



National Association of Professional Insurance Agents

The National Association of Professional Insurance Agents (PIA National) proposes the following issues be addressed in the federal flood insurance program. While many of these issues will also need to be considered in light of policy interests toward a possible federal-state-municipal-private sector approach to the larger issue of a Comprehensive Catastrophe Natural Disaster Program, successful improvements to the NFIP will provide guidance for the broader natural catastrophe approach in the future.

PIA Proposals for National Flood Insurance Reform:

(1) Increase building property insurance limit maximums for all classes of property able to be insured under the NFIP. Current limits are increasingly inadequate and with today's values and adjusting for inflation since 1968, provide less real dollar coverage. This must be increased above the current \$250,000 level.

(2) Include automatic coverage for contents at a percentage of the building amount insured for flood for non-commercial properties. Currently, building/residence contents are not covered in an NFIP policy unless the insured specifically decides to include that coverage and cost in their NFIP policy. Most all in the NFIP program have building coverage, but fewer than should have contents coverage, electing instead to "save their money." However when a loss ensues, people forget and confuse the manner in which private sector homeowners insurance responds to a loss (building value covered automatically sets 50% of that for contents, 10% for outer structures and 20% for additional living expenses) with how NFIP insurance really works. Consumers' claims settlement expectation is that contents will be covered as a percentage of the building value covered. When that does not happen, issues may arise from their disappointment. This is particularly important with primary residences, and the increasing number of secondary residence that are planned as the insureds' retirement residence.

(3) Add or coordinate flood coverage for commercial policies in the area of business interruption insurance. BII coverage is now only available in the private sector property market on a covered peril basis. Flood is not (and never has been) a covered peril in the private sector, and thus in Katrina/Rita businesses, especially small-to-mid-size owners who purchased this coverage as a part of their Business Owner Policy in the private sector were not able to have the coverage apply to their ongoing business cost needs in the flooding aftermath.

(4) Separate Insurance from Government Assistance. PIA National never forgets that NFIP is a federal program, and as such may be subject to and need to consider federal government assistance for specific limited areas with buildings and property owners that require NFIP coverage, but may have mitigation and/or true needs-affordability issues. Congress will, as always, decide who, what, where and when. However, when those are identified and Congress decides to make these rare accommodations that should be understood clearly as government welfare exceptions. As such these social policy treatment exceptions should not drive changes in the overall NFIP program/operations, but be dealt and managed as NFIP matters would regularly – and then have the government assistance applied to those exceptions cases – noting their

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uniqueness.

(5) Rate and Form Need to Reflect Proportional Exposure to Risk: PIA appreciates that as the FEMA/NFIP program offers additional options for coverage, all policies need to reflect a far more accurate and reasonable cost of the risk borne. As FEMA/NFIP build these ratings, as well as the transition program needed to move current policyholders into these changes, Congress must also create a far more secure and exclusive policyholder reserve of these premiums to assure that they – and the interest earned from the investing of these monies - be exclusively available to pay the claims of the program. Congress must learn that flooding events run in long-term cycles, approximately 20-30 years. Increased earnings during the lesser-flooding years must not be viewed as “extra-dollars” for other government uses even when those uses are within the FEMA framework.

(6) Ensure Multi-Year NFIP Authorization. PIA National firmly believes that the NFIP must continue to have multi-year authorization by Congress for its various authorities in order to operate a balanced, orderly program with continuity. A five-year authorization is attainable and desirable for the program’s sake and fully responsive to Congress’ evaluation obligations.

(7) Continue Commitment to Map Modernization. FEMA is now in the middle of the five-year process of updating all flood maps in the United States. It is imperative that FEMA be provided the time and resources needed to effectively complete this process, maintain regular updating, as well as archive retired maps for necessary reference. Many people, businesses and lenders in the wake of Hurricanes Katrina, Rita and Wilma said that they did not buy/require flood insurance because the maps indicated they were outside of high-risk areas, and therefore not made a condition of their loan. By using updated maps, property owners will have a better idea of their risk and can react accordingly. Further, more education about the mapped NFIP flood zones corresponding to what those zones means in terms of potential hazard to loss is needed. Using a 20-year mortgage as comparison can help more people, business and lenders see that in a number of flood zones their potential exposure to a flood is greater than their potential hazard from a total fire loss to their property.

(8) Federal-State-Local Authorities Coordination on:

- Set-backs
- Land-use and development guidelines
- Infrastructure projects including levy upgrades and maintenance
- Construction codes development, implementation and enforcement
- Uniform approach to elevation and flood zone determinations
- Improved Flood Plain Management
- Building Materials use & individual property maintenance

These areas are the exclusive authority of these governmental entities and each one must work with the others to both respect and coordinate their actions to achieve the type of mitigation program that was intended by the FEMA/NFIP program at its inception. The above listed items are critical components of the program and issues that neither individual property owners nor any one of the government entities noted can achieve on their own.

(9) Allow FEMA to Develop: PIA National has raised this issue before - it is important for Congress to appreciate what a critical role change has played in FEMA's ability to accomplish its mandates. Since 2000, the NFIP operations and then the FEMA Agency have been subjected to an extra-ordinary level of change in the strategic direction, purpose, operation and leadership. Effective government operation requires clear direction and purpose of, for and by government agencies. PIA believes that given that opportunity, the FEMA/NFIP will once again regain its consistency of focus and practice, providing the type of agency response unit for the direction and end-goals set out by Congress and needed by the people and areas covered by the NFIP.

Coordination with Related Programs

PIA National believes that the NFIP is the appropriate structure for insuring flood losses. Going forward, Congress may consider a comprehensive, coordinated natural disaster catastrophe program. The widespread devastation caused by Hurricane Katrina serves as an awesome reminder that neither one state nor a regional grouping of states can fund or support a catastrophe reserve fund. In September 2005 PIA National again outlined the elements of such a proposal and urged Congress to enact it. We point out here that such a catastrophe funding mechanism should neither encompass nor subsume the NFIP. Additionally, PIA National strongly supports the extension of the Terrorism Risk Insurance Act (TRIA). We believe TRIA must be extended, but that it must be treated as it is now – a specific, distinct program that cannot be paired with a natural disaster catastrophe program or the NFIP.

Conclusion

PIA hopes that by working together with Congress our suggestions for NFIP's improvements will continue to support and improve this vital, needed federal program.

Certainly, the outline developed for the internal review/study of the NFIP provides all of us with a starting point for these ongoing discussions. Our comments here connect PIA's knowledge to the related areas in the suggested NFIP study outline that Congress has requested.

PIA looks forward to working with Members of Congress and legislative staff to find the best possible outcomes for the National Flood Insurance Program.