

**TESTIMONY OF ERIC NELSON**

**SENIOR VICE PRESIDENT OF CATASTROPHE RISK MANAGEMENT  
AT TRAVELERS INSURANCE AND EXECUTIVE COMMITTEE  
MEMBER OF THE BUILDSTRONG COALITION**

**BEFORE**

**THE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC  
BUILDINGS, AND EMERGENCY MANAGEMENT**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**ON**

**CONTROLLING THE RISING COST OF FEDERAL RESPONSES TO  
DISASTERS**

**THURSDAY, MAY 12, 2016, 10:00 A.M.**

**2167 RAYBURN HOUSE OFFICE BUILDING**

Chairman Barletta, Ranking Member Carson, and members of the Subcommittee, thank you for holding this important hearing today to examine solutions to controlling the increasing costs of natural disasters to the federal government and the U.S. taxpayers. My name is Eric Nelson and I am the Senior Vice President of Catastrophe Risk Management at Travelers Insurance. I am testifying today on behalf of the BuildStrong Coalition, a group of business and consumer organizations dedicated to reducing human and economic losses from natural disasters by developing a national mitigation investment strategy geared towards pre-disaster loss prevention and incentives for resilient construction. The coalition consists of a diverse group of members representing first responders, emergency management officials, architects, engineers and businesses large and small. Travelers membership in the BuildStrong Coalition began in 2012 as part of our efforts to raise awareness about how disaster preparedness can help minimize risk and reduce losses to communities, businesses and families. As one of the largest property/casualty companies in the U.S., Travelers provides unique experience and expertise from the private sector that can add value to the federal government's mission to manage its own risk and losses from natural disasters.

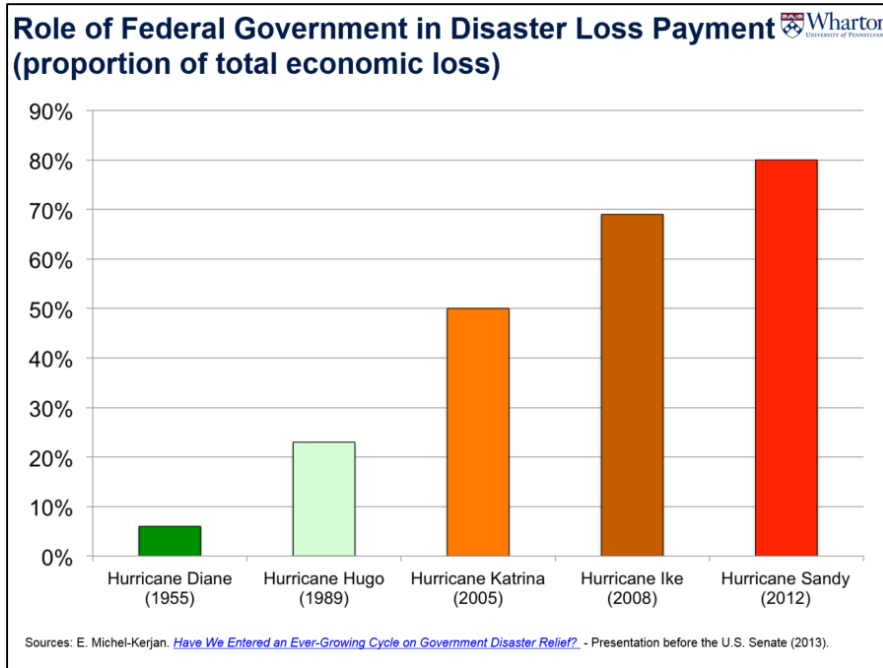
The BuildStrong Coalition continues to be proud to partner with the Committee in its work to investigate causes of and solutions to the rising cost of disasters in the U.S. I would first like to thank Chairman Barletta and members of the subcommittee for their continued leadership in conducting a series of roundtables on this topic beginning in January of last year. The roundtables helped identify opportunities that a federal mitigation investment strategy can help address in the face of our country's increasing number of severe and costly weather events.

I begin today by outlining three of the major takeaways emerging from the roundtables. Doing so will enable us to “set the table” by describing what we have learned before moving on and attempting to answer the most important question of all:

- Given that the vast majority of Americans are exposed to some type of natural disaster, spanning Tornadoes, Hail, Wildfires, Flooding, Earthquakes and Hurricanes, what actionable steps can Congress take to mitigate risk, lessen the impact to families and communities across America and reduce the federal government’s role in economic losses from natural disasters?

