

Lyn Elliott
Assistant Vice President,
State Government Relations

March 23, 2022

The Honorable Mia Costello and Members of
the Senate Labor & Commerce Committee
State Senate
Alaska State Capitol
Juneau, Alaska 99801-1182

Via Email

RE: Senate Bill 160, Alaska Flood Authority and Fund

Dear Chair Costello and Members of the Committee:

The American Property Casualty Insurance Association (APCIA) strongly opposes passage of Senate Bill 160 as it would create an unnecessary financial burden on the state, the citizens of Alaska, and property insurers covering homes and businesses in the state. APCIA's more than 1200 member companies write almost 77 percent of all the "Write-Your-Own" business in the National Flood Insurance Program (NFIP) and more than 85% of all the private flood insurance in the United States.

SB 160 would create an entirely separate state-run program to write flood insurance in Alaska, purportedly to "increase the availability of flood insurance in the state". Currently, the NFIP provides over \$600 million in flood insurance coverage in Alaska through just over 2,300 policies. Another important fact is that the average claim payout from the NFIP over the last 10 years was \$28,900 per loss. While those numbers are significant, the number of properties protected by flood insurance represents a small percentage of the number of properties located in the state so, yes, indeed there is a significant need for more flood insurance to be purchased in the state of Alaska.

Flood insurance is available through the NFIP and private insurers. Any geographic area that participates in the NFIP is eligible to purchase flood coverage through the NFIP. While not all communities in Alaska participate in the NFIP, participation is vitally important as it establishes minimum standards for communities in order to reduce flood losses. The state plays a key role in leading those mitigation efforts through coordination and collaboration with communities. The state, local communities, tribes, territories, and individuals should prioritize mitigation projects, mitigation planning, and the adoption or strengthening of building codes and zoning regulations to improve resilience and reduce flood insurance rates.

SB 160 would establish mandatory property insurance company participation in a state-run residual market for flood insurance. This type of program does NOT exist currently in ANY state, and indeed, the NFIP was formed in 1968, at the federal level to address flood insurance availability and affordability at that time. To

this day, many believe that the NFIP is already the residual market insurer for flood insurance. The program is currently undergoing a comprehensive revision of its program and will operate more like a regular insurance program with risks rated individually based on specific criteria rather than just by zone. This will help, provided the community participates in the NFIP, match the premium to the risk of loss – thereby making flood insurance more affordable if loss prevention steps are taken.

The great State of Alaska cannot afford to shoulder the responsibility for flood losses on its own, and neither can insurers writing property insurance in the state. In fact, establishing such program could create the opposite problem for Alaska, less availability of standard property insurance in the state as some insurers would not be able to accept this additional financial burden. This was another reason, at the time, for the formation of the NFIP, that can spread this risk countrywide and even, as it currently has done, to the U.S. government and taxpayers. The chances of loss are significant in Alaska, and in other states in the U.S. as well. The ability to spread that risk is important and even the NFIP has purchased protection (reinsurance) that helps spread flood losses worldwide.

The key to Alaska's flood insurance availability problem will not be solved by the passage of SB 160. The steps needed to address the issue, reside with the state and the boroughs that need to take the steps necessary to participate in the NFIP. Without that participation, which requires meeting certain mitigation (loss reduction) standards, the citizens of Alaska will continue to experience flooding, and the financial risk to the state and insurers writing business in the state could be catastrophic as well.

The bill calls for up to \$10 million of state funds to be used to pay for flood losses if the premiums are not adequate. That \$10 million would be better spent on reducing losses or to encourage more boroughs to participate in the NFIP so that flood insurance would be more widely available. Also, the plan essentially calls for "risk-based rates". Yet, the bill replaces the word "shall" with "may" in the Alaska's rating law that currently reads in part that, "rates shall not be excessive, inadequate, or unfairly discriminatory". This appears to imply that the rates would not be adequate, creating a potential subsidy and, again, a potential financial exposure not only to insurers, but to the state as well. Property insurance premiums in Alaska in 2021 were \$357.5 million and those are used to pay for all types of losses (e.g., fire, theft, wind, etc.) but importantly, NOT flood.

While we appreciate the concern expressed with regard to the availability of flood insurance, mandatory participation in a program that could be significantly underpriced is a recipe for a financial disaster, in addition to the flooding disasters that can already occur.

Accordingly, for the reasons above APCIA and our members strongly oppose further consideration or passage of SB 160. We respectfully urge your no vote. If you have any questions or would like additional information, please contact me at Lyn.elliott@apci.org or 720-610-9473.

Sincerely,



Lyn D. Elliott
Assistant Vice President, State Government Relations
Mountain Region

Cc: Lori Wing-Heier, Director, Alaska Division of Insurance

Alaska — Risk Rating 2.0

With the implementation of Risk Rating 2.0, FEMA delivers rates that more accurately reflect flood risk and ensure the National Flood Insurance Program will be here for this generation and generations to come.

National Flood Insurance Program in Alaska

NFIP Policies in Force by County in Alaska



A significant part of FEMA's NFIP Transformation is Risk Rating 2.0, which will fundamentally change the way FEMA prices insurance and determines an individual property's flood risk.

