



Property Casualty Insurers
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**TESTIMONY OF DONALD L. GRIFFIN
VICE PRESIDENT, PERSONAL LINES**

**ON BEHALF OF THE
PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA**

***“THE FLOOD INSURANCE CLAIMS PROCESS IN COMMUNITIES
AFTER SANDY: LESSONS LEARNED AND POTENTIAL
IMPROVEMENTS”***

**BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING, TRANSPORTATION, AND COMMUNITY
DEVELOPMENT
UNITED STATES SENATE
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8700 West Bryn Mawr Avenue, Suite 1200S, Chicago, IL 60631-3512 Telephone 847-297-7800 Facsimile 847-297-5064 www.pciaa.net
444 North Capitol Street NW, Suite 801, Washington, DC 20001 Telephone 202-639-0490

My name is Don Griffin and I am vice president of personal lines with the Property Casualty Insurers Association of America (PCI). PCI is composed of more than 1,000 member companies, representing the broadest cross section of insurers of any national trade association. Our members write more than \$195 billion in annual premium and 39 percent of the nation's home, auto and business insurance, reflecting the diversity and strength of the U.S. and global insurance markets.

PCI members also include two-thirds of the "Write-Your-Own" (WYO) insurers that partner with FEMA to administer the National Flood Insurance Program (NFIP). I also chair the WYO Flood Insurance Coalition that includes all the primary insurer trade associations and WYOs. My testimony today is provided on behalf of PCI. Thank you for the opportunity to appear before you today on behalf of PCI and our members.

Background on Flood Insurance Claims Payments

PCI commends the Subcommittee for highlighting the merit in taking some time while information and memories are fresh to review lessons learned from Sandy. Further, identifying and recording lessons learned from Sandy will be helpful too as Congress, the NFIP and WYOs prepare for the fast approaching 2017 NFIP reauthorization.

Congress passes legislation that generally establishes how the NFIP is to work, FEMA sets the rules, and WYO insurers service the policyholders and the federal government. The compensation paid to insurers to administer claims is offset by the expenses incurred to pay claims adjusters, legal fees and other administrative costs. The WYOs are the third-party administrators for the NFIP for the federal government. WYO insurers do have significant incentives, however, to keep their policyholders happy and to follow federal flood insurance claims regulations.

Decisions on federal flood insurance claims payments are made by claims adjusters. When policyholders experience a flood loss, they contact their insurance agent or WYO insurer. The insurer then assigns a flood claims adjuster, who may be an employee of the WYO or an independent contractor. The flood claims adjuster determines the amount payable on a claim based on very specific guidelines and rules established by the NFIP. Ultimately the WYO insurers are responsible for any overpayments and WYO insurers are audited regularly by the federal government under the Improper Payments Elimination and Recovery Act (IPERA) to ensure that they follow federal requirements and do not overpay claimants.

Claims adjusters and the independent contracting firms they represent are generally compensated in proportion to the amount of the loss paid. The compensation formulas are set by the NFIP and periodically updated. For example, in response to GAO recommendation subsequent to Katrina, in 2009 the claims compensation formula was refined by reducing the portion tied to the claim value and adjusting payment based on the WYO's NFIP premium volume. There are also specific processes in place for dissatisfied policyholders to appeal claims decisions to the NFIP. The most recent appeals process was put in place as a result of the passage of the Flood Insurance Reform Act of 2004.

Insurers with unhappy policyholders face both individual consumer retention risks and reputational risks, particularly since most people are unaware that the rules for determining most flood insurance claims are set by the federal government and insurers do not have a direct risk-bearing interest.

Finally, administering and marketing the flood program is very complex and expensive, and the number of insurers willing to do so has declined significantly in recent years. Many WYOs have determined that the reputational, legal, and financial risks are too great. Unfortunately, as fewer insurers market flood insurance, fewer consumers will purchase flood insurance.

Lessons Learned from Superstorm Sandy and Potential Areas of Reform

Governmental Coordination

In the immediate aftermath of a natural catastrophe it is critical for local, state, and federal officials to coordinate their efforts to get basic services up and running as quickly as possible to get people back to their homes and businesses to begin remediation and rebuilding. Insurers need to be at the table during pre- and post-disaster emergency planning and coordination. It is also essential to the rebuilding process that local law enforcement and government officials allow insurers and claims adjusters into damaged areas as soon it is safe – at least as soon as property owners are provided access.