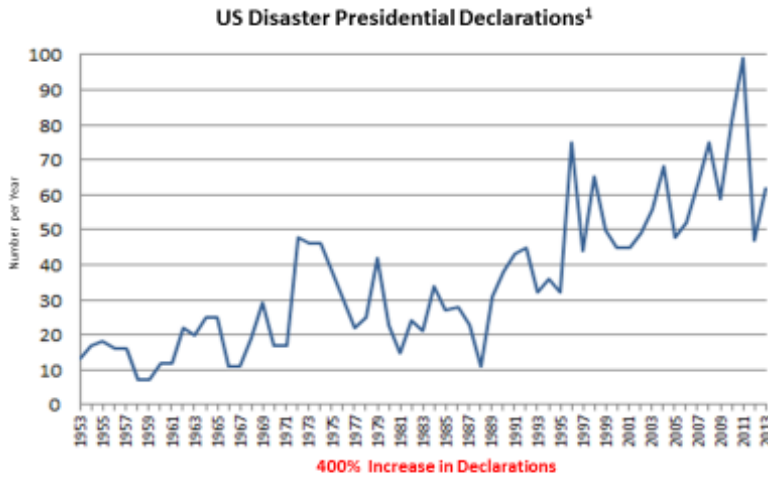
The first takeaway from the roundtables is that by almost every measure, federal disaster spending is increasing and is on an unsustainable path. Two charts from the first roundtable most effectively communicate this point. The first chart was presented by Dr. Erwann Michel-Kerjan from the Risk Management and Decision Processes Center at the Wharton School of the University of Pennsylvania, and shows the exploding federal cost share for natural disasters over the last 60 years, increasing from roughly 6% in 1955 to 77% in 2015. To help put those percentages into context, Dr. Michel-Kerjan noted that the average cost share for national governments in Europe is between 40-50%.

**FIGURE**



The next chart illustrates the growing number of U.S. presidential disaster declarations since 1953, which have increased by almost 400% over the last 60 years. The numbers in these two charts, taken in concert, underscore that federal disaster declarations are at an all-time high and will continue to climb if measurable steps are not taken to address the underlying causes.

**FIGURE 2**



<sup>1</sup> Federal Emergency Management Agency

The second takeaway from the roundtables is that states, communities and individuals have very little incentive to undertake loss prevention measures before a disaster occurs. The Multihazard Mitigation Council conducted a study which documented how every \$1 spent on mitigation saves society an average of \$4. These findings represent compelling evidence that the federal government is inadvertently fostering short sighted behavior throughout state and local governments and with individual homeowners.

The third point of consensus from the roundtable discussion is that eliminating disincentives and replacing them with appropriate incentives can foster widespread and comprehensive investments in proven, effective and efficient mitigation. Doing so can lead to widespread benefits for everyone involved.

The federal government stands to benefit by lowering the federal costs share of disaster recovery. States stand to benefit by both alleviating the budget strain caused by major disasters and easing their dependency on federal disaster aid.

Families stand to benefit by protecting their property and loved ones, while also reducing personal disaster costs and, most importantly, mitigating losses. Everyone would take comfort in knowing that assistance would be there if they lose everything to a natural disaster, but I believe anyone would prefer not to have lost everything in the first place. Communities and local economies stand to benefit by enabling citizens and businesses to recover more quickly after a natural disaster. While the benefits are clear, the key question mentioned earlier remains: What specific policies can Congress put in place to accomplish this?

In October 2015, the BuildStrong Coalition issued a report exposing the lack of a comprehensive federal strategy for investing in mitigation. The report presented a compelling and detailed framework for remedying the deficiencies in the current system, while providing the framework for a long term plan to buy down disaster exposure in the United States. The national mitigation investment strategy is based upon the latest science and engineering research from world class research institutions such as the Insurance Institute for Business & Home Safety, (“IBHS”).

IBHS and other research institutions conduct research on building performance standards under simulated disaster conditions in controlled environments. Research from these institutions demonstrates that the statewide adoption and enforcement of model building codes can help eliminate long-term risks affecting people, property, the environment, and, ultimately, the economy. Studies conducted in the wake of major disasters support these findings as well; for example:

- According to IBHS, statistics show that of all businesses that close down for 24 hours or more due to a disaster, at least 25% never reopen. Small businesses are particularly at risk because they likely have all operations concentrated in one location.

- The Louisiana State University Hurricane Center estimated that stronger building codes would have reduced wind damage in the state from Hurricane Katrina by 80%, saving nearly \$8 billion. However, the federal government is currently doing so little to incentivize the adoption and enforcement of strong building codes. Only 3 states have adopted the latest (2015) residential building codes; in addition, only 21 states and the District of Columbia are now using the 2012 International Residential Code. This means that about half of our states lack key provisions that the latest residential building codes provide - provisions that are specifically designed to prevent injuries and deaths when disaster strikes.

Thanks to the leadership of Congressman Curbelo and Congressman Sires, I am pleased to report that the core principles from this report have been turned into legislation with the introduction of H.R. XX, the National Mitigation Investment Act. The National Mitigation Investment Act represents an important step toward developing a comprehensive solution to address rising costs of disasters. The legislation provides a powerful incentive for states to adopt and enforce strong statewide building codes and authorizes a first of its kind competitive grant program to improve the building code enforcement capabilities of states and localities. Furthermore, the legislation includes a provision the Chairman authored in HR1471 mandating the first comprehensive assessment of federal disaster spending and policy by Congress in over 20 years.

The National Mitigation Investment Act represents an innovative proposal to reform the way the federal government looks at mitigation and disaster spending. Congressional leaders, policy experts and the GAO all agree that strong building codes and enhanced pre-disaster mitigation spending would provide life and cost saving benefits to the United States. I urge you and your colleagues to support the National Mitigation Investment Act to reign in the exploding disaster costs to the federal government and American taxpayers.

Chairman Barletta, Ranking Member Carson and members of the Subcommittee, I applaud you for your leadership on this important issue, and thank you for allowing me to testify today. I would be happy to answer any questions.