

**Testimony of  
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before  
The U.S. House of Representatives  
Financial Services Committee  
Subcommittee on Housing and Community Opportunity  
April 14, 2005**

Good morning Chairman Ney, Ranking Member Waters, and Members of the Subcommittee. I am David I. Maurstad, Acting Director and Federal Insurance Administrator of the Mitigation Division of the Emergency Preparedness and Response Directorate of the Department of Homeland Security, which includes the Federal Emergency Management Agency (FEMA). I appreciate this opportunity to appear today before the Subcommittee on Housing and Community Opportunity.

First, let me thank this Subcommittee for the work it accomplished last year by reauthorizing the National Flood Insurance Program (NFIP or the Program) through Fiscal Year (FY) 2008. I appreciate the confidence that the Congress and the President demonstrated through the reauthorization and the stability gained through a multi-year reauthorization.

The Flood Insurance Reform Act of 2004 enhanced the existing Flood Mitigation Assistance programs and authorized a pilot and individual grant program for reducing severe repetitive flood loss properties. The President's

FY 2006 Budget Request includes an additional \$8 million for the enhanced Flood Mitigation Assistance program and we are working on options that may allow us to implement the pilot program.

When I accepted the position of Acting Director of Mitigation in June 2004, the NFIP became one of my most important responsibilities and top priorities. I have 20 years of experience in the insurance industry, and I look forward to using that experience to help build on the Program's past success.

I have found that the NFIP has been successful throughout its 37 year history in part because the Program has integrated 95 of the country's property insurance companies into its operation. These insurance providers, known as Write Your Own (WYO) companies, sell and service approximately 95 percent of the 4.7 million policies in force. Under our arrangement with them, it is the responsibility of the WYO companies to sell and service the flood insurance policies that the Federal Government underwrites, and it is FEMA's responsibility, through the NFIP, to ensure their performance. To that end, FEMA conducts regular audits to assure that each company is meeting its performance objectives and adhering to Program policies. During my tenure, I have met with the leading WYO companies to strengthen relationships and reinforce their commitment to the Program.

The NFIP has also been successful in encouraging communities to manage their risks. This year the NFIP achieved a significant milestone and now has over 20,000 communities that participate in the Program by adopting and enforcing floodplain management regulations to reduce future flood damages.

It is estimated that approximately three million buildings have been built throughout the Nation in accordance with these floodplain management regulations and that over \$1.1 billion in flood damages are prevented annually. By working with these communities in partnership with the States, the NFIP has mitigated 10,000 repetitive loss structures. Structures built to NFIP criteria experience 80 percent less damage through reduced frequency and severity of losses.

Another successful component of the Program is the Community Rating System (CRS). The CRS was implemented in 1990 to recognize and encourage community floodplain management activities that exceed the minimum NFIP standards. Currently, there are over 1,000 communities receiving flood insurance premium discounts based on their implementation of local mitigation, outreach, and educational activities that go well beyond minimum NFIP requirements. Although premium discounts are one of the benefits of participation in the CRS, the main benefit to the NFIP is that these communities have taken the initiative to go beyond the Program minimum standards and are carrying out floodplain management activities that save lives and reduce property damage. These communities represent a significant portion of the Nation's flood risk as evidenced by the fact that they account for over 66 percent of the NFIP's policy base.

One of my goals is to ensure that flood insurance claims are handled fairly, equitably, and expeditiously. Based on my experience, I have found that the NFIP meets or exceeds industry standards in terms of claims handling. But I

want this Subcommittee to know that I am always interested in challenging myself, my staff, and our partners to do even better.

Last year, the NFIP experienced a catastrophic loss year, due primarily to a historic hurricane season. The NFIP received approximately 59,000 flood insurance claims last year and we anticipate paying \$ 1.6 billion to resolve these claims. This level of claim activity represents a significant loss year for the NFIP and, as a result, the Program has exercised its borrowing authority in the amount of \$200 million to date. This is the fourth time since 1990 that the Program has been in a position of borrowing. As with the previous times, we anticipate repaying, with interest, the current Treasury debt .

