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"Flood Insurance Reform: A Community Perspective"

HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND INSURANCE

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Introduction

Chairman Duffy, Ranking Member Cleaver, and members of the Subcommittee, my name is Evan Hecht and I am the Chief Executive Officer of The Flood Insurance Agency (TFIA). Thank you for the opportunity to testify.

TFIA is a retail and wholesale insurance agency whose sole focus is flood insurance. TFIA has been an active marketing participant in the Write-Your-Own (WYO) National Flood Insurance Program (NFIP) for almost 30 years. For the past three and a half years the company, operating as a Program Administrator for Lexington Insurance Company and a Coverholder for Lloyd's of London, has underwritten and distributed Private Market Flood™, an alternative to FEMA flood insurance. We are one of the largest, if not the largest, writer of private flood insurance in the U.S. providing over $3.5 billion of property coverage to more than 18,500 consumers through a network of over 2,000 independent insurance agencies. It is my intention to assist the Subcommittee with your deliberations on both flood insurance reform and the reauthorization of the NFIP.

Today, I would like to: (1) inform the Subcommittee of the current status of the private market; (2) dispel some misconceptions that some members may have regarding the private market; (3) provide the Subcommittee with samples and statistics evidencing testimonials of exemplary customer experiences; and (4) suggest legislative and regulatory changes that I believe would enhance the NFIP, protect taxpayers, and facilitate a robust private sector market for flood insurance.

Status of the Private Flood Insurance Marketplace

Private flood insurance alternatives to FEMA's NFIP are more commonplace than some Subcommittee members may be aware. They first became available simultaneously with the unintended consequences of the Biggert-Waters Flood Insurance Reform Act in October of 2013. Three and a half years have now transpired and those alternatives are no longer a novelty nor are they in their infancy. TFIA is just one private market provider, yet every day we renew a previously written policy every six minutes and we write a new policy every ten minutes. The general public's knowledge of the existence of alternatives to the NFIP is readily evidenced by astonishing data analytics; a unique user visits our website, www.privatemarketflood.com, every fifty-two seconds.

Misconceptions Regarding the Private Market

Concerns That the Private Market Will Cherry-Pick NFIP's Best Risks

While it is understandable that some might believe the private market would only want to write FEMA's best risks and leave all the poor risks in the NFIP, from our point of view, almost exactly the opposite is taking place. Nearly all of the 18,500 risks TFIA has taken from FEMA are subsidized policies, the policies FEMA believes are 45-50% underpriced. We believe that FEMA's actuarially rated risks are the policies that are not rate sufficient.

The July 2013 GAO Report to Congress "More Information Needed on Subsidized Properties", page 30, provides a summary of total premiums received and claims paid from 1978 to 2011 for both subsidized and actuarially rated policies. Surprisingly, the ratio of losses to premium is almost the same for both groups. Excerpts of the GAO report are provided with my written testimony.

Subsidized premiums have dramatically increased over the past ten years, actuarial premiums have not. I have provided with my written testimony examples of three FEMA policies with rate increases of actual TFIA clients that so demonstrate:

1. An actuarially rated policy written in 2005 for a property in California for $225 renewed this year for $372, an increase over the twelve years of 65%.
2. A subsidized rated policy written in Illinois in 2006 for $998 renewed this year for $2,525, an increase over the ten years of 153%.
3. A subsidized rated policy written in Louisiana in 2007 for $553 renewed this year for $2,130, an increase over the ten years of 285%.

While some private market providers may choose to write FEMA's actuarially rated risks, most of our private market competition is also choosing to write FEMA's subsidized risks. Of course, no private market provider will choose to write FEMA's severe repetitive loss properties, however they only represent a small fraction of FEMA's total policies. As a group we will also not entertain writing FEMA's grandfathered risks where they are knowingly charging a premium less than the known current exposure.

It is also noteworthy that FEMA's most hazardous rated policies, V (velocity) zones, have enjoyed the most favorable loss experience of any sub-group, while FEMA's preferred risk policies (PRP) have performed rather poorly.

<u>Concerns That Private Flood Policies Written With Surplus Lines Insurance Companies Are Not Regulated</u>

Every one of our 18,500 private market flood policies is presently written by a surplus lines insurer, either with Lexington Insurance Company, a member of the AIG group, or Lloyd's of London.

TFIA writes more than 2,000 surplus lines policies in Pennsylvania. On January 6, 2017, Pennsylvania Insurance Commissioner, Teresa Miller, in her letter to interagency financial regulators, states "I would note that even with the increased surplus lines activity for residential flood coverage over the past 11 months, the Pennsylvania Insurance Department has not received a single complaint concerning a surplus lines carrier."

Each surplus lines insurer is licensed and regulated in its home state or country, and is subject to the jurisdiction of the insured's home state, either indirectly by issuing a policy, or directly by obtaining status as an "approved" surplus lines insurer. Most states furnish an "approved" list of surplus lines insurers. The National Association of Insurance Commissioners (NAIC) also maintains a list of "approved" alien insurers that have met the criteria in the "International Insurers Department Plan of Operation".

Here's a quote from the California Surplus Lines Association publication entitled, *Non-admitted Does Not Mean Non- regulated*.

