

Senator Roger Wicker  
Testimony on the Reauthorization of the National Flood Insurance Program  
Senate Banking Committee  
September 22, 2010  
2:00 PM

Thank you, Chairman Dodd and Ranking Member Shelby. I appreciate your holding this hearing, and I am grateful for the Committee giving me the opportunity to appear today as a witness on the reauthorization of the National Flood Insurance Program.

In this year alone, the National Flood Insurance Program (NFIP) has lapsed three times, creating uncertainty and unnecessary problems for property owners who rely on the NFIP for flood insurance. These lapses drive up the costs of administering the program and delay purchases for properties that require flood insurance prior to closing. I am glad that the Senate voted last night by unanimous consent to extend the NFIP through September of next year. However, in talking with Mississippians, it is clear that the NFIP needs to be reauthorized on a long-term basis and in a way that addresses some of the unique challenges that residents along coastal areas face.

Although it has been five years since Hurricane Katrina made landfall, we are still rebuilding on the Mississippi Gulf Coast. The storm may have passed but

remnants of Katrina remain. One of the greatest examples of Katrina's lingering effects – and one of the biggest impediments to our rebuilding efforts – is the lack of affordable insurance. Not only is access to affordable insurance a challenge in Mississippi, but it is also a problem from Texas, down to the tip of Florida, and on up through the New England coastal states. The affordability and availability of wind insurance is crucial in any state where there is coastal exposure.

Last month, there were many speeches commemorating the anniversary of Hurricane Katrina and the incredible progress that many states have made since the destructive storm hit. The numerous ribbon cutting ceremonies of new businesses, homes, and developments demonstrated the remarkable work of the Gulf Coast communities in our efforts to rebuild. As we celebrated this progress and the resilience of Mississippians, we also recognized that there is more work that needs to be done to better prepare us for another Katrina. One of the best things that Congress could do for the Gulf Coast region – not just in my state of Mississippi, but in all of the Gulf Coast states – is to resolve the nuances associated with insuring against hurricanes.

For all practical purposes, private insurance coverage for wind damage is no longer available in the Gulf Coast area since the aftermath of Hurricane Katrina.

Before the storm, the wind peril was typically insured by basic hazard insurance policies with the exception of those living on the beach itself. Today, in most of coastal Mississippi, individuals have to purchase wind coverage through the state-run windpool. State windpools were originally designed to be the insurer of last resort. However, in recent years, state windpools have unfortunately become the rule, not the exception.

In 2008, I attempted to address this problem by offering an amendment that would have added wind coverage to the National Flood Insurance Program on a voluntary basis. This multi-peril insurance concept passed the House of Representatives last Congress but failed in the Senate. I understand the arguments on both sides of the multi-peril debate, but I believe using such an approach would address the basic flaw in the current insurance system. And that flaw is this: it takes two kinds of insurance to cover a hurricane – flood insurance through the NFIP and very expensive wind insurance through either the windpool or private coverage.

After Hurricane Katrina, many property owners were forced to go to court to decide who was responsible for the damage, even if they had all the necessary insurance policies. Other property owners had not purchased flood insurance

because they relied on the federal flood zone maps. When their property was damaged by the storm, the wind insurance adjusters denied claims, ruling that the damage had been caused by water alone.

I recently introduced the Coordination of Wind and Flood Perils Act. This legislation, S. 3672, addresses some of the lessons learned following the wind versus water dispute that occurred after Hurricane Katrina. Individuals who had all the appropriate insurance – wind and water policies – were, in many instances, caught in the middle and forced to go to court to watch the insurers fight amongst themselves before they could be indemnified for their loss. The legislation I introduced would remove the property owner from this debate and put the burden where it belongs – on the insurers. The insurance industry already does this for many other types of losses. If there is a dispute, the damages would be split evenly between the insurers so the property owner would be compensated in a timely manner. Then, the insurers would appear before an arbitration panel, and the panel's decision would be binding.

There are a few other lessons learned after Katrina and observations I would make about the National Flood Insurance Program:

- 1) After Hurricane Katrina, we learned that flood hazard risk in many coastal areas of Mississippi, and other parts of the country, was not accurately reflected by FEMA's flood insurance maps. As a result, property owners outside of the flood zones had no NFIP coverage. With only wind insurance coverage, these individuals were not properly insured for a hurricane. Since property owners rely heavily upon this information, I hope the Congress can continue to work with FEMA to ensure these maps are accurately updated for all residents.
  
- 2) FEMA and many banks do a poor job of enforcing the flood insurance requirement. Under the Flood Disaster Protection Act of 1973, the purchase of flood insurance is mandatory in flood zones if the consumer is using a federally regulated lender. However, there is a breakdown with the enforcement of this requirement. According to the Congressional Research Service, at least eight federal agencies or Government Sponsored Enterprises are responsible for enforcing this requirement. Recently, the Wharton School of the University of Pennsylvania surveyed insurance coverage among property owners impacted by a flood in Vermont. The study revealed that *45 percent* of the victims of the flood who were required to

have flood insurance did not purchase it. With regard to private insurance, lenders do a much better job of enforcing insurance requirements. If a homeowner stops paying his premium, the bank will purchase homeowners' insurance for him. However, as clearly documented by the Wharton study, regulators and lenders routinely fail to enforce the mandate enacted in the Flood Disaster Protection Act. I hope the Committee will further investigate this issue and report its findings.

- 3) Rates should be actuarially sound and meaningful premium reductions should be offered for mitigation improvements. I encourage this Committee to study the work done by the Wharton School in this area. These scholars propose linking the NFIP policy to the mortgage, which would create a long-term insurance policy tied to the length of the mortgage and to the property itself. Having a long-term policy tied to the property is one way to limit NFIP cancellations. This proposal also would give meaningful premium reductions for mitigation improvements. When property owners know they can save money year after year by strengthening their homes above building code requirements, they will have a powerful incentive to do so.

Another proposal I would encourage this Committee to consider is the Travelers Coastal Wind Zone Plan. This proposal would create an independent federal commission to establish standards for the wind peril in coastal areas. The Travelers' plan allows insurance companies to purchase reinsurance from the federal government to cover losses resulting from extreme events. In addition, like the Wharton plan, the Travelers' plan calls for meaningful premium reductions for mitigation improvements.

Al Goodman, the Mississippi State Floodplain Manager, wrote to me this week and reminded me that major flood disasters have often led to changes in the law. For example, Hurricane Agnes in 1972 resulted in the Flood Disaster Protection Act of 1973; flooding on the Mississippi River in 1993 prompted the National Flood Insurance Reform Act of 1994; and the Flood Insurance Reform Act of 2004 was influenced by Hurricanes Andrew and Isabel.

Earlier this year, the *Sun Herald*, a Mississippi Gulf Coast newspaper, wrote in an editorial: "...better protection for all Americans living within harm's way of a hurricane would be Katrina's greatest legacy." I agree. Five years after Katrina,

Congress still has an opportunity to make sure affordable wind and water coverage can be provided to the millions of Americans in coastal areas of our country.

Thank you.