

STATEMENT
OF
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U.S. DEPARTMENT OF HOMELAND SECURITY
BEFORE
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UNITED STATES SENATE
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“Reauthorization of the National Flood Insurance Program, Part II”

Submitted
By
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Introduction

Good morning Chairman Brown, Ranking Member Toomey, and Members of the Committee. My name is David Maurstad and I am the Deputy Associate Administrator for Insurance and Mitigation – responsible for directing the Federal Emergency Management Agency’s (FEMA) risk management, mitigation, and flood insurance programs. Thank you for the opportunity to testify today about the National Flood Insurance Program (NFIP, or the Program). Thanks to the NFIP, communities and individuals have bolstered their resilience to flood events. The nation’s flood loss experience over the past 17 years, however, tells us that we can and need to do better. It is time to rethink the NFIP’s fundamental approach to reducing losses from floods and increasing investment in mitigation. The NFIP is committed to meeting the challenges to our nation posed by climate change and changing conditions, and we have identified a number of initiatives to improve our ability to address heightened flooding risks, affordability of our product, and equity. Our ability to improve the NFIP begins with the certainty associated with reauthorization, and I urge Congress to approve a multi-year reauthorization of the NFIP with meaningful reforms by September 30, 2021.

NFIP Structure

The NFIP is administered by FEMA’s Federal Insurance and Mitigation Administration (FIMA). Flooding is the most common and costly type of disaster in the United States because where it can rain, it can flood. The NFIP is designed to decrease the impact of future floods, reduce the costs and adverse consequences of flooding, reduce the need for and cost of disaster assistance after floods, and preserve and restore the natural and beneficial values of floodplains. FEMA addresses the challenges of flooding by identifying areas where the flood hazard is greatest; by implementing minimum standards for communities to minimize risk; by making flood insurance available in participating communities; and by providing access to flood mitigation grants.

NFIP Milestones and Challenges

The NFIP is a voluntary program that enables property owners in participating communities to purchase insurance protection against losses resulting from physical damage to or loss of building property and personal property from flooding. To participate in the NFIP, a community must adopt and enforce sound land use ordinances in the floodplain that meet or exceed minimum NFIP floodplain management standards. FEMA has worked closely with local communities to identify and communicate flood hazards through scientific and engineering methods to inform action to reduce the risk of life and property from flooding.

The NFIP holds an impressive 52-year history that includes servicing more than 5 million policyholders currently and \$1.3 trillion in flood insurance coverage in more than 22,500 participating communities in all 50 states, the District of Columbia, and six territories. The NFIP has grown to be the largest single-peril insurance operation **in the world**. Since 1978, the program has paid over \$72 billion in claims, helping approximately 2 million policyholders recover from disaster. The NFIP enables insured survivors to recover quicker and more fully from a flood event than their uninsured neighbors. The NFIP’s minimum floodplain management standards alone save almost \$2.4 billion in avoided losses annually. Furthermore, the Flood Mitigation Assistance, Repetitive Flood Claims, and Severe Repetitive Loss grant programs have distributed nearly \$1.5 billion in flood grant assistance to communities to mitigate their most vulnerable insured structures.

The nation’s flood loss experience over the past 17 years, however, highlights the failures of our current flood policy. As a nation we need to break the cycle of limited investment in resilience, “unprecedented” flooding, and repeated disaster suffering by the same impacted communities and populations. Inaction

will result in continued risky development in floodplains, low take-up of flood insurance coverage, mounting NFIP debt to the U.S. Treasury, and ballooning supplemental appropriations.

The frequency and impact of disasters is rising nation-wide and disaster suffering continues. Flooding and coastal storms account for roughly 70 percent of all Presidential Disaster Declarations over the past decade.¹ In 2020, the nation saw 47 major disaster declarations across all natural hazards and 22 separate weather and disaster events with losses that exceeded \$1 billion each – the previous high was 16 (2011 and 2017). The historic 2020 hurricane season started earlier than ever, saw the most storms in the shortest amount of time in history, and finished with a record-breaking 30 named storms. Every mile from Texas to Maine was under a storm surge, Tropical Storm or Hurricane Watch or Warning. Hurricane Laura became one of 10 hurricanes on record to make landfall in the U.S. with winds of 150 mph or higher and only the third of this strength to strike Louisiana since records began in 1851².

