



**STATEMENT OF CHRISTOPHER HEIDRICK  
ON BEHALF OF THE INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA**

**BEFORE THE  
FINANCIAL SERVICES COMMITTEE  
HOUSING AND INSURANCE SUBCOMMITTEE  
UNITED STATES HOUSE OF REPRESENTATIVES**

**JANUARY 12, 2016**

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***Introduction***

Good morning Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Subcommittee. My name is Christopher Heidrick and I am pleased to be here today on behalf of the Independent Insurance Agents and Brokers of America (Big "I" or IIBA) to present the association's perspectives on flood insurance and the National Flood Insurance Program (NFIP). I am the principal of Heidrick & Co. Insurance and Risk Management, an independent insurance agency located on Sanibel, Florida. I hold a designation of Associate in National Flood Insurance and my agency counsels clients of all sizes regarding flood insurance and the changes recently implemented by the Federal Emergency Management Association (FEMA). I currently serve as Chairman of the Big "I" Flood Insurance Taskforce.

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 approximately a quarter of a million agents, brokers, and employees. IIBA represents independent insurance agents and brokers that offer customers a

choice of policies from a variety of insurance companies across all lines of insurance—property, casualty, life, health, employee benefit plans and retirement products.

The NFIP works as a private-public partnership through the Write-Your-Own (WYO) program and many IIABA members serve as the sales force for the NFIP, working with the WYO companies. The WYO program is a critical component of the NFIP, as it gives the program access to the expertise of insurers and independent agents operating in local markets across the country. The Big “I” strongly supports the NFIP and the continued role of our members as the distribution force for the program.

It is from this vantage point that Big “I” members understand the capabilities and challenges of the insurance market when it comes to insuring against flood risks. As such, my testimony today will focus on the importance of the NFIP for disaster assistance and recovery; the role of independent agents in the sale and servicing of NFIP policies; the need for a long term reauthorization of the NFIP to ensure the stability of the program; and finally, the potential role of the private market as a complement to the NFIP.

### ***Critical Role of the NFIP***

The NFIP provides a vital service to people and places that have been hit by a natural disaster. Prior to the NFIP’s inception in 1968, the Federal Government provided costly ad hoc assistance in the form of post-disaster relief to flood victims. Since then, the NFIP has helped defray the cost of disaster assistance money and provided a more reliable and timely system of payments for people whose properties have suffered flood damage.

According to the National Weather Service, flooding causes more damage across the United States than any other severe weather-related event, and the NFIP is virtually the only way for people to protect against the loss of their home or business due to flood damage. In recent years there has been an increased focus on private market alternatives to the NFIP; however, the NFIP remains a necessity for millions of people across the country. While the private flood insurance market can play an important role as a counterpart to the NFIP in protecting homes and businesses, the Big “I” believes that the private insurance industry lacks the capability to underwrite flood insurance on a pervasive basis to meet customer needs.

Despite our strong support of the NFIP, the Big “I” certainly recognizes that the program is far from perfect. The program has recently faced scrutiny for its handling of Superstorm Sandy claims, and as a result of the disastrous 2005 and 2012 hurricane seasons the NFIP has a debt of approximately \$23 billion, revealing some of the program deficiencies that have strained government resources.

It is important to note that for more than two decades—up until the 2005 hurricane season—no taxpayer money had been used to support the NFIP. The NFIP was able to support itself using funds from the insurance premiums it collected. Less than a quarter of NFIP policies are subsidized to account for structures that were built before floodplain management regulations were established in their community. In order for the NFIP to move toward financial solvency, rate adequacy should be re-examined, however, it must be done with careful consideration in order to avoid market disruption and

other unintended consequences. For the NFIP to regain any sort of solid financial footing the number of policies needs to increase, not decrease. A broader and more diverse risk pool will help stabilize the NFIP and provide consistency within the program. As Congress considers possible reforms to the program, careful analysis of their potential impact on policy take up rates and retention should be paramount.

### ***Important Role of the Agent in the Servicing of NFIP Policies***

Under the NFIP, independent agents play an essential role in the delivery of the product through the WYO system. NFIP policies, procedures, and requirements are complex and agents serve as the conduits between the NFIP, the WYO companies, and consumers. Independent agents are an integral part of the consumer experience when purchasing a flood insurance policy. This consumer-facing relationship provides independent agents with a unique perspective on the issues surrounding flood insurance.

The role of the insurance agent in the delivery process of flood insurance is considerably more complex than that of most traditional property/casualty lines, whether obtaining coverage in a mandatory purchase area or elsewhere. Agents must possess a higher degree of training and expertise than their non-NFIP participating counterparts. Recognizing the complexities of selling and servicing flood insurance policies, in 2004 Congress passed the Flood Insurance Reform Act, in which Section 207 of the law requires agents and brokers who sell NFIP policies to have special training.

On top of complying with federal training requirements, flood insurance agents regularly update state-required continuing education credits, attend classes and seminars highlighting NFIP changes and updates, and participate in various privately-run conferences and programs. This is done frequently 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.

