

July 17, 2017

The Honorable Michael Crapo
Chairman
Banking, Housing & Urban Affairs Committee
U.S. Senate
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Banking, Housing & Urban Affairs Committee
U.S. Senate
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
4340 O'Neill Federal Office Building
Washington, DC 20515

Re: Flood Insurance Market Parity and Modernization Act (S. 563/ H.R. 1422)

Dear Chairman Crapo, Ranking Member Brown, Chairman Hensarling, and Ranking Member Waters:

On behalf of the National Association of Insurance Commissioners (NAIC)¹, we write to reiterate our strong support for the Flood Insurance Market Parity and Modernization Act (S. 563/H.R. 1422) and urge its inclusion in National Flood Insurance Program (NFIP) reauthorization legislation.

State insurance regulators support facilitating increased private sector involvement in the sale of flood insurance as a complement to the NFIP to help provide consumers with more choices and additional coverage features potentially at more affordable prices. While the overwhelming majority of flood insurance is written by the NFIP, more sophisticated risk mapping and modeling have developed in recent years enabling the private market to more accurately price the risk and generating new interest among private insurers to provide such coverage.

As insurers develop new private flood insurance products, state regulators will continue to monitor and study them to ensure that insurance consumers are protected and treated fairly by financially sound insurance companies. States have nearly 150 years of experience supervising the business of insurance, protecting insurance consumers, and balancing affordability with solvency. Strong consumer protections have long been a fundamental tenet of our supervision and are embedded in our regulatory system.

¹ Founded in 1871, the NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and the five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

States' Unfair Trade Practices Act and Unfair Claims Settlement Practices Act laws are among the tools that provide a framework of consumer protection that gives state insurance regulators broad authority to intervene on behalf of insurance consumers. We license insurance companies and agents that sell products in our states, as well as enforce the state insurance code with the primary mission of ensuring solvency and protecting insurance consumers, while also fostering an effective and efficient marketplace for insurance products. Strict standards and keen financial oversight are critical components of our solvency framework. We monitor insurers' capital, surplus, and transactions on an ongoing basis through financial analysis, reporting requirements, actuarial opinions, and cash flow testing. Our state-based insurance regulatory system relies on an extensive system of peer review, communication, and collaboration to produce checks and balances in our regulatory oversight of the market. This, in combination with our risk-focused approach to financial and market conduct regulation, forms the foundation of our regulatory system for all insurance products in the U.S., including private flood insurance.

Like many types of new coverages, private flood insurance is being developed and offered first by surplus lines insurers, which typically insure unique or otherwise difficult to underwrite risks that the traditional admitted market is, at least initially, reluctant to insure. While the surplus lines market is regulated differently than the admitted market, state insurance regulators have significant authorities to ensure consumers are well-protected, including capital, surplus, and eligibility requirements on surplus lines carriers and the ability to hold both the insurer and the broker responsible for any misconduct.

Specifically, state insurance regulators oversee the surplus lines insurance marketplace by imposing solvency requirements on eligible U.S.-based carriers and licensing and supervising surplus lines brokers. Surplus lines insurers domiciled in a U.S. state are regulated by their state of domicile for financial solvency and market conduct. Surplus lines insurers domiciled outside the U.S. may apply for inclusion in the NAIC's Quarterly Listing of Alien Insurers. The carriers listed on the NAIC Quarterly Listing of Alien Insurers are subject to capital and surplus requirements, a requirement to maintain U.S. trust accounts, and character, trustworthiness and integrity requirements. Importantly, the insurance regulator of the state where the policyholder resides also has authority over the placement of the insurance by a surplus lines broker and enforces the requirements relating to the eligibility of the surplus lines carrier to write policies in that state. In the event an insurance consumer is the victim of misconduct by the broker, the insurance regulator can sanction the broker or revoke their license. If there is a problem with coverage and a claim being paid, whether resulting from acts of the broker or insurer, the insurance regulator can ultimately hold the broker liable for the full amount of the policy. This regime provides strong incentives for surplus lines brokers to not only comply with applicable laws themselves, but also to sell policies from surplus lines carriers that are in a strong financial condition and in good standing. Most state insurance regulators can also use their authorities under the state Unfair Trade Practices Act and similar statutes to ensure consumers are protected, including that claims are paid, the insurer or broker is not misrepresenting what is in the policy, as well as remedying other bad conduct.

As the private flood insurance market grows and more companies offer coverage, including admitted carriers, state insurance regulation will continue to evolve to meet the size and breadth of the market as well as the needs of consumers. In recognition of this growing market, the NAIC developed a requirement for insurers to include a line item in their annual financial statement highlighting their private flood insurance activity. This data will provide state insurance regulators with a comprehensive overview of the size of the private flood insurance market and provide us insights into the market as it grows. State insurance regulators have a long history of monitoring the emergence and innovation of new products and coverages, and tailoring regulation over time to ensure consumers are appropriately

protected and policies are available. We remain extensively engaged to promote an optimal regulatory framework—and private flood insurance is no exception.

We commend Senators Heller and Tester and Representatives Ross and Castor for introducing the Flood Insurance Market Parity and Modernization Act to help encourage greater growth in the private flood insurance market, provide consumers with additional choices for flood insurance products, and make clear that the state insurance regulatory authorities that have long protected insurance consumers and allowed for the growth of a vibrant insurance market will apply to private flood insurance. State insurance regulators will meet any new challenges posed by a dynamic private flood insurance market and remain committed to effective regulation and consumer protection.

We look forward to working with you to advance this critical legislation as part of NFIP reauthorization.

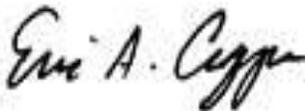
Sincerely,



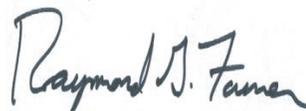
Theodore K. Nickel
NAIC President
Commissioner
Wisconsin Office of the
Commissioner of Insurance



Julie Mix McPeak
NAIC President-Elect
Commissioner
Tennessee Department of
Commerce & Insurance



Eric A. Cioppa
NAIC Vice President
Superintendent
Maine Bureau of Insurance



Raymond G. Farmer
NAIC Secretary-Treasurer
Director
South Carolina Department of Insurance



Michael F. Consedine
Chief Executive Officer
National Association of Insurance
Commissioners

Cc: The Honorable Dean Heller, U.S. Senate
The Honorable Jon Tester, U.S. Senate
The Honorable Dennis Ross, U.S. House of Representatives
The Honorable Kathy Castor, U.S. House of Representatives