The NFIP needs to transform to adapt to the changing climate and to meaningfully increase flood mitigation investment. FEMA is making transformational improvements so that in the aftermath of a flood, whether a Presidentially Declared Disaster or a smaller localized flooding event, there is less disaster suffering.

Disasters have a disparate impact on socially vulnerable or marginalized communities – making their road to recovery longer and more difficult, exacerbating existing issues, exposing resource constraints, and revealing inequities in land use and development patterns. FEMA must also integrate concepts of equity and climate change considerations as it seeks to increase our nation’s resilience.

Recent NFIP Improvements

Over the past few years, FEMA has undertaken a number of internal operational improvements to transform the NFIP to reduce complexity and increase transparency and fairness. Let me share a few of the many steps taken in recent years under current authorities to make the program more efficient and effective:

Risk Rating 2.0

On April 1, 2021, FEMA formally released Risk Rating 2.0: Equity in Action, a new pricing methodology with equitable pricing for each property’s unique flood risk. The NFIP’s rating methodology has not been updated in more than 40 years. Risk Rating 2.0 delivers a more equitable and risk informed NFIP.

Risk Rating 2.0 builds on years of investment in flood hazard information by incorporating private sector data sets, catastrophe models, and evolving actuarial science. FEMA adopted a multi-model approach to determine flood risk using a suite of models, in much the same way as the National Oceanic and Atmospheric Administration (NOAA) uses models to determine potential hurricane tracks and magnitudes. The improved rating methodology incorporates existing FEMA mapping data and NFIP policy and claims data. Blending catastrophic models sourced from both the government and commercial entities will ensure the most accurate flood risk rating that the NFIP has ever produced. This allows FEMA to set actuarially sound rates and communicate flood risk more comprehensively than ever before,

¹ FEMA, OpenFEMA Data Sets, Disaster Declaration Summaries, <https://www.fema.gov/about/openfema/data-sets>

² <https://www.tallahassee.com/story/news/2020/08/29/hurricane-laura-shatters-records-more-storms-tap-weather-tiger-forecast/5634246002/#:~:text=Laura%20was%20the%20strongest%20hurricane%20to%20strike%20between,Island%20hurricane%20for%20strongest%20landfall%20in%20the%20state.>

enabling us to fulfill our obligation to clearly communicate flood risk and allowing policyholders to make more informed decisions about mitigation actions.

By incorporating technological and mapping advances, we can identify individual policyholder risk. We now know that within current rating classes, policyholders with lower-value homes are paying more than they should based on their actual risk profile, and policyholders with higher-value homes are paying less than they should. Risk Rating 2.0 will address this inequity. Under the new methodology, rate increases will not continue indefinitely as it does now. Once a policy reaches its full-risk rate, the increases stop.

Risk Rating 2.0 will change the landscape of flood insurance, enhance risk communication, and enable better floodplain management - ultimately resulting in greater resilience. Risk Rating 2.0 will help put the NFIP on a financially sound path; and will help disaster survivors recover more quickly after floods.

Customer Experience

NFIP Claims

FEMA has redesigned its insurance claim process to be less complicated, more comprehensive, and easier for customers to understand with the goal of providing policyholders clear information in a timely manner.

- In recent years, FEMA streamlined and expedited the process for total loss claims. FEMA offers advance claim payments of up to \$20,000, which can be made before an adjuster inspects the property.
- FEMA has bolstered our field presence following a disaster. From the onset, FEMA representatives from the NFIP are on-site with state insurance officials and in a FEMA disaster field office for more immediate support for daily flood-related activities.
- FEMA designed and implemented a new claims appeals process to improve customer service and transparency to policyholders. This included separating the claims and appeals functions into two distinct branches in order to provide for a non-adversarial review of claim denials, avoid the perception of a conflict of interest, and maintain organizational integrity.
- The NFIP developed and provided guidance to stakeholders on the use of services provided by subject-matter experts, to ensure transparent and consistent claims handling for all policyholders.
- In 2018, FEMA released a user-friendly *NFIP Claims Manual*. The *NFIP Claims Manual* improves the clarity of claims guidance given to NFIP WYO companies, flood vendors, flood adjusters, and examiners, so policyholders experience consistent and reliable service. The *NFIP Claims Manual* has seen two subsequent revisions, in 2019 and 2020, with the next planned release in October 2021.
- Starting in the COVID-19 pandemic, the NFIP encouraged adjusters to remotely adjust claims for the first time in program history, adapting to the environment and giving customers the option to have their claim adjusted without coming into contact with adjusters.

