

Senator Roger F. Wicker
Testimony on the Reauthorization of the National Flood Insurance Program
Senate Banking Committee
June 9, 2011

Thank you, Chairman Johnson and Ranking Member Shelby, for holding this hearing on the reauthorization of the National Flood Insurance Program. I appreciate the opportunity to testify before the Committee this morning, and I commend you for taking this first important step toward reforming NFIP this session of Congress.

Less than one year ago I came before this Committee and testified in support of modernizing and reauthorizing the National Flood Insurance Program. Last year, NFIP lapsed three times before the Senate authorized a one-year extension. As you know, that extension expires this September.

Another program lapse is entirely avoidable, and we should not allow that to happen. Similarly, another short-term extension of a flawed program would be unacceptable to me, as I believe it would be to most Members of the Senate. I urge my fellow Committee members to enact a multi-year reauthorization and in the process fundamentally reform this program.

The National Flood Insurance Program is the source of protection from flood risk for most Americans. Nationwide, 5.6 million NFIP policies were in effect last year. Lapses and short-term extensions of the program create uncertainty and unnecessary burdens for property owners who depend on NFIP. Lapses also drive up the cost of administering the program and interrupt economic activity, including purchases of homes and other properties that require proof of flood insurance prior to closing. In speaking with Mississippians, it is clear that a long-term reauthorization with targeted reforms is necessary for coastal communities to prosper.

Though most Americans who need flood insurance rely on NFIP, the program itself has become insolvent and remains nearly 18 billion dollars in debt. Without appropriate reform, modernization, and an extended reauthorization, our nation and the American taxpayers face serious consequences when – and it is only a question of when – the next big natural disaster occurs.

In my testimony of last year, I outlined specific reforms that would help put the NFIP back on a sustainable trajectory. These included:

1. Improving enforcement by FEMA and lenders with respect to those required to purchase and maintain flood insurance.
2. Charging rates that are actuarially sound and offering meaningful premium reductions for mitigation improvements.
3. Updating FEMA's flood insurance maps so that those in flood-prone areas are aware of the risk and obtain proper insurance coverage.

Perhaps the largest threat facing NFIP, and the one responsible for the vast majority of its current debt, is that of major hurricanes making landfall on our coasts. In 2005, hurricanes Katrina, Rita, and Wilma impacted a wide swath of the United States. According to the Congressional Research Service, NFIP accrued approximately \$17 billion in debt from flood claims caused by these storms alone.

It has been six years since Hurricane Katrina devastated the Gulf Coast. While we have made significant progress in rebuilding our communities and businesses, for many Mississippians recovery is still not complete. One of the greatest impediments to our efforts is the lack of affordable property insurance. The availability and affordability of wind insurance is crucial in any state where there is coastal exposure. For vast numbers of property owners, private insurance

coverage for wind damage has not been available on the Gulf Coast since the 2005 hurricane season.

Hurricanes present a unique problem for coastal property owners because damages can be caused by multiple perils, including high winds and devastating storm surges. Currently, homeowners cannot purchase a single insurance policy to cover all hurricane-related risks. Wind losses are covered by private insurers or state-run wind pools, while coverage for flood damage is largely backed by the federal government through NFIP.

Many homeowners who suffered ruinous property damage from Hurricane Katrina were forced to go to court to determine which insurer was responsible for damage in wind-versus-water disputes, even when they had appropriate coverage. Other property owners failed to purchase flood insurance because they relied on outdated federal flood zone maps that indicated they were not at risk for flooding. When their property was damaged by the storm, many insurance adjusters concluded that property damage had been caused by water alone and denied legitimate claims altogether.

In 2007, the Government Accountability Office issued a report which called for greater oversight of wind and flood damage determinations. In that report, GAO found that claims information collected by NFIP did not allow FEMA to effectively oversee damage determinations and apportionments after hurricane events.

In the words of the GAO, "...for a given property, FEMA's ability to assess the accuracy of payments for damage caused only by flooding is limited because NFIP does not know what portion of the total damages was caused by wind and what portion was caused by flooding." The report continued, "because both homeowners and NFIP policies can be serviced by a single Write Your Own private insurer, a conflict of interest exists during the adjustment process."

To help resolve these issues, I recently introduced the Consumer Option for an Alternative System to Allocate Losses Act, or the COASTAL Act. This legislation, S. 1091, addresses several problems that arose in the aftermath of Hurricane Katrina. Those problems include:

- Disputes and costly litigation between consumers and insurers over wind-versus-water claims.

- Inherent conflicts of interest that can arise when the same claims adjuster assesses damages that are and are not covered by his employer.
- Lack of oversight with respect to the adjustment process and claims paid by NFIP.

The COASTAL Act is a commonsense approach to addressing these problems. This legislation would use data currently collected by the National Oceanic and Atmospheric Administration (NOAA) and other participating entities to allocate property damage following significant storms.

Under the COASTAL Act, a formula would be established that utilizes storm information provided by NOAA and its partners, combined with structural information for each property, to allocate losses caused by high winds and storm surges from hurricanes. This alternative loss allocation system would be based on the timing, location, and magnitude of wind speeds and storm surges before, during, and after a major storm impacts the coastline of the United States.

Only properties that are completely destroyed by a hurricane, leaving little but foundations behind, would qualify for this alternative loss allocation system. “Slab” cases, as they are commonly know, have the greatest uncertainty, because

there is little to no evidence left to make an accurate adjustment using current practices.

The COASTAL Act is by no means a silver bullet for all of the problems associated with flood insurance and NFIP. However, this legislation is a fair and objective way to provide more certainty to the slab claims process, which is a very costly piece of the greater flood insurance problem.

The advantage of my proposal is that it is based on activities that NOAA already carries out. Extensive storm data related to winds and storm surges is currently collected throughout each named storm that threatens the coastlines of the United States. This is done primarily for purposes of doing a better job of informing emergency managers of imminent threats. I would emphasize that the COASTAL Act does not create a new government program – rather, it adds further utility and purpose to existing federal efforts.

I believe this proposal will provide more structure in the marketplace, which should increase the availability of insurance and competition while driving down premiums over time. It is also my belief that this system will help us hold insurance companies accountable for covered losses, as has proven necessary in

some cases, rather than forcing taxpayers to foot the bill through the deeply indebted NFIP.

A year ago I held an insurance roundtable in coastal Mississippi to hear the concerns of those still recovering from Hurricane Katrina. There is no question that one of the most difficult obstacles to recovery from previous storms and preparing for future events has been the cost and availability of insurance.

NOAA's hurricane outlook for 2011 indicates an active Atlantic season. Congress must take the initiative now to put the National Flood Insurance Program on a sustainable path forward. I will continue working with my colleagues on the Committee to pass a reauthorization bill that can be signed into law before the end of the fiscal year, and I urge all members to join in this effort.

Thank you.