

**Testimony of
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Mitigation Division
Federal Emergency Management Agency
Department of Homeland Security
Before
The U.S. House of Representatives
Subcommittee on Housing and Community Opportunity
August 17, 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 in the Federal Emergency Management Agency (FEMA), a component of the Department of Homeland Security. I would like to thank you for the invitation to appear today before the Subcommittee on Housing and Community Opportunity to talk about the National Flood Insurance Program (NFIP).

As you know, over 37 years ago the NFIP was established to reverse the trend of rising costs to communities, states and the nation from flood disasters. The objective of the program was to provide a comprehensive system of flood hazard management through a three pronged approach of flood hazard identification, flood hazard reduction, and flood hazard insurance. Prior to the NFIP, flood insurance was expensive and largely unavailable. Further, community management of flood risk was not an established practice. Today there are over 4.7 million policies issued for citizens living and working in over 20,072 participating communities. The State of Ohio has 726 of those participating communities with nearly 37,000 flood insurance policies in effect, providing over \$4 billion worth of coverage. After humble beginnings, the NFIP has now become the largest single-line, property-insurance writer in the United States.

The NFIP is designed to provide a reasonable method of sharing the risk of flood loss that requires balancing competing demands—discouraging unwise development yet providing affordable insurance to offset individual property owner risk. The federal government assumes a significant portion of the risk by managing the National Flood Insurance Fund (establishing premium rates, the claims reimbursement process, etc.), while the insured still retains a portion of the risk through deductibles and coverage limitations. Participating communities are required to reduce their risk of flood loss as a condition of making affordable flood insurance available for their citizens.

I believe we have been very successful in achieving that balance. I am proud to state that the more than 20,000 participating communities that I referenced earlier have adopted and enforced construction standards that save over \$1 billion annually in avoided flood damages. In fact, one of the most successful components of the NFIP is the Community Rating System (CRS). CRS is a voluntary incentive program that provides flood insurance premium discounts in communities where floodplain management activities exceed the minimum NFIP requirements. CRS communities represent a significant portion of the nation's flood risk, accounting for over 66 percent of the NFIP's policy base, and providing over \$150 million in discounts annually to 3.1 million NFIP Policyholders.

I am also pleased to note that the NFIP annually pays an average of between \$750-\$850 million in claims payments to its policyholders. In years with catastrophic events, such as last year, we have paid as much as \$1.7 billion. Ohio policyholders received more than \$35 million in flood insurance claims payments last year. Over the past five years in Ohio, the NFIP has received more than 4,500 claims and paid out nearly \$62 million in flood insurance claims. The program's ability to provide this resource reduces the taxpayer burden for disaster assistance and clearly meets our objective of distributing, more fairly, the economic burdens of flood risk in the U.S.

NFIP Program Implementation

Another strength of the program is its partnerships. The NFIP has partnered with over 96 private insurance companies, known as Write Your Own (WYO) companies, that sell and service approximately 95 percent of the existing policies in force. It is the responsibility of these WYOs to manage NFIP policies as part of their insurance portfolio, and it is the NFIP's responsibility to ensure their effective performance. Ensuring a consistent level of performance throughout the NFIP may be one of FEMA's greatest challenges. FEMA through its various audit programs routinely conducts over 70 audits of WYO companies a year to ensure consistent program delivery and policy management. FEMA conducts claim reinspections of WYO companies to ensure their compliance with Program standards and directives. If errors are discovered in the audit process or during claims reinspections, FEMA works with the WYO company to rectify the error and put procedures in place to make sure the error does not reoccur. FEMA conducts workshops for both adjusters and agents that address underwriting and claims issues.

Immediately after a major event, FEMA provides a briefing to the adjusters in the area regarding local conditions and continues to provide guidance as needed. Insurance specialists are detailed to the FEMA Joint Field Offices to assist policyholders with their questions during recovery. For example, after the February 15 flooding disaster declaration in Ohio this year, NFIP staff at the Joint Field Office (JFO) established a Flood Insurance Task Force comprised of FEMA JFO staff and state staff to address

NFIP issues associated with the disaster. The Task Force defined objectives and short- and long-term solutions to address the issues. Flood Risk Information Open Houses were conducted by FEMA regional staff and the Ohio Department of Natural Resources staff. The Open House format is designed to educate the public on the specific flood risk they are facing, inform them of ways to reduce that flood risk and highlight the benefits of the NFIP. Local official meetings were held to educate Floodplain Administrators and community/county officials on the preliminary Flood Insurance Rate Maps and the role they play in floodplain management.