NFIP Forms Redesign

The NFIP must provide a range of insurance products that customers value and agents can easily sell. To comply with the National Flood Insurance Act of 1968, FEMA adopts the Standard Flood Insurance Policy in regulation. The NFIP is continuing its Policy Forms Redesign initiative to modernize its insurance offerings to ensure they are customer-centric and responsive to flood events. Modern consumers expect to have choices and want services tailored to meet their needs, which our current forms do not provide. Further, by requiring the customer to make choices about their coverage, we can better communicate their flood risk and inform the customer about the extent of our policy coverage. We are continuing our research and development efforts and expect to develop a suite of flood insurance products

that can serve not only our existing policyholder base but also reach those homeowners and businessowners who may currently be at risk of financial ruin after a flood.

Litigation

FEMA established an oversight team in the Office of Chief Counsel to ensure that federal law and policy are advanced through claims litigation under the NFIP. The oversight team seeks to ensure that the legal strategies that are employed by insurers under the NFIP follow an approach that is nationally coherent and consistent with the NFIP. The team also seeks to ensure that claims litigation under the NFIP achieves maximum value for the American public. In this respect, the oversight team seeks to support settlement of litigation for amounts that are fair both to policyholders and to insurers. The team also seeks to ensure that the private companies that participate in the NFIP are reimbursed by the U.S. Treasury for the companies' litigation expenses only when those expenses are reasonable considering the goals of the NFIP. Finally, the team is considering means to avoid litigation where less costly means of dispute resolution are available and where those alternative means would be as or more effective in achieving Congressional objectives.

Open FEMA

FEMA is committed to increasing the transparency and accessibility of the agency's data. In 2012, the agency began the OpenFEMA initiative, which provides approved mission-relevant data which stakeholders can use in value-added ways—such as research, analysis, and application development. The NFIP uses this platform to publish over 60 million records, consisting of 40 years of claims history and 10 years of policy history at the point level. Since the release of this information, FEMA has seen this data used by major media outlets, top universities, policy makers, and even individual communities to better understand flood risk and influence flood policy. Likewise, this data is being used across all markets to include realty, lending, education, and reinsurance to not only build flood insurance industry confidence but consumer confidence. With almost 40,000 downloads of this data in just the last week alone, we are inspiring broader program participation and more insightful engagement, including from those outside of the typical flood channels. Even in the midst of the pandemic, emergency managers are using our data to help drive conversations around preparedness, resiliency and disaster response.

Office of the Flood Insurance Advocate

Since the Office of the Flood Insurance Advocate was established in 2014 to advocate for the fair treatment of policyholders and property owners, over 2,800 citizens have reached out for assistance with all aspects of the NFIP, including floodplain mapping, floodplain management, rate verification, claims handling, and Hazard Mitigation Assistance.

Financial and Individual Resilience

Reinsurance

In 2017, for the first time, FEMA exercised a Congressional provision allowing the program to secure reinsurance from the private markets to help reduce the amount of the NFIP's financial losses. The program recovered \$1.042 billion from this coverage following the losses from hurricane Harvey. FEMA remains committed to further reinsurance purchases to manage the program's risk. Effective Jan. 1, 2021, FEMA secured \$1.153 billion in traditional reinsurance to cover any qualifying flood losses occurring in calendar year 2021. FEMA currently has \$1.2 billion in reinsurance coverage through three three-year reinsurance agreements with the capital markets, \$500 million of which will expire in August 2021.

