



**STATEMENT OF JON JENSEN
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON ECONOMIC POLICY

UNITED STATES SENATE

May 9, 2012**

Good afternoon Chairman Tester, Ranking Member Vitter, and Members of the Subcommittee. My name is Jon Jensen, and I am pleased to be here today on behalf of the Independent Insurance Agents and Brokers of America (IIABA or Big “I”) to present our association’s perspective on efforts to reform the National Flood Insurance Program (NFIP). I am president of Correll Insurance Group, an insurance agency based in South Carolina with 12 offices and 132 associates. Since 2011 I have served as Chairman of the Government Affairs Committee for the Big “I”.

The Big “I” is the nation’s oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than a quarter of a million agents, brokers, and employees. IIABA represents independent insurance agents and brokers who present consumers with a choice of policy options from a variety of

different insurance companies. These small, medium, and large businesses offer all lines of insurance – property/casualty, life, health, employee benefit plans, and retirement products. In fact, our members sell 80% of the commercial property/casualty market. It is from this vantage point that we understand the capabilities and challenges of the insurance market when it comes to insuring against flood risks.

Background

The Big “I” believes that the NFIP provides a vital service to people and places that have been hit by a natural disaster. The private insurance industry has been, and continues to be, largely unable to underwrite flood insurance because of the catastrophic nature of these losses. Therefore, the NFIP is virtually the only way for people to protect against the loss of their home or business due to flood damage. Prior to the introduction of the program in 1968, the Federal Government spent increasing sums of money on disaster assistance to flood victims. Since then, the NFIP has saved disaster assistance money and provided a more reliable system of payments for people whose properties have suffered flood damage. It is also important to note that for almost two decades, up until the 2005 hurricane season, no taxpayer money had been used to support the NFIP; rather, the NFIP was able to support itself using the funds from the premiums it collected every year.

Under the NFIP, independent agents play a vital role in the delivery of the product through the Write Your Own (WYO) system. Independent agents serve as the sales force of the NFIP and the conduits between the NFIP, the WYO companies, and consumers. This relationship provides independent agents with a unique perspective on the issues surrounding flood insurance, yet also makes the role of the insurance agent in the delivery process of flood insurance considerably more complex than that of many traditional property/casualty lines. Agents must possess a higher degree of training and expertise than their non-NFIP participating counterparts, which requires updating their continuing education credits through flood conferences and seminars. This is done regularly and involves traveling to different regions of the country, costing personal time and money. Every agent assumes these responsibilities voluntarily and does so as part of being a professional representative of the NFIP.

Despite our strong support of the NFIP, we also recognize that the program is far from perfect, which was made all the more clear by the devastating 2005 hurricane season. The current \$17.2 billion dollar debt, incurred in 2005, reveals some of the deficiencies of the program and has strained government resources. While IIABA is confident that the NFIP will recover, it is important that Congress shore up the NFIP’s financial foundation and use this opportunity to enact needed reforms to ensure the long-term sustainability of the program.

For this reason, the Big “I” strongly supports S. 1940, the “Flood Insurance Reform and Modernization Act of 2011,” by Chairman Tim Johnson, which the Senate Banking Committee reported out unanimously last year. The Big “I” thanks the Committee for its action on this legislation and urges the full Senate to consider the legislation on the floor at the earliest opportunity.

The Big “I” also supports H.R. 1309, the “Flood Insurance Reform Act of 2011,” similar legislation which passed the House of Representatives with over 400 votes last year. We believe that while there are some differences between the Senate and House bills, these minor differences could be overcome by policymakers with a modest amount of effort.

Long Term Extension

As you know, the NFIP is a Congressionally authorized program that requires periodic extensions. Traditionally these extensions have been for multiple years (often for five year periods) but in recent years Congress has not passed a long-term extension of the program and instead has opted to pass numerous short-term extensions. In 2010 alone the NFIP expired three separate occasions only to be retroactively extended by Congress each time. Each expiration of the program led to concrete damage to the real estate market and the country’s economy. During one month-long expiration in June 2010, for example, the National Association of Realtors estimated that as many as 50,000 new home loans were either significantly delayed or canceled. While the IIABA appreciates each of the retroactive extensions, we strongly believe that in order to provide certainty to the marketplace as well as avoid damage to our fragile economy, Congress should pass a long term extension.

Even the short term extensions passed over the last several years, while thankfully staving off expiration of the program, caused their own economic damages. Every time the program is set to expire, WYO companies send notices to their consumers about the pending expiration, agents must then communicate to their clients about what the ramifications of an expiration would be (as well as oftentimes providing real time legislative updates on extension legislation), banks must prepare for how and if to enforce the mandatory purchase requirement of an expired program, and realtors and mortgage bankers must discuss with their customers how and if to proceed with home loan closings. While not nearly as damaging as an actual expiration, the uncertainty and the increased work-load caused by short term extensions justifies a long term extension of this critical program.

It is for these reasons that IIABA strongly supports the five year extension found in the Senate reform bill.

