



**WRITTEN STATEMENT FOR THE TESTIMONY OF
CHRISTOPHER HEIDRICK ON BEHALF OF
THE INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA
BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON HOUSING AND INSURANCE OF THE
COMMITTEE ON FINANCIAL SERVICES**

**HEARING ENTITLED: HOW DO WE ENCOURAGE
GREATER FLOOD INSURANCE IN AMERICA?**

MARCH 10, 2023

I. Introduction

This written statement for the record is intended to support the oral testimony of Christopher Heidrick on behalf of the Independent Insurance Agents & Brokers of America (Big “I”) before the U.S. House of Representatives Subcommittee on Housing and Insurance of the Committee on Financial Services on March 10, 2023. Mr. Heidrick is the owner and principal of Heidrick & Co. Insurance and Risk Management Services, an independent insurance agency located in Sanibel, Florida. Mr. Heidrick holds a designation of Associate in National Flood Insurance and served as chairman of the Big “I” Flood Insurance Taskforce from 2014-2022 and from 2018-2020 he served as chairman of the Flood Insurance Producers National Committee (FIPNC), an organization that provides technical assistance and advice to the Federal Emergency Management Agency (FEMA) on operational aspects of the National Flood Insurance Program (NFIP).

Founded in 1896, the Big “I” is the nation’s oldest and largest national association of independent insurance agents and brokers, representing more than 25,000 agency locations united under the Trusted Choice brand. Trusted Choice independent agents offer consumers all types of insurance—property, casualty, life, health, employee benefit plans and retirement products—from a variety of insurance companies. As explained further below, the Big “I” supports a modernized and transparent NFIP that would increase take-up rates for flood insurance, both in the NFIP and the private market.

II. The need for flood insurance continues to grow and the Big “I” supports policies to increase take-up rates, whether in the NFIP or the private market.

The 2020 hurricane season ended with a record-breaking 30 named storms and seven of those classified as major hurricanes with winds topping 111 miles per hour. The following year saw four major hurricanes, and in 2022 there were two major hurricanes, one of which (Ian) became the third costliest storm on record, according to the National Hurricane Center. During this time hurricanes Fiona, Ian, Ida, Laura, Nicole and Sam devastated multiple U.S. states and territories. Yet, most of the Americans impacted by these storms were

uninsured or underinsured. Furthermore, flooding caused by hurricanes and coastal events is only part of the story. A significant portion of flooding occurs outside of perceived high-risk areas, such as localized rain events inland near rivers, creeks, and other bodies of water, or in low lying areas. In 2022, presidential disaster declarations were made in Illinois, Kentucky, Michigan, Minnesota, Missouri, Montana, and West Virginia due to flooding events that were unrelated to hurricanes. Flooding is the most common and costly natural disaster, and not enough property owners are insured against it. Put simply, where it rains, it can flood.

While encouraging property owners and communities to mitigate before disaster strikes and enforcing floodplain management standards and building codes in high-risk areas will go a long way in minimizing risk, flood insurance will always remain a necessary safety net for property owners. In that regard the NFIP is a vital government program as it is the primary source of flood insurance for U.S. property owners. According to the U.S. Census Bureau there are over 124 million households in the country, but only approximately five million of these households participate in the NFIP.

Outside of the NFIP there is a small but growing private insurance market. Historically, flooding has been a difficult risk to underwrite in the private market; however, advances in modeling and underwriting technology have contributed to some market growth in recent years. According to the Insurance Information Institute (III), direct premiums written for private flood insurance increased 41 percent from \$522.6 million in 2019 to \$737.1 million in 2020. AM Best reports that this increase continued in 2021, topping \$1.05 billion, a 43% increase over the previous year. During that same time the number of private companies writing flood insurance increased from 41 to 58.