Mapping

The National Flood Mapping Program is modernizing flood hazard identification from one focused on probabilistic floods – like the 1-percent-annual-chance-event – to a conversation about structure-specific risk based on a more comprehensive risk profile and that accounts for other types of flood hazards. FEMA

identifies flood hazards related to rivers, coasts, lakes, and rainfall using the best available scientific data, the latest technology, and proven engineering methods. As directed by the *Biggert-Waters Act of 2012*, FEMA is looking to expand the flood hazard mapping inventory (identifying the 100-year and 500-year floodplain in all areas necessary), address climate change/future conditions, analyze areas of residual risk and inundation due to overtopping and/or failure of levees and dams, and modernize its IT infrastructure to make comprehensive flood information more readily available. The Future of Flood Risk Data initiative will provide a more complete risk profile. This initiative is exploring how to provide more comprehensive flood risk data that reflects a range of potential flooding scenarios instead of just the 1-percent-annual chance flood. By moving to a graduated risk analysis, one that depicts multiple sources of flooding – like heavy rainfall, or levee risk beyond the 1 percent annual chance event – we hope to change the misconception that areas outside of the 100-year flood zone have little to no flood risk.

Acquisitions of Flood-Prone Properties

FEMA continues to work with local officials throughout the country to reduce flood risk by acquiring flood-prone properties. From 1989 to 2020, FEMA mitigation grants funded the purchase of more than 49,000 homes, effectively protecting lives and property from future flooding. The cost to acquire the properties was \$3.4 billion and is estimated to have saved more than \$6.49 billion in losses.

Additional FEMA Improvements Impacting Flooding

- The *National Mitigation Investment Strategy* provides a single strategy for the nation to more effectively and efficiently advance mitigation investment.
- The *Disaster Recovery Reform Act of 2018* (DRRA), enacted in October 2018, reduces the complexity of FEMA and builds the nation’s capacity for the next catastrophic event. DRRA authorized the Building Resilient Infrastructure and Communities (BRIC) program, which shifts mitigation forward to occur before a flood disaster and establishes a reliable stream of funding for a nationwide grant program. Recently, resilience received a big boost for FEMA’s Building Resilient Infrastructure and Communities Program’s (BRIC) second year. President Biden has announced \$1 billion will be made available for Fiscal Year 2021 funding to state, local, tribal and territorial governments to assist with undertaking hazard mitigation projects and planning to reduce the risk they face before the next disaster strikes. The BRIC Program provides a critical opportunity for governments to invest in a more resilient nation, reduce disaster suffering and avoid future disaster costs. Additional information will be available once the Fiscal Year Notice of Funding Opportunity is released in a few weeks.
- FEMA launched the National Risk Index (Index) in November 2020 to encourage mitigation actions and investment by providing reliable and understandable risk information tools. The Index identifies communities nationwide most at risk to 18 natural hazards and makes it easier for communities to have conversations about how to reduce the impacts of natural disasters. This combination of information on hazards and social vulnerability marks the first time the federal government has taken such a sweeping view of community risk and susceptibility to disasters.
- FEMA’s landmark study, “[Building Codes Save: A Nationwide Study](#),”³ shows that modern building codes would avoid at least \$32 billion in losses from natural disasters over a 20-year period when compared to jurisdictions without modern building codes.

NFIP Reauthorization

Affordability

Affordability - Closing the Insurance Gap and Means-Tested Assistance

³ FEMA, [Building Codes Save: A Nationwide Study of Loss Prevention](#). November 2020.

Flood insurance affordability is complex, touching on the intricate challenges of equity and risk management. FEMA defines affordability as policyholders' and potential policyholders' ability to (1) pay for flood insurance, or (2) manage the cost burden posed by flood insurance. FEMA measures this ability to pay or cost burden in terms of the policyholder's household income compared to Area Median Income, or the median income for the county in which they live.

Under current FEMA authorities, the NFIP cannot offer means-tested discounts or consider policyholders' ability to pay in its rate-setting process. Instead, the NFIP makes rates "reasonable" by offering discounts and cross-subsidies, primarily based on a building's age or map changes at a building's location, or by considering mitigation activities undertaken by the property owner or community. FEMA does not currently consider a policyholder's ability to pay for coverage when setting discounts on premium rates. This structure does not target households who struggle to maintain coverage or address households who cannot afford a policy in the first place. It leaves vulnerable households underinsured and exposed to extreme hardship from flooding events. Such discounts and cross-subsidies make it harder for the NFIP to communicate risk through the price of flood insurance. They also inhibit the NFIP's transition to full-risk rates to achieve a sound financial framework for the program.