Through my experience servicing NFIP policies, I have established close relationships with many of my policyholders. These relationships stem from the extensive time commitment, complexities and thorough understanding of the NFIP policies being purchased by my clients. It is my job to explain the flood insurance options available to consumers and to make sure they understand the consequences of their purchase decision.

For example, placing a new flood insurance policy on a “Post-FIRM” single family residence (i.e. home construction after the effective date of the community’s flood map) located in a Special Flood Hazard Area (SFHA) is extremely complicated and the whole process can take multiple days, if not weeks to complete. As you can imagine, when placing flood insurance for condominium buildings and commercial properties this process only becomes more complex.

While properties outside the SFHA generally have a less complicated underwriting process, they require extensive conversations with consumers in order to explain why flood insurance, when not required by the lender, should nevertheless be obtained. Often consumers believe they are “not in a flood zone” and therefore don’t need flood insurance, when in fact this is not the case. According to FEMA,

properties outside of the SFHA comprise over 20% of all NFIP flood insurance claims and receive one-third of federal disaster assistance for flooding.

The Big “I” urges the Subcommittee to remember the important role that independent insurance agents and brokers play in the sale and servicing of NFIP policies as you consider future reforms to the program.

### ***Necessity for a Long Term Extension of the NFIP***

As you know all too well, the NFIP is a congressionally authorized program that requires periodic extensions. The NFIP is currently scheduled to once again expire on September 30, 2017. Historically, these extensions have been for multiple years, often five-year periods. However, immediately prior to passage of the Biggert-Waters Flood Insurance Reform Act in 2012 (Biggert-Waters), Congress had opted to pass numerous short term, and often retroactive extensions. The instability and uncertainty created by short term extensions can lead to concrete damages in the real estate and development market, as well as the country’s economy overall. Every time the program is set to expire, WYO companies must send notices to consumers about the pending expirations, agents must work with clients to explain the ramifications of a potential expiration, and realtors and mortgage lenders must decide how to proceed when issuing and servicing mortgages that have or require flood insurance, all in an unsettled regulatory environment.

In addition to ensuring market stability, a long term extension is important to the soundness of the NFIP. Biggert-Waters and the Homeowner Flood Insurance Affordability Act of 2014, enacted substantial changes to the NFIP, changes which are still being implemented by FEMA. These changes, intended to help streamline the program and set the NFIP on a path to financial solvency, must be given time to take effect. Should Congress enact multiple short term, or retroactive extensions, or approve substantial and significant changes to the program, it will delay the implementation of ongoing changes and could hinder the effectiveness of these reforms already in law. While the Big “I” appreciates the past program reauthorizations, we strongly urge Congress to pass a long term extension that will allow positive reforms currently underway to be realized, well in advance of the September 30, 2017 deadline.

### ***Developing the Private Market and Support for H.R. 2901***

The Big “I” supports allowing the private market, where possible and practical, to offer flood insurance policies as a complement to the NFIP, provided the policies are properly regulated. When Congress passed Biggert-Waters in 2012 it inadvertently resulted in a lack of clarity regarding if and when private flood insurance could be accepted to satisfy the mandatory purchase requirement. Consequently, there has largely been a rejection of private primary flood insurance by lenders. As such, the Big “I” supports H.R. 2901, “The Flood Insurance Market Parity and Modernization Act”, as introduced, which would remedy this problem. The Big “I” would like to thank Reps. Dennis Ross (R-Florida) and Patrick Murphy (D-Florida) for introducing this bi-partisan legislation.

H.R. 2901 clarifies that a private flood policy can satisfy the mandatory purchase requirement for flood insurance under the terms of the NFIP. The legislation also mandates that state insurance regulators, and not federal banking regulators, will be in charge of determining what constitutes “acceptable” private market flood insurance. This language further strengthens the NFIP by increasing the likelihood

that private insurers will continue to explore entering the flood insurance market as a complement to the NFIP.

Of greatest importance to Big “I” members, this bill ensures that policyholders can move smoothly between the private market and the NFIP without being penalized for obtaining a private flood insurance policy. Currently, an NFIP policyholder must maintain “continuous coverage” with the NFIP in order to maintain a subsidized or grandfathered rate. The public policy behind this makes sense, as consumers should be encouraged to maintain their flood insurance policies. However, in all other lines of property/casualty insurance “continuous coverage” does not mean coverage from one particular source. H.R. 2901 makes clear that a private flood policy approved by a state insurance regulator counts as “continuous coverage” by the NFIP and allows for a more seamless interaction between the NFIP and the private market.

### ***Conclusion***

The NFIP plays an important role in ensuring that people are protected against flood-related losses and the Big “I” thanks the Subcommittee for holding today’s hearing on this critical program. Floods occur in every state and often lead to great tragedy. Most recently severe flooding in Missouri and across the central United States has proven an unsettling reminder of the terrible damage that flooding can cause. The NFIP is essential for millions of Americans and ensuring the long-term stability of the program is of vital importance. It is our hope that this hearing will contribute to the dialogue necessary to do that. The Big “I” appreciates the opportunity to express its views and looks forward to working with Congress as reauthorization of the NFIP is considered.