flood insurance when Katrina hit, so many of those that needed the program most did not have this important protection. A recent report by the RAND Corporation states that only about half of those that are required to purchase a flood policy actually do so.

However, this does not mean that the program is ineffective or that there hasn't been growth. One of these growth periods was following the 1983 establishment of the “Write-Your-Own” program. This program continues to make it easier for consumers to purchase and lenders to enforce the purchase of flood insurance. However, with the growth in the “secondary mortgage market”, where mortgages are packaged and sold, we believe that sometimes the required purchase falls through the cracks.

Also, consumers must be better educated and realize that just because you are not required to buy flood insurance doesn't mean that you will not experience a flood loss. Unfortunately, all too often the purchase decision goes as follows: Am I required to purchase flood insurance by my lender? If the answer is no, then the purchase is not made, despite the recommendation of the agent or insurer.

Another period of growth always follows a major disaster. For example in the last two years, the NFIP has experienced double-digit growth in the number of property owners

purchasing flood insurance. However, as is also typical, as time passes without another event, so does the perceived risk and the number of policyholders diminishes.

Because the product is complex, difficult to sell and difficult to understand, it may be less effective based on concerns about litigation on the part of the agent or insurer and lack of consumer interest.

Finally, as mentioned previously, the product does not provide the same level of protection as is found in the private market under a homeowners policy. This leads to further confusion, uninsured damages and claims disputes following a major flooding event.

We believe there are several reforms that would improve the effectiveness of providing the product to those most at risk:

- The Standard Flood Insurance Policy should be revised and rewritten to make it more consistent with standard homeowners and other property/casualty insurance products.
- The program should include at least some coverage for additional living expenses, business interruption coverage and the option to insure all buildings to their replacement cost value.
- The program should provide more educational materials and strengthen requirements for the purchase of flood protection.

### **The Flood Maps and the Map Modernization Program**

The flood maps are outdated, and oftentimes it is difficult for an agent, insurer, or third party to locate the property's exact location on the Flood Insurance Rate Map (FIRM). We believe that:

- Reform legislation should provide additional federal funds to expedite completion of the Map Modernization initiative.
- Reform legislation should include a flood insurance purchase requirement for properties located in areas behind a levee or other man-made protective barrier (i.e., in the "natural floodplain") and those areas should be easily identified on the flood maps.

### **How to Ensure the Purchase of Flood Insurance**

We all have a duty to provide consumers with the best information possible so that they can make an informed decision. However, purchase decisions are often based on a consumer's belief that this type of event "just won't happen to me." Because the human and financial costs that follow such decisions are so great, we recommend that:

- The program expand the mandatory purchase requirement to include additional properties at risk, including properties that have sustained a flood loss, properties that

are located behind a levee or other protective barrier (as stated above), or that are located within a specified distance from the coast or major body of water. Mandatory purchase requirements should not be limited only to those properties located in Special Flood Hazard Areas (SFHA).

- The program should encourage lenders to establish escrow for flood policies outside the Special Flood Hazard Areas, thereby making it easier for property owners to purchase the product.
- FEMA should change its disaster assistance procedures to make sure that those with flood insurance are paid ahead of those who have not purchased flood insurance. As an example, those without flood insurance were often provided funds from the federal government ahead of those who purchased the coverage, sending the wrong message to citizens and perhaps encouraging some to abandon the purchase of flood insurance in the future.

### **Conclusion**

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

In summary, it has been mentioned in the past, but it should be reinforced, that the National Flood Insurance Program provides important catastrophic protection for our nation's property owners. While it needs significant reform, we are encouraged that you are looking for ways to improve it and we look forward to working with you and members of Congress on this important issue.

Donald L. Griffin, CPCU, ARC, ARe, ARM, AU  
Professional Experience/Information

Don Griffin is vice president, personal lines for the Property Casualty Insurers Association of America (PCI). PCI is a national property and casualty trade association with more than 1,000 member companies that write almost 40 percent of the nation's automobile, homeowners, business and workers compensation insurance.

Don's current responsibilities include policy development and issue identification as member liaison for the personal and commercial property, catastrophe, automobile insurance and service contract reimbursement areas. He is PCI's point person in Des Plaines on catastrophe and flood insurance issues. He has over 25 years of experience in the property and casualty insurance business including management responsibilities at both agency and company levels.

In 2004, he helped form the "WYO Flood Insurance Coalition". This coalition includes more than 80 of the WYO companies writing about 95 percent of the flood insurance premiums through the WYO program. The coalition includes representation from the national property and casualty trade associations, their members, independent national companies and the Institute for Business and Home Safety. He is the coordinating leader of this coalition that works on federal and state legislative issues related to the flood program.

Prior to joining PCI, he worked for the attorney-in-fact of a reciprocal exchange, the California Casualty Indemnity Exchange group based in San Mateo, California. As Assistant Vice President in the product development area, he drafted policy language, coordinated company-wide compliance projects and filed both forms and rates with various state insurance departments. He served as risk manager and purchased the corporate property and casualty insurance as well as the reinsurance for the group.

His past insurance experience also includes profit and loss responsibility for personal lines at Hall's Insurance Agency, Inc., a mid-sized independent insurance agency in southeast Texas with more than 6,000 personal lines clients. This agency was also the largest agency writer of flood insurance in the state.

He is a member of the Society of Chartered Property Casualty Underwriters, and holds the Associate in Regulation and Compliance, Associate in Reinsurance, Associate in Risk Management, and Associate in Underwriting designations.