An issue that arose with Superstorm Sandy, was the lack of available flood insurance adjusters, and that can delay the claims settlement and the rebuilding process. Most flood insurance adjusters are located in areas that frequently flood. Often states implement reciprocal recognition of claims adjusters from other states to help. Often the state insurance department grants such access, with the proper credentials, but sometimes it is difficult, given the impact of the event and the number of requests, to process the necessary paperwork needed in a timely manner, leading to delays in responding to claimant needs. PCI also supports federal legislation to require more reciprocal claims adjuster recognition.

Flood Insurance Advocate

The Homeowners Flood Insurance Affordability Act (HFIAA) established the office of the Flood Insurance Advocate. In light of the considerable Congressional changes to the federal flood insurance program last term through the Biggert-Waters Flood Insurance Reform Act (BW-12) and this year in the HFIAA, WYOs hope that the Advocate can be a central location to respond to inquiries by consumers, Congress and the media. As mentioned previously, the program is very complex and there are many questions regarding recent legislation and mapping. We understand that the NFIP has established the goal of filling that position by the end of this year and hope the

Administrator will be able to find candidates with an understanding of mapping, flood insurance, and claims – that will all be needed for the Flood Advocate to best serve consumers and the NFIP.

Mitigation

Preparation is a key factor in minimizing financial loss after a natural catastrophe. Strong, uniform statewide building codes that are regularly updated play a significant role in reducing the risk of injury or death to homeowners during a natural catastrophe. Structures built or retrofitted to comply with the most recent edition of the *International Building Code*, and other recognized building standards, incur less property damage during a significant weather event. Less property damage following an event reduces the need for federal disaster aid, and can help expedite a community's recovery after a natural catastrophe. PCI promotes strong building codes and responsible land use policies, which are crucial for all stakeholders, to promote public safety and to be as prepared as possible for the next hurricane, tornado, or flood disaster.

Private Sector Participation

The increased complexity of the NFIP, along with increased costs for low-risk, voluntary NFIP policyholders also risk decreasing NFIP participation. Together, these and other pressures could lead to additional adverse selection in the future, increased taxpayer exposure and the need for additional federal aid following the next major catastrophe. Growing the number of both policyholders and insurers will benefit both taxpayers and the NFIP.

PCI also supports increasing private sector involvement in flood insurance. BW-12 included a provision expressly authorizing FEMA to obtain reinsurance from the private market. PCI looks forward to working with companies and regulators to make certain consumers and other marketplace participants are properly educated and protected as this area develops.

Program Growth and Risk Spread

Insurers participating in the WYO program are responsible for helping administer more than 80 percent of the NFIP business. Unfortunately, despite continued expensive education and outreach efforts by WYO companies, the number of homeowners and businesses purchasing flood insurance protection has peaked at about 5.5 million policyholders. This level of insurance protection is far below the needs of vulnerable consumers. Future storms will continue to expose gaps in both the number of consumers who are uninsured for flood risk as well as the many families and businesses that are underinsured for their exposures. Consumers need to be educated about the importance of having flood insurance and encouraged to continue purchasing it. Likewise, more needs to be done to assure that BW-12 provisions designed to incentivize lenders to require flood coverage are having the intended effect.

Conclusion

The NFIP is an essential program to protecting millions of American businesses and families from catastrophic risk. PCI's WYO companies appreciate the opportunity to service the federal government and consumers and welcome a discussion with the Committee about how to improve the claims process. PCI also welcomes the Committee's interest in reforms addressing many of the lessons learned from Superstorm Sandy, including the need for better government cooperation with industry, the need for the federal flood advocate to address consumer questions, the benefits of improved mitigation efforts, the need for more private sector involvement and expansion of flood insurance coverage to better protect individual and business consumers.

On behalf of PCI and our member companies, thank you for the opportunity to present our views today. We look forward to working with you to protect consumers and improve the National Flood Insurance Program.