> "NONADMITTED OR SURPLUS LINE – non-admitted does not mean nonregulated, as evidenced by this document. Non-admitted carriers on the LESLI List have been reviewed and approved by the California Department of Insurance (CDI) for surplus line insurance in

> California. Non-admitted carriers on the LESLI List are actually "admitted" insurance carriers, in a state or domicile other than California. Surplus lines have been written by non-admitted carriers since the 1800's, and generally are used when a risk is unusual, unusually large or when coverage is not available from carriers licensed in California."
>
> (SLAC, http://www.sla-cal.org/publications/ pb_nonadmitted.html)

Each surplus lines broker is also licensed and regulated in the insured's home state, which includes regulation of the transaction itself. It is the broker's the responsibility to determine the solvency of the surplus lines insurer, as well as providing certain statutory notices to the insured, and complying with all state surplus lines tax laws.

<u>Samples and Statistics Evidencing Testimonials of Exemplary Customer Experiences</u>

TFIA is 100% committed to providing exceptional customer experiences. Our website allows testimonials to be submitted by a user. Since the first of the year we have received 73 testimonials. Remarkably, once or twice every day, someone takes their valuable time to let us know we are succeeding. Here are two such testimonials, one saving a client enough money to stay in their home and a second offering to cook us dinner due to a positive claims experience:

> Tyson Seirer
>
> June 25, 2015
>
> "Great Alternate to FEMA Flood Insurance. We live in Kansas in an area where it rarely to never floods but we are required to have flood insurance since we are within the 100 year flood plain. We are a young couple and this was our first home. We have had FEMA insurance for 5+ years now and during this time we saw our premiums nearly double during the last few years. The insurance on the home was getting to be so much that we were considering moving because we were barely able to make the payment. We had no idea that there was a private market flood insurance company that could provide us coverage at a competitive rate compared to FEMA. In the matter of minutes I was on the website and had a quote of the costs to switch to The Flood Insurance Agency at Lloyd's. The amount of savings was incredible and we were able to keep the same coverage as our current policy. I quickly called the bank to check on my policy and we were

able to change insurance carriers by the end of the next month when my current policy expired. The process was quick and easy. I worked with several representatives and was able to print and sign the documents shared in a couple of emails. TFIA worked with my bank to make all the changes needed on our escrow account. Within a week of receiving our new policy we had a check in the mail from our bank. They were refunding us the amount of overpaid money from our FEMA policy that we had been paying in over the last year. I have already recommended TFIA to neighbors and friends and others are making the switch also. Thanks to TFIA we are able to stay in our home."

Dana Luna

September 15, 2016

"I wanted to say thank you so very much for expediting our claim. When I spoke to you on the phone that day, I must apologize for my tone and demeanor. Normally I never speak in such a manner, but this was just such an unexpected event and my frustrations over took me. 92% of our community flooded and construction people were already being booked up. I was so concerned that we could not afford our mortgage and our temporary rental fee. Now we are on our way to restoring our home, thanks to you and Mr. Alex. Trying to list our contents has been very emotional for me but I am getting there. My entire kitchen contents and appliances could not be saved. Most girls would be devastated over losing their shoes, clothing, jewelry, or purses, which those were also not salvageable; but losing my vintage corning ware and other kitchen stuff hurt the worst. Everyone teases me! But they sure do love to eat my Cajun cooking! If you are ever over our way, let me know and I will cook you the best gumbo ever! Once again, we appreciate so very much for your attentiveness to our claim."

The recent 2016 significant flooding in and around Baton Rouge, LA has been designated by FEMA as the fourth most costly event in the history of the NFIP. TFIA had 842 policies written in the entire state of Louisiana at the time of the event, 381 suffered flood damage. After adjusting for TFIA's higher average deductible, our average loss of $80,084 is the same as FEMA's average loss. Our average time to settle a claim was 66 days. Zero complaints have been filed with the Louisiana Department of Insurance.

Legislative and Regulatory Changes That I Believe Would Enhance the NFIP, Protect Taxpayers, and Facilitate a Robust Private Sector Market for Flood Insurance

I urge Congress to pass the Flood Insurance Market Parity and Modernization Act that passed the full House of Representatives with bi-partisan support during the last session. This legislation provides much needed clarity to include surplus lines insurers in the definition of acceptable private flood insurance and requires FEMA to recognize private flood insurance as continuous coverage when qualifying for subsidized premiums.

TFIA pays its agents a 10% commission for the placement of private market flood insurance. I recommend the WYO financial arrangement be adjusted to reduce agent commissions to the same level of commissions paid to agents placing business with the NFIP directly, 15% of the first $2,000 of annualized premium and 5% on the excess of $2,000. This would be more in line with commissions agents currently receive for placing automobile and homeowners insurance. Many agents today receive WYO commissions of 20%-22% of the annualized premium. The cost savings of hundreds of millions of dollars could be used to either pay down the NFIP debt or provide assistance to low income property owners in high hazard flood areas to help them afford their flood insurance premiums.

Congress should consider requiring a federal policy fee equal to the FEMA federal policy fee on all private market flood insurance policies in order for the private policy to meet the definition of an acceptable private market flood insurance policy. This fee would be remitted to FEMA to provide funds for ongoing mapping expenses, similarly to how the current FEMA policy fee is allocated.

Conclusion

I thank the members of the Subcommittee for allowing me to testify before you today. I wholeheartedly support your mission and offer you my continued efforts should you request them.