Testimony of Roy E. Wright

President & CEO
Insurance Institute for Business & Home Safety (IBHS)

"Reauthorization and Reform of the National Flood Insurance Program"

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Subcommittee on Housing, Community Development, and Insurance

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Members of the Subcommittee, thank you for the opportunity to speak with you today about flooding, insurance, and resilience. My name is Roy Wright, and I am President & CEO of the Insurance Institute for Business & Home Safety (IBHS). IBHS is a 501(c)(3) organization, enabled by the property insurance industry's investment, to conduct building safety research that leads to real-world solutions for home and business owners, helping to create more resilient communities. Before joining IBHS, I served at the Federal Emergency Management Agency (FEMA), where I was the Federal Insurance Administrator, the chief executive of the National Flood Insurance Program (NFIP). Complementing these insurance responsibilities, I led the agency's Federal Insurance and Mitigation Administration and directed the resilience programs addressing earthquake, fire, flood, and wind risks.

Severe weather disrupts lives, displaces families, and drives financial loss. IBHS delivers top-tier science and translates it into action so we can prevent avoidable suffering, strengthen our homes and businesses, inform the insurance industry, and support thriving communities. The perils we study at IBHS are part of the natural world in which we live, but social and economic disasters occur when these perils meet human populations that live or work in harm's way. To break the cycle of destruction, it is essential to address all aspects of the building performance chain: where you build, how you design and construct, and how well you maintain and repair. As a building science institute, IBHS focuses on the ways that weather behaves, what makes homes and businesses vulnerable, and how our buildings can be more resilient. We exist to help ensure that the places where people live, learn, work, worship, and gather are safe, stable, and as strong as the best science can equip them to be.

As noted, IBHS is enabled by the investment of our Members, property insurers and reinsurers. A set of IBHS member companies also provide critical services to the NFIP by writing and servicing NFIP flood insurance policies as part of the Write Your Own program. IBHS Members that participate in the Write Your Own program are proud to help bring flood insurance to millions of Americans.

The core perils studied at the IBHS Research Center are wind, wind-driven rain, hail, and wildfire. Today, drawing in part from my experiences at FEMA, I would like to speak with you about flooding, the effects of inflation on the NFIP, the critical role that insurance plays in communicating risk and providing financial resilience, and ways to improve the effectiveness of the NFIP and the resilience of families and communities in flood-prone areas.

Before addressing these issues, let me address squarely the one before you now: reauthorization.

The politics of flood insurance is, and always has been, principally driven by geographic concerns, not ideological ones. If the work of reauthorization was easy, Congress would have passed a simple, long-term re-authorization years ago.

Congress is wrapping up six years of reauthorization this fall. Unfortunately for flood insurance consumers and those responsible for leading the program, Congress has delivered those six years of reauthorization *in 21 small chunks*. With fundamental administrative reforms to the program now in place, Congress must pass long-term reauthorization that provides the program with political stability. A reasonable, multi-year reauthorization would be best for the NFIP, best for the Write-Your-Own insurers that help make the program function, and, most importantly, best for the consumers that depend on the NFIP for flood insurance.

INFLATION

As Congress attends to the fiscal policy side of inflation, it must also address the real impacts inflation has on the NFIP. These impacts will affect flood insurance consumers and program administration alike – and solutions to these challenges can only be addressed by Congress; the program administration of FEMA alone cannot mitigate them.

On the consumer side, inflation is undermining flood insurance affordability for two sets of homeowners:

a) those who cannot afford the premiums due to increases in the cost of other goods and services, and
b) those who cannot afford to rebuild with the limited insurance claim ($250,000) provided by existing law.

The inflationary pressures on the first set of homeowners will be addressed by broader national efforts to reduce inflation. The second set of homeowners, however, can only be helped by statutory change that increases NFIP policy limits.

When Congress set the existing NFIP policy limits for structural coverage at $250,000 in 1994, the average sales price of a home in the United States was $154,000 (Federal Reserve Bank of St. Louis data). At that time, a $250,000 policy limit provided adequate space to absorb regional cost differences across the country and was sufficient to help most homeowners rebuild following flood damage. For 2022 Q1, the Federal Reserve Bank of St. Louis reports average home sales price in America at $507,800. Simply put, the average sales price has increased by more than 300 percent since 1994, and yet the NFIP policy limits for structural coverage remain at $250,000.

Here is the impact of Congress's inaction: when hurricanes make landfall in the United States this year, Americans who did the right thing and bought flood insurance will learn the consequences of being underinsured. When the cost of rebuilding their home comes in at $370,000 and they only have $250,000 available in coverage, they will be underwater – for the second time. Many will blame inflation. While not unrelated, *the principal fault for the protection gap in their coverage will reside with Congress* because Congress continues to limit the amount of insurance homeowners are permitted to buy.