We have also partnered with our state counterparts to help us implement the NFIP. For example, the State of Ohio has incorporated effective local floodplain management programs into its criteria and evaluation of all Hazard Mitigation Grant Program, Pre-Disaster Mitigation Grant Program and Flood Mitigation Assistance Program applicants. State policy requires effective local floodplain management as a condition for communities to receive mitigation funding. The policy promotes sustainability and avoids the damage-repair-damage cycle that occurs if risk reduction standards and strategies are not developed and implemented. NFIP information has been included in packets for local officials at mitigation briefings. Over 25 briefings were held from March 8 through March 31, 2005 in Ohio.

Nonetheless, we recognize there is room for improvement. As I stated at the April 14 hearing before this Subcommittee, we are providing a robust program of flood insurance training for insurance agents via live seminars across the Nation and online training modules available to agents at any time. Both beginning and advanced flood insurance training topics are provided to interested agents. In most States, agents earn continuing education credits for attending the NFIP training seminars. As we work with the State Insurance Commissioners, such as Ann Womer Benjamin, to implement Section 207 of the Flood Insurance Reform Act of 2004, more agents will take advantage of these training opportunities to fulfill their State's new mandatory flood insurance training requirements. This is just one example of FEMA's commitment to ensuring that all agents are provided the necessary tools to provide policyholders comprehensive, accurate information on the coverage afforded by their policies in a timely manner.

Consistent with the Flood Insurance Reform Act of 2004, we have developed a comprehensive information package for all new and existing policy holders that provides easy to understand information on NFIP coverage, regulations and procedures. This package features "Plain language" forms developed to help policyholders understand their flood insurance coverage.

NFIP Program Challenges

Unfortunately, I have noticed that the NFIP is hindered, in some cases, by a fundamental misunderstanding of its intent. For example, some policyholders believe that if they carry flood insurance coverage with a \$250,000 limit on their dwelling, they are entitled to a claims payment for that amount regardless of the actual flood damages sustained. Another common misconception is that flood insurance coverage should fully restore policyholders to pre-flood condition. My review of the history, structure, and the administration of the program since its inception clearly indicates that the NFIP was never intended to fully restore policyholders to pre-flood condition – it was designed to help them recover.

Title II of the Flood Insurance Reform Act of 2004 contained requirements that can help eliminate some of the misconceptions associated with the NFIP. FEMA has been working in cooperation with insurance industry representatives to fulfill the requirements of Title II, and starting October 1, 2005 several new documents will be distributed to NFIP policyholders at the time of policy purchase, renewal, and upon reporting a claim. Specifically, the Summary of Coverage, the Claims Handbook, the loss history, and the acknowledgement of receipt of materials will enable policyholders to gain a clearer understanding of coverage and claims procedures. Insurance agents will be informed by the insurance companies they represent of these materials and will be offered training on them, so they can more accurately answer policyholders' questions. In addition, many insurance companies are planning to reinforce their flood insurance customer service operations with staff members prepared to address flood insurance inquiries that may be generated by the new material.

As you are well aware, Title II also included additional agent training requirements. The Subcommittee's hearing last April also identified agent training as an area in need of improvement. To that end FEMA has been coordinating with the National Association of Insurance Commissioners (NAIC) and the insurance industry to establish and publish minimum flood insurance training and education requirements for all agents who sell flood insurance policies. Because State Insurance Commissioners have the authority for insurance agent licensing and continuing education requirements, FEMA's role is to:

- a) Establish the training course content that enables agents to have a good understanding of the NFIP,
- b) Offer incentives whereby trained agents receive sales leads from FEMA's advertising campaign and larger cost-shares for their own flood insurance advertising activities, and,
- c) Provide technical assistance to the States.

This technical assistance includes providing information such as NFIP materials and online training modules, live flood insurance training sessions for agents across the Nation, and other necessary support to implement a State-required flood insurance training program.