Yet to date, the private insurance market covers only a small portion of flood risk nationally. While commercial flood insurance markets are more developed, private flood insurance on residential properties remains less common. Nonetheless, even FEMA has publicly acknowledged on multiple occasions that we need both the NFIP and an expanded private market if we want to noticeably increase flood insurance coverage for the country because an insured survivor—regardless of how they purchase their coverage—will recover more quickly and fully.

While some have expressed concern that a growing private market will harm the NFIP because private insurers will select the best risks from the NFIP, the Big “I” like FEMA believes that there is a necessary role for both the NFIP and the private market. As the private flood insurance market has grown in recent years there have not been significant decreases in NFIP policy counts. State regulated insurers have different ways of selecting and pricing risks via underwriting meaning that a “good risk” to one insurer may be a “bad risk” to another insurer, depending on the insurer’s overall risk portfolio.

III. The Big “I” supports making statutory and regulatory reforms to increase participation in the flood insurance market.

The Big “I” supports making legislative or regulatory changes to some aspects of the NFIP to facilitate continued private market growth in high-risk flood zones, protect consumers, and help ensure consumers have affordable insurance choices. For example, the Big “I” strongly supports H.R.900, which was recently introduced by Representatives Blaine Luetkemeyer (MO-3) and Kathy Castor (FL-14). The bill would amend the National Flood Insurance Act of 1968 to clarify that private flood insurance can satisfy NFIP continuous coverage requirements. Prior to Risk Rating 2.0, “grandfathering” prevented premiums on existing NFIP policies from changing when risk of flooding changed. Risk Rating 2.0 eliminated the practice of grandfathering and placed those policies on a “glidepath” towards full risk premiums. However, a policyholder leaving the NFIP for a private flood policy loses their glidepath. If that homeowner wishes to

later return to the NFIP, they must pay the full risk rate, which could be thousands of dollars higher each year. Continuous coverage is an important consumer protection and affordability measure to ensure that homeowners are not unfairly penalized with increased flood insurance rates due to changes in circumstance that are beyond their control if the homeowner has otherwise followed all appropriate regulations and guidelines.

The risk of a substantial NFIP rate increase should the consumer later wish to return to the NFIP often makes insurance agents and brokers hesitant to recommend private flood insurance policies. As such, the Big "I" encourages Congress to pass H.R.900 to clarify that if a consumer leaves the NFIP for the private market and conditions change such that the consumer must return to the NFIP they can do so without penalty.

The Big "I" also supports allowing refunds for unearned premiums for the mid-term cancelation of NFIP policies if a consumer elects to purchase a policy from the private flood insurance market. In the private property insurance market if a consumer cancels an insurance policy because they obtained insurance elsewhere that better meets their needs, they are generally entitled to a refund for any unearned premiums remaining on the term of the policy. However, under current NFIP guidance and regulations it is unclear if and when policy holders can obtain such refunds. This is also an important consumer protection and affordability issue.

Prior to Risk Rating 2.0, the NFIP's "Preferred Risk" product written in most parts of the country not considered to be high risk, was significantly underpriced. In fact, this segment was the most unprofitable segment of the NFIP. While Risk Rating 2.0 corrected that problem by introducing actuarially correct premiums, these premiums are often much higher than those under the prior rating system. Ultimately, the Big "I" believes that Risk Rating 2.0 has the potential to improve the NFIP experience for consumers and improve financial sustainability, but it may also lead to fewer people purchasing flood insurance in certain parts of the country. While the NFIP has stated it believes accurate premiums are the best indicator of flood risk to a consumer, that only leads to increased participation if consumers believe the premiums to be accurate and affordable. Widespread education regarding flood risk that is universally delivered but narrowly focused for local geographic areas will be essential to achieve policy growth in these areas.

Finally, under the National Flood Disaster Protection Act, flood insurance is required for federally related loans if the property securing the loan is in a Special Flood Hazard Area (SFHA). In December of 2022, the Federal Housing Administration (FHA) began accepting private flood insurance policies on mortgages it backs. This is a positive step forward to combat affordability challenges, increase consumer options and potentially secure enhanced coverage. Since FHA loans are often utilized by first time and lower income home buyers, the Big "I" has long argued that such home buyers should be able to explore private flood insurance options just like their counterparts who obtain non-FHA loans. These private options may offer more robust and affordable coverages than the NFIP is able to under its statutory restrictions.