In the Homeowner Flood Insurance Affordability Act, Congress directed FEMA to develop a framework to help policymakers consider creation of a flood insurance affordability program. FEMA's April 2018 *Affordability Framework for the NFIP* provides a data-driven analysis of the cost burden that flood insurance poses for policyholders and non-policyholders. The most acute flood insurance affordability challenge lies with low income, homeowners (or renters) in the SFHA who are heavily burdened by the cost of insurance and either forced to purchase the product as a condition of a loan or choose to go bare and suffer the consequences in a flood disaster. FEMA identified that 26 percent of current NFIP residential policyholders and 51 percent of prospective residential policyholders in the highest risk areas meet Department of Housing and Urban Development (HUD) low income definitions, meaning their income is less than 80 percent of Area Median Income. These policyholders and potential policyholders need assistance to purchase flood insurance for their homes to be financially protected.

A forthcoming legislative proposal will address the need to provide affordability assistance to some homeowners as FEMA moves forward with putting the NFIP on more sustainable financial footing. This would be accomplished through a targeted means-tested affordability program to offer premium assistance based on income or ability to pay, rather than location or date of construction.

This legislative proposal would establish a targeted means-tested affordability program for 1-4 family primary residences where the household income is such that federal flood insurance under the National Flood Insurance Program is unattainable or difficult to maintain. The HUD defines households earning 80 percent or less than area median income as "low income" and households earning 120 percent or less than area median income as "moderate income." This targeted affordability program would serve to offer low- and moderate-income households a graduated risk premium discount benefit. The discount received would vary by household income. As household income increases, the discount benefit received decreases. FEMA would implement the program such that eligible policyholders see both the full-risk price and the affordability assistance they receive so they understand their true flood risk. In addition, the proposal will use a portion of the appropriation to provide mitigation assistance to eligible policyholder's properties. This effort will limit eligible policyholders' exposure to future disasters and potentially reduce premiums.

Sound Financial Framework

The sustainability of the NFIP is often called into question, noting the Program's \$20.5 billion debt to the U.S. Treasury after catastrophic flood events in the last 17 years and the limited private sector involvement. According to the Government Accountability Office (GAO), the federal government must

address the long-term financial exposure of disaster assistance programs and “fully implement measures that promote resilience.”⁴

To the critics of the NFIP’s debt, it is important to understand the historical context. The lack of severe storms between 1986 and 2003 allowed the NFIP to rely on premium payments to pay claims without substantial borrowing. After flood losses began escalating in 2004, Congress authorized the NFIP to borrow billions of dollars from the U.S. Treasury when needed, but that model was intended to be a short-term solution and is not sustainable.

Congress did not design the NFIP to pay for catastrophic flood events without additional financial assistance. Even if the NFIP collects revenue sufficient to meet long-term expected losses, the magnitude, volatility, and geographic concentration of flood risk pose unique challenges. Raising premiums to make up the deficit from extreme events would put an unreasonable burden on current policyholders to pay for past claims. Fundamental challenges to the NFIP’s financial solvency remain, including discounted insurance premiums, interest costs associated with borrowing from the Treasury, and reliance on policyholders to fund wider public benefits.

After the 2017 hurricanes, Congress canceled \$16 billion of the NFIP’s debt, provided as an emergency supplemental. Although an important step in aiding the nation’s disaster response and recovery, debt cancellation was intended to accompany program reform and further emphasized the critical need for reform. To service the \$20.5 billion debt, FEMA continues to pay the U.S. Treasury over \$400 million in interest expenses annually. *This is the third largest NFIP activity by cost.* The NFIP is simply not fiscally sustainable in its present form.

Long term and sustainable fiscal soundness will require additional program advances to sustain the NFIP’s capabilities to manage a large flooding event FEMA’s Risk Rating 2.0 – Equity in Action, Reserve Fund, and reinsurance are key factors, and the Administration is currently assessing whether additional authorities may be required.

Conclusion

Congress established the NFIP to address escalating federal expenditures following frequent and severe flooding events around the country. FEMA remains committed to continuous improvement of the NFIP to better serve our customers and account for both current and future conditions. Reauthorization of the NFIP must encompass innovations that improve the customer experience by reducing complexity and increasing transparency, transforming the communication of risk and improving the accessibility of flood insurance, strengthening local floodplain management minimum standards and addressing repetitive loss properties, and put the NFIP on a sustainable fiscal path.

⁴ GAO, “High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas”, GAO-21-119SP, March 2, 2021