FEMA conducted a webcast/teleconference for all State Insurance Commissioners, Licensing Directors and other staff on July 13, 2005. There were 145 participants from 46 states who joined the forum to discuss the Flood Insurance Reform Act flood insurance training requirement. This was the third NFIP webcast/teleconference conducted for State Insurance Departments since August, 2004, wherein FEMA offered assistance to State Insurance Department staff. FEMA staff members are available to meet individually with any State Insurance Department and to provide specialized training to the staff members.

Flood Map Modernization

The flood hazard identification component of the NFIP is undergoing a major overhaul. This year represents the third year of our map modernization effort and we anticipate that by the end of the year, there will be GIS flood hazard data available for more than for 40 percent of the nation's population. Although FEMA's Flood Insurance Rate Maps have served the Nation well for insurance purposes, these paper panels have become outdated and cumbersome to update.

The Ohio Department of Natural Resources (DNR) serves as the NFIP State Coordinating Office. Through this office and the partnership FEMA has built with the state, direct technical assistance is provided to each Ohio community that participates in the NFIP.

FEMA has worked closely with state organizations such as the Ohio DNR and our other stakeholders and partners to implement a major initiative of modernizing the nation's flood maps. In FY2005, the State of Ohio will receive approximately \$2.5 million to update its flood hazard information.

Our plan for implementing the modernization effort, the Multi-Year Flood Hazard Implementation Plan (MHIP), reflects this partnership. This plan has been released for comment and provides a five-year strategy for updating flood hazard data across the country. FEMA is increasing the sense of shared ownership of these flood maps through the expansion of its mapping partnerships. Since FY03, FEMA has provided over \$133 million to Cooperating Technical Partners, like Licking County, Ohio, who are working with FEMA to develop the flood hazard information for their communities.

In FY2005, we plan to initiate studies for close to 500 additional counties. This will bring the total number of counties that will have a flood hazard map update underway to nearly 1,300.

Conclusion

I would like to thank Chairman Ney for holding this field hearing in the beautiful State of Ohio. I would also like to thank this Subcommittee for its oversight of the NFIP. Your diligent oversight has helped this program become successful and will help make it even stronger in the future.

| <i>NFIP COUNTY NAME</i> | <i>LOSS COUNT</i> | | | | |
|-------------------------|-------------------|-------------|-------------|-------------|-------------|
| | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> |
| ADAMS COUNTY | | 3 | | | 1 |
| ALLEN COUNTY | | | 1 | 4 | 3 |
| ASHLAND COUNTY | | | | | 4 |
| ASHTABULA COUNTY | 2 | 2 | 2 | 5 | |
| ATHENS COUNTY | 4 | 3 | 4 | 103 | 44 |
| AUGLAIZE COUNTY | 1 | | 8 | 1 | 2 |
| BELMONT COUNTY | | 1 | 1 | 260 | 30 |
| BROWN COUNTY | 1 | 1 | | | 3 |
| BUTLER COUNTY | 28 | | 67 | 17 | 6 |
| CARROLL COUNTY | | | 2 | 20 | 2 |
| CHAMPAIGN COUNTY | | | | 1 | 2 |
| CLARK COUNTY | 1 | 3 | 1 | 1 | 13 |
| CLERMONT COUNTY | 17 | 2 | 6 | 2 | 14 |
| CLINTON COUNTY | 2 | | | | 1 |
| COLUMBIANA COUNTY | | | 8 | 35 | 2 |
| COSHOCTON COUNTY | 1 | | | 1 | 14 |
| CRAWFORD COUNTY | | 1 | | 3 | 1 |
| CUYAHOGA COUNTY | 1 | 1 | 36 | 62 | 3 |
| DARKE COUNTY | | 1 | 2 | | 3 |
| DEFIANCE COUNTY | | | 2 | | 20 |
| DELAWARE COUNTY | | 1 | 3 | 6 | 10 |
| ERIE COUNTY | 1 | 1 | | | 7 |
| FAIRFIELD COUNTY | 4 | 7 | 31 | 57 | 49 |
| FAYETTE COUNTY | | | | 1 | |
| FRANKLIN COUNTY | 3 | 4 | 9 | 23 | 25 |
| FULTON COUNTY | 1 | 1 | | | |
| GALLIA COUNTY | 4 | 3 | 9 | 8 | 2 |
| GEAUGA COUNTY | | | 1 | 1 | |
| GREENE COUNTY | 3 | 4 | | 11 | 2 |
| GUERNSEY COUNTY | 1 | | | 154 | 7 |