The claims adjustment process associated with flood loss has not been without its critics. For example, after Hurricane Isabel, in September 2003, there were a number of concerns raised. These concerns received a significant level of attention from policyholders, local and State officials, and Congress. As a means of addressing these concerns, FEMA created a Task Force that undertook an unprecedented review of the Hurricane Isabel claims for every policyholder who requested it. To ensure that policyholders were aware of this review option, FEMA implemented an outreach strategy that consisted of a targeted series of community meetings, newspaper ads, press releases, and a toll-free number to field policyholder questions as well as initiate a request for review. FEMA mailed approximately 24,000 letters, received over 4,300 calls, and held over 40 outreach sessions in three States. As a result of this effort, nearly 2,250 policyholders have requested and received an additional review of their claim, of which 1,101 received an

additional payment. The amount paid for these additional payments represents less than two percent of the \$453 million paid in claims for Hurricane Isabel.

It is my assessment that there is a fundamental misunderstanding of the intent of the NFIP. For example, some policyholders believed that if they paid premiums for a \$250,000 limit of coverage on their dwelling, they were entitled to a \$250,000 claims payment regardless of the actual flood damages sustained. Another common misconception is that the original intent was to restore homes or property to what has been referred to as “pre-flood condition”. My review of the legislative history, Committee Reports, the statute, the Standard Flood Insurance Policy, and how the Program has been administered since its inception clearly indicates that the NFIP was never intended to restore policyholders to pre-flood conditions – it was designed to help them recover.

There is a high risk associated with flood losses. Prior to the establishment of the NFIP, a flood insurance policy was expensive and generally unavailable. In response to the high risk associated with mounting flood losses, Congress created the NFIP in 1968. The design of the Program, as cited in Section 1302 of the National Flood Insurance Act of 1968, was to provide “a reasonable method of sharing the risk of flood loss ...”. The 1968 Act created a flood insurance mechanism but tied the availability of this insurance to a community’s management of its flood risk. As stated previously, the NFIP’s standards for new construction are now saving an estimated \$1.1 billion annually in flood damages avoided. Additionally, it should be recognized that since 1968 the NFIP paid out, from policyholder

funding, about \$14 billion in insurance claims, which otherwise would have greatly increased taxpayer-funded disaster relief.

The Standard Flood Insurance Policy has specific limitations in coverage for high risk areas such as basements and areas below an elevated building. The Standard Flood Insurance Policy also does not provide for additional living expenses (unlike a typical homeowners policy) and only allows replacement cost coverage in certain circumstances. There is a statutory limit on building coverage of \$250,000 for residential buildings and \$500,000 for commercial buildings. More significantly, FEMA regulations specify that communities require flood prone properties be brought into compliance when a structure is substantially damaged. However, the Program only provides partial funding for the cost of complying with that requirement. These provisions are indicative of the Program's intent to share the risk associated with floods and to keep the cost of flood insurance affordable.

The NFIP provides flood insurance training opportunities for insurance agents via live seminars across the Nation and online training modules are available to agents at any time. Both beginning and advanced flood insurance training topics are provided to interested agents. Since the States have the responsibility for licensing and continuing education requirements, we are working with them to develop training standards. In most States, agents earn continuing education credit for attending the NFIP training seminars.

We continue to have ongoing communication with the State Insurance Commissioners through the National Association of Insurance Commissioners. I addressed the Commissioners Roundtable on March 15, 2005, and discussed our plans to work jointly with them to implement the requirements for agent training and education outlined in Section 207 of the Flood Insurance Reform Act of 2004.

I want to again thank the Subcommittee for its work in reauthorizing the NFIP last year, and its constructive criticism and support of the Program over the years. I would be happy to answer any questions that you may have.