IV. Independent insurance agents and brokers play in a critical role in the sale and delivery of flood insurance and must continue to do so for consumer participation to increase.

Congress recognized in 1983 that private insurers and independent insurance agents were needed to increase the number of Americans insured for the peril of flood. While policy growth has slowed, it is clear the NFIP cannot achieve significant penetration on its own. Private insurers and independent insurance agents remain willing to work with the NFIP to encourage more households to purchase flood insurance.

Agents prefer to work with Write Your Own (WYO) insurers because they offer greater expertise and are more responsive than NFIP Direct. Agents find it easier to place policies and serve policyholders when working

with a WYO insurer. One reason for this is that WYO insurers have greater freedom to listen to policyholders and agents and adjust staffing and resources better than the NFIP Direct Facility, which operates under constraints of the U.S. government.

NFIP policies, procedures, and requirements are complex, and agents serve as a vital conduit between the NFIP, the companies, and consumers. Agents generally serve as the first point of contact for a consumer to explain the necessity for flood insurance. The sale, servicing and underwriting of NFIP policies is complicated; and where the purchase of flood insurance is not required by statute, regulation or otherwise by mortgage lender, property owners are often reluctant to purchase flood insurance as they have often been erroneously led to believe they are “not in a flood zone” and therefore do not need flood insurance when, in fact, more than 20% of flood losses occur outside a SFHA.

Despite the need for flood insurance, purchasing flood insurance can be a daunting and complex process, especially within the SFHA. Insurance agents and brokers, whether selling in the NFIP or via a private insurer, help consumers estimate flood risk and insurance cost and discuss several “what if” scenarios with potential policyholders. Insurance agents and brokers help to prepare quotes, ensure consumers understand the impact of different policy limits and deductibles, and work to explain different policy provisions to inform the consumer’s purchase decision.

Independent agents and WYO insurers work closely together to provide policyholder service and resolve issues over the life of a policy. For example, agents and WYO insurers process lender requests, and execute policy changes resulting from map changes, rule/underwriting changes, changes in risk, make coverage changes and respond to policyholder and lender questions. Further, agents play a critical role in retaining NFIP flood policies. When a policyholder pays off a mortgage or is no longer required to carry flood insurance due to a map change, agents are the people who speak with homeowners and recommend they retain coverage. To achieve the goal of increasing the number of households insured for the peril of flood, policy retention is just as important as writing new policies.

This is all to say that flood is an extremely complicated product to sell and must be done by a live person who understands the intricacies. In this digital age there is often a rush to cut corners under the erroneous notion that an automated process can replace human interaction and expertise. In the case of flood insurance, which protects the very property that liberty provides, this could not be farther from the truth. Any kind of proposal that undercuts the valuable and trusted role that independent insurance agents and brokers play in this process could have a negative impact on increasing flood insurance participation rates.

V. Conclusion

In conclusion, the Big “I” supports a transparent and modernized NFIP that would increase take-up rates for flood insurance, both in the NFIP and the private market. Specifically, the Big “I” urges Congress to consider modest policy changes that could help grow the private market and protect consumers, such as clarifying requirements related to continuous coverage and mid-term cancellations. The Big “I” would also be concerned with any policies that could impede the overall long-term growth of the private market and any policies that would harm the WYO Program, make it more complex, or otherwise place limits on the program in a manner that could negatively impact NFIP take-up rates. The Big “I” believes these policies will help more Americans obtain flood insurance coverage through the NFIP and the private market. The Big “I” thanks Congress for considering the important viewpoint of independent insurance agents and brokers on the NFIP and looks forward to continuing to work with Congress to close the flood insurance gap.