Moving Towards More Actuarial Prices

The Big “I” has for many years asked Congress to explore phasing out subsidies in the NFIP altogether. We are pleased that the Senate legislation contains proposals to phase out subsidies for many properties. Almost 25 percent of property owners participating in the NFIP pay subsidized premium rates. These subsidies allow policyholders with structures that were built before floodplain management regulations were established in their communities to pay premiums that represent about 35 to 40 percent of the actual risk premium. The subsidized rates were deliberately created by Congress in 1968 in order to help property owners during the transition to full-risk rates. However, after

forty-three years the Big “I” believes it is time to start phasing out this significant subsidization.

In addition to the fact that subsidized rates torpedo any hope that the NFIP could ever be actuarially sound, FEMA estimates that subsidized properties experience as much as five times more flood damage than structures that are charged full-risk rates. Customers that are paying a full actuarial rate have a vested interest to take measures to reduce the economic damages associated with floods. In contrast, those with subsidized rates have less incentive to mitigate. The Big “I” welcomes and supports the Senate legislation’s phasing out of subsidies for commercial buildings, second and vacation homes, homes experiencing significant damage or improvements, and repetitive loss properties.

Finally, the Big “I” welcomes S. 1940’s proposal to increase the “elasticity band” with which FEMA can increase premiums in any given year. Currently the annual elasticity band for premium increases is a maximum of 10 percent on any property. S. 1940 would propose to increase this band to 15 percent which would allow the program to move even more properties towards actuarially priced rates.

Privatization of the NFIP

Some observers have argued that the program should be eliminated or completely privatized. These arguments center on the assumption that the private market could step in and offer flood insurance coverage. However, the IIABA has met with many insurance carriers who categorically state that the private market is simply unable to underwrite this inherently difficult catastrophic risk, especially in the most high risk zones where it is needed. IIABA would always prefer to utilize the private market, and our members would almost certainly prefer to work directly with private insurance carriers rather than a government agency. However, where there is a failure in the marketplace, as there is in the case of flood insurance, we believe it is imperative that the government step in to ensure that consumers have the protection they need. This was the reason the NFIP was first created in 1968, because the private market could not offer flood insurance and a series of high profile floods had consumers turning to direct federal disaster assistance as their only recourse. We see no evidence that the private marketplace is any more prepared or capable of underwriting flood risk in 2011 than they were in 1968.

We do not, however, oppose the study on private market capacity as called for in the Senate bill. We believe that this study will likely show that the private market cannot properly underwrite flood risks, but if it can be demonstrated that a private market could emerge in some way, we would welcome that discussion.

Repetitive Loss Properties

Repetitive loss properties—currently defined as those that have had two or more flood insurance claims payments of \$1,000 or more over 10 years—continue to put a significant drain on NFIP resources. These properties account for about 1 percent of all policies but are estimated to account for up to 30 percent of all NFIP losses. The Big “I”

is encouraged that the Senate legislation would phase out subsidized rates for these repetitive loss properties, and in the future would urge the Committee to consider taking further measures to combat this difficult issue. For example, if a repetitive loss property continues to experience a certain number of losses within a specific timeframe, Congress could require that property to either take stringent mitigation measures or to be disqualified from participating in the NFIP altogether.

While Congress has previously made efforts to tackle the repetitive loss issue, according to GAO the number of repetitive loss properties has actually grown over the last decade. Dealing with repetitive loss properties is of the utmost importance not only because of the financial strain that they place on the program, but also because of the obvious lack of fairness that these properties highlight to other program participants and the general public.

May 31st Expiration

As you know, the NFIP is set to once again expire on May 31, 2012 barring Congressional action. While some stakeholders believe that short-term extensions are helping to add a sense of urgency for the passage of the long-term reform and extension bills, the Big “I” is very concerned about the messages that these continual short-term extensions are sending to NFIP consumers, the WYO companies, and the agents that drive consumers to the program.

While the most important message the Big “I” would like to share with this Subcommittee is to urge you to not allow the NFIP to expire, it is also important to reiterate the increasing frustration felt in the marketplace concerning the continual short-term extensions. The NFIP protects 5.6 million consumers across the country, and after 6 years of short-term extensions it deserves some long-term certainty.

Conclusion

The IIABA is very pleased that the Subcommittee is conducting today’s hearing on comprehensive flood insurance reform and we strongly urge the Senate to quickly consider the Flood Insurance Reform and Modernization Act so that work can start immediately on resolving differences between S. 1940 and H.R. 1309. Reforming and extending the NFIP is essential to ensure the long-term stability of the NFIP. It is our sincere hope that agreement can be reached soon on the reform and long-term extension legislation, but we also feel that the time is approaching to consider abandoning the chaotic practice of short-term extensions and to finally provide some stability for the program and the marketplace - regardless of the status of the reform bills.

I thank the Committee for giving me the opportunity to express the views of the IIABA on this important program. I hope very much that this hearing will contribute to additional action taken by Congress to pass long-term flood insurance reforms and to ensure the stability of the NFIP.