| <i>NFIP COUNTY NAME</i> | <i>LOSS COUNT</i> | | | | |
|-------------------------|-------------------|-------------|-------------|-------------|-------------|
| | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> |
| HAMILTON COUNTY | 79 | 3 | 61 | 25 | 35 |
| HANCOCK COUNTY | | 3 | 5 | | 3 |
| HARRISON COUNTY | | | 1 | 63 | 2 |
| HENRY COUNTY | 3 | | 3 | | |
| HOCKING COUNTY | 3 | 8 | 2 | 29 | 12 |
| HOLMES COUNTY | | 2 | 1 | 3 | 11 |
| HURON COUNTY | | | | 2 | |
| JACKSON COUNTY | 4 | 3 | 1 | 5 | |
| JEFFERSON COUNTY | | | 2 | 165 | 7 |
| KNOX COUNTY | | 2 | 1 | 4 | |
| LAKE COUNTY | | 1 | 3 | 3 | 14 |
| LAWRENCE COUNTY | 2 | 26 | 17 | 25 | 4 |
| LICKING COUNTY | 1 | 3 | 2 | 14 | 19 |
| LOGAN COUNTY | 1 | 1 | 21 | 3 | 11 |
| LORAIN COUNTY | 2 | 2 | 14 | | |
| LUCAS COUNTY | 2 | 12 | 3 | 3 | 8 |
| MAHONING COUNTY | 3 | | 21 | 14 | 2 |
| MARION COUNTY | | | 1 | 1 | 14 |
| MEDINA COUNTY | 3 | 2 | 28 | 27 | 3 |
| MEIGS COUNTY | 3 | 1 | 1 | 44 | 10 |
| MERCER COUNTY | | | 7 | | 11 |
| MIAMI COUNTY | | 1 | 9 | 3 | 13 |
| MONROE COUNTY | 2 | | 1 | 48 | 3 |
| MONTGOMERY COUNTY | 3 | 7 | 8 | 25 | 23 |
| MORGAN COUNTY | | | 1 | 35 | 43 |
| MORROW COUNTY | | 1 | | | 1 |
| MUSKINGUM COUNTY | | 1 | 1 | 21 | 31 |
| NOBLE COUNTY | | | 2 | 105 | 1 |
| OTTAWA COUNTY | 1 | | 1 | 1 | 3 |
| PAULDING COUNTY | | | | | 3 |
| PERRY COUNTY | | | | 18 | 2 |

| <i>NFIP COUNTY NAME</i> | <i>LOSS COUNT</i> | | | | |
|---|-------------------|-------------|-------------|-------------|-------------|
| | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> |
| PICKAWAY COUNTY | 3 | | | 15 | 25 |
| PIKE COUNTY | 1 | | 2 | 1 | 15 |
| PORTAGE COUNTY | | 1 | 8 | 7 | 1 |
| PREBLE COUNTY | 1 | 1 | 7 | 1 | 2 |
| PUTNAM COUNTY | | | 1 | | 6 |
| RICHLAND COUNTY | | 1 | 3 | 18 | 4 |
| ROSS COUNTY | 4 | 12 | 1 | 6 | 19 |
| SANDUSKY COUNTY | | | 1 | | 2 |
| SCIOTO COUNTY | 16 | 9 | 17 | 4 | 7 |
| SHELBY COUNTY | | | 16 | | 5 |
| STARK COUNTY | | | 73 | 19 | 6 |
| SUMMIT COUNTY | | 1 | 72 | 67 | 6 |
| TRUMBULL COUNTY | 1 | 12 | 139 | 21 | 1 |
| TUSCARAWAS COUNTY | | | 5 | 61 | 14 |
| UNION COUNTY | | 2 | 2 | 2 | 3 |
| VAN WERT COUNTY | | | 5 | | |
| VINTON COUNTY | | | 1 | 4 | |
| WARREN COUNTY | 13 | 4 | 3 | 7 | 10 |
| WASHINGTON COUNTY | 1 | 1 | 6 | 482 | 264 |
| WAYNE COUNTY | | | 2 | 2 | 3 |
| WILLIAMS COUNTY | | 1 | | 2 | |
| WOOD COUNTY | | | | 2 | 12 |
| WYANDOT COUNTY | | | 2 | 1 | 2 |
| | | | | | |
| * Losses where the county could not be determined are not included. | | | | | |
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