There is a straightforward solution to this problem that allows for flexibility and reflects market realities. Congress should set NFIP coverage limits through a process that pegs the coverage limit to the Federal Housing Finance Agency's (FHFA) conforming load limits. Particularly for consumers that *must* purchase flood insurance, Congress should craft a program that allows them to purchase *enough* flood insurance. Simply, the current caps guarantee an incomplete recovery after flood disasters that will surely frustrate the policyholders.

Inflation will also negatively affect the program administration side of the equation. The debt held in the flood insurance program is about to get walloped by rising interest rates. While I know that there is no bipartisan legislative path today to resolve the outstanding debt, I must warn you – this will come back to haunt you, FEMA, and all those who depend on the NFIP for flood insurance. As interest rates rise, so too will interest payments on the residual $20.5 billion debt that FEMA owes to the Treasury Department.

Last year, FEMA paid $350 million to service its debt. Diverting ten percent of the premium revenue in each year over the past decade has a compounding effect on funds available to pay claims. Yet this interest number will likely double. In future years, when FEMA is paying $700 million, $800 million, or even $1 billion in annual interest on the NFIP's residual debt, those funds must come from somewhere. As Congress currently constructs the program, that interest is paid from premium revenue, which reduces the funds available to pay claims.

Thus begins a vicious cycle. When claims cannot be paid for expected losses, FEMA will be back at the window of the Treasury Department borrowing more, leading inexorably to larger debt, and consequently larger debt payments. Short-term borrowing has a role in any insurance operation, but not for long-term debt that the program still carries from Hurricane Katrina, circa 2005.

RISK RATING 2.0

Risk Rating 2.0 set out to be a fairer approach to setting insurance premium rates that resembles the methodologies used for underwriting property risk across the covered perils insured in the United States. As FEMA is implementing the program changes, this objective is being accomplished. And that fairer approach is reaping immediate benefits for 86 percent of NFIP policyholders. This is what was projected, and it is what is occurring. Nearly two-thirds of policyholders have found that the new pricing approach feels just like the past: they see annual incremental increases that resemble the past trajectory, with the smallest increases used to keep pace with the increased cost of materials and labor.

In addition, nearly a quarter of all NFIP policyholders are seeing price decreases. In some instances, that is $200 a year in savings. In other cases, that can be upwards of $1,000. Think about that. In a time of high inflation – the costs of material and labor soaring – these policyholders are experiencing a *cheaper* price on their flood insurance. These reductions help a wide range of consumers. Yes, low- and middle-income households are benefiting from these reductions, but it is not restricted or targeted. Where the risk is lower and price consideration is warranted, any eligible policyholder can see these reductions.

Now some are highly critical of Risk Rating 2.0 – particularly those among the 14 percent of policyholders that have seen premium increases from the new approach. I am sure there are cases that require individual attention to ensure the calculations are perfectly applied. But insurance has a price, and that price is driven by risk. Whether it is due to the higher replacement cost of the structure, the escalated value of the home, or a more precise understanding of the flood risk on a given parcel, higher rates are grounded in sound actuarial practices. Ironically, the criticisms

I've heard of Risk Rating 2.0 have little to do with the actual risk measurements themselves – the data, methods, and accuracy. Instead, *the criticisms focus on the difficulty of living with the heightened awareness and cost of their flood risk.*

In a time when so many point to the effects of climate change and its growing effect on severe weather's impact on our homes, we cannot be duplicitous. You cannot say that the flood risk is growing *and* then expect the price of that risk to be cheaper. That does not compute. There is no greater risk communication tool than a pricing signal.

Congress has already devised a safety valve for those experiencing increases in their flood insurance premiums: the cap on annual price escalation. Maybe Congress should pull the 18% individual rate increase cap down a few points. But it is neither legal (under the National Flood Insurance Act) nor moral *to lie to the American people who live at risk of flooding* and tell them they are safe from harm when they are not.

CRACKING THE AFFORDABILITY CODE

For those who can afford to pay the cost of the risk associated with their home, they should carry that load entirely. It is part of the cost of ownership. Yet not everyone chooses where they live; not everyone can afford the impacts that may befall their home.

According to sociological research, disabled, elderly, low income, and other vulnerable people are less likely to prepare for disasters, evacuate safely, avoid physical or psychological trauma, or recover quickly and fully. Low-income residents account for a meaningful percentage of the population in many coastal communities and other areas that face climate risk, often living in the most vulnerable types of housing.

Just as low-income households are least able to withstand the physical dangers of natural disasters, they are likewise least able to withstand the associated financial burdens – including the cost of flood insurance. I encourage this Congress and FEMA to identify ways to assist low- and moderate-income households to lessen the financial burden of flood insurance. The NFIP's affordability program should focus on these low- and moderate-income families, be tied to area median income, and capped so that eligibility does not extend beyond 400% of the Federal Poverty Guidelines. Further, Congress must decide how much money it wants to invest into this affordability program annually. The NFIP *cannot* pay for such a program with its premium revenue, particularly considering the burden rising interest rates will place on FEMA's debt payments. Moreover, you cannot pay for a national affordability program through cross-subsidies—it is inequitable and undermines the financial stability of the program.

While means-tested subsidies may be part of this solution, so too must policies, programs and financial incentives that address flood insurance affordability at its root cause: the flood risk itself. Now that the NFIP has become more risk sensitive through Risk Rating 2.0, reducing the flood risk of homeowners in flood-prone areas through community and property-level mitigation will have a direct, positive impact on flood insurance affordability. Addressing flooding in the context of climate change means smarter development and land use decisions, coupled with a clear-headed approach to strengthening the resilience of existing homes. These steps, such as home elevation, can be costly, and government programs providing cost-effective support to financially assist property owners making such investments may be necessary. Such support could take the form of tax credits for resilient investments, or incentives in federal housing programs for homeowners that invest in resilience.

In addition, existing programs, such as FEMA's Building Resilient Infrastructure and Communities (BRIC) and the Flood Mitigation Assistance grant program, can help FEMA address flood insurance affordability and improve individual and community resilience at the same time. A current legislative proposal – the Community Disaster Resilience Zones (CDRZ) Act of 2022 (S. 3875/H.R. 7242), which would establish a statutory structure to identify and designate communities that are the most in need and most at risk to natural hazards like flooding – would help even more by directing public and private sector resilience investments to where they are needed most.

BREAKING THE CYCLE

There is a place where affordability, resilience, and the financial health of the NFIP intersect – the hallways and rooms of those individual homes that experience repetitive, catastrophic flood losses. Reforming how we assist the families living in these properties should be a priority for this Congress.

When a homeowner experiences their first big flood loss, they look for a way to build back quickly and lay the framework for a better tomorrow. When that same homeowner experiences a follow-on catastrophic loss, they start looking for a way out. Yet FEMA's repetitive loss home acquisition programs (buyouts) take years – often culminating five years after the event. This is both unhelpful and duplicates expenditures. In that time, the NFIP would have paid out two claims, often exceeding the value of the policy, and then pay for a buyout later. They pay to rebuild the house (twice) and then pay to demolish it.

Let me describe one flood disaster survivor I met following Hurricane Harvey. I was at my desk late one evening in late August 2017, four days into the churn of Harvey's rain and destruction over Houston. My staff had all gone home, and my phone rang. I don't know that anyone expected me to answer a call so late, but out of an instinctive impulse I answered. A lady told me she was looking for "Mr. Roy Wright. I believe he leads the flood program." She introduced herself as Edith and said, "I need some help." Edith began to explain that she was a National Flood Insurance customer who had experienced a large flood loss to her Houston home over Memorial Day weekend in 2015. Her claim had been adjusted and paid, and Edith's family had put their house back together. Then came the Tax Day flood of 2016. Again, Edith filed a claim, it was paid, and again, she put her house back together. And as the rain of Hurricane Harvey poured over her home in those last days of August in 2017 – just 16 months after the previous disaster – she was Googling ways to sell her home or be bought out. My name came up.

Edith didn't want a third claim paid. Edith wanted to start over.

Edith wanted to start FEMA's buyout process that very day.

Except FEMA does not have an expedited way to do such a thing. Buyouts involve a protracted process of homes being designated as repetitive or severe repetitive loss. That leads to a homeowner expressing interest to their community. The participating NFIP community then needs to make application to the state. The state then prioritizes requests and waits for FEMA's next grant cycle. FEMA makes awards for buyouts that then kicks off more review. But for the displaced families (often living with other family because their home is uninhabitable) as the primary players in this drama, that bureaucratic process might be fine. But when there is repeated devastation, this process this not only brings undue mental health pressure, it also wastes resources.

Despite some attempts working with Congress to get some temporary authority in the emergency appropriation bills in 2017, FEMA could not find a way to meet Edith's needs in a timely fashion.

There are several pathways to meet this need in something close to real time. The recently introduced Casten-Blumenauer bill offers a clear way forward. Offer the buyout *at the point* of the catastrophic claim – the very time Edith called me seeking help. This would be good for the homeowner and make financial sense for FEMA. Plowing the indemnified claim value into the acquisition project reduces the overall cost to FEMA and expedites the recovery timeline for the impacted family.

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In closing, I would like to thank you for the recognizing the importance of both physical and financial resilience as Americans continue to contend with devastating floods across our country. I appreciate the opportunity to share some of our ideas with you today.