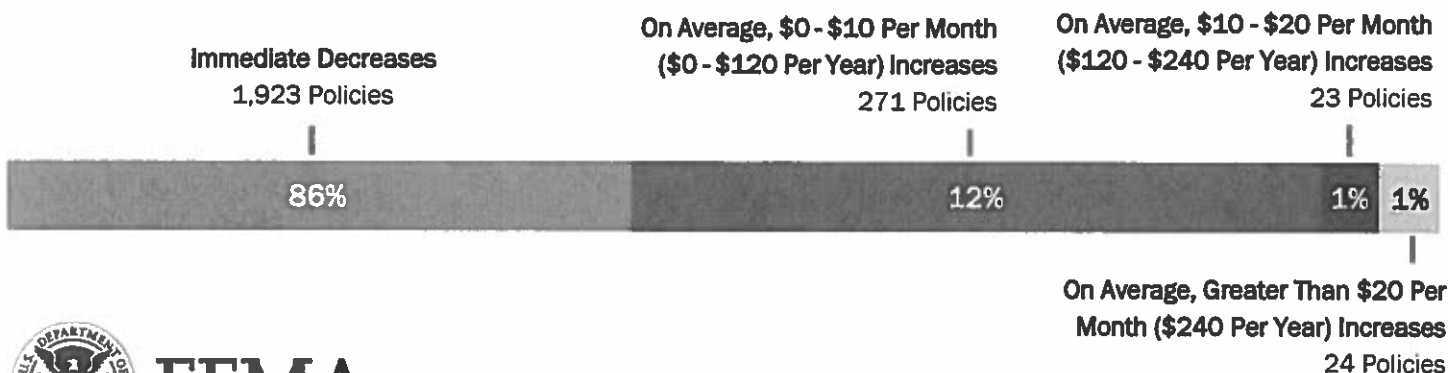
Risk Rating 2.0 is equity in action. With Risk Rating 2.0, individuals will no longer pay more than their share in flood insurance premiums based on the value of their homes. Roughly two-thirds of policyholders with older pre-FIRM homes will see a premium decrease.

FEMA will reduce disaster-related suffering and disaster-related costs in Alaska through insurance and the mitigation of flood risks by leveraging advances in industry best practices, technology, and flood risk modeling.

FEMA's core mission and programs continue to emphasize purchasing flood insurance and pursuing mitigation options to achieve resiliency. While there are many policies in force in Alaska, there are still opportunities to increase participation in the program to improve resilience, as shown in the table below.

NFIP Policies in Force in AK	Properties in AK Not Covered by NFIP Policy	Average NFIP Claim Payout in AK in the Past 10 Years	Average Individual Assistance Claim Payout in AK in the Past 10 Years
2,300	252,000	\$28,900	\$6,800

Risk Rating 2.0 in Alaska



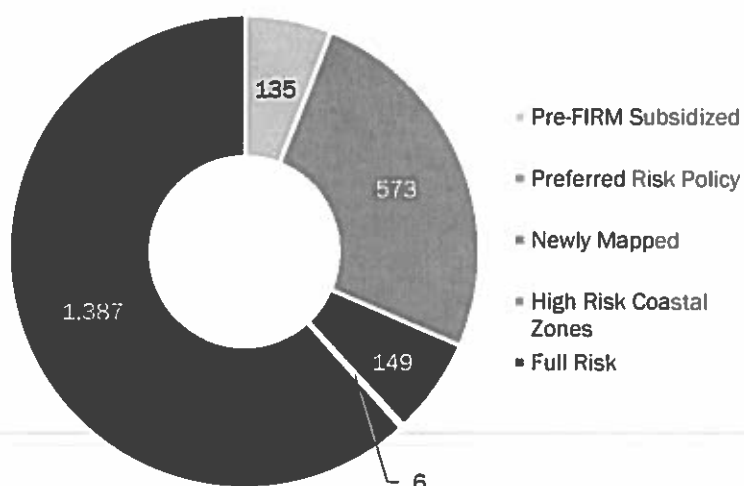
FEMA

Under the current methodology, all NFIP policyholders have been subject to premium increases every year. Risk Rating 2.0, from a premium increase perspective, does not deviate significantly from the current methodology except annual increases will eventually stop under Risk Rating 2.0 once the full-risk rate is realized. Premium increases will also be subject to the 18% per year cap set by Congress for most policies.

99% of current policyholders' premiums will either decrease or increase by \$20 or less per month under Risk Rating 2.0.

What can you do? Mitigate to Reduce Rates in Alaska

NFIP Policies in Force in AK by Rate Class



The chart to the left identifies policyholders in Alaska who may need the most help to reduce flood insurance rates. They will be paying their true flood risk rate under Risk Rating 2.0, and by implementing mitigation measures while on a glidepath to their full risk rate, they can help reduce their costs.

The state plays a key role in leading those mitigation efforts through coordination and collaboration with communities. States, local communities, tribes, territories, and individuals should prioritize mitigation projects, mitigation planning, and the adoption or strengthening of building codes and zoning regulations to improve resilience and reduce flood insurance rates.

Participate in the Community Rating System (CRS)

Communities will continue to earn National Flood Insurance Program rate discounts of 5% - 45% based on the Community Rating System classification. The discount will be uniformly applied to all policies throughout the participating community, regardless of whether the structure is in the Special Flood Hazard Area (SFHA).

Currently, policyholders in CRS communities save an average of \$162, or 15%, per year on their flood insurance policy. To date, there are 24,500 communities that participate in the Community Rating System.

As of Oct. 1, 2020, 7 communities in Alaska participate in the Community Rating System. To view the list of participating communities and their current class rating, visit www.fema.gov/community-rating-system.



Apply for Hazard Mitigation Assistance Grants

Hazard Mitigation Assistance (HMA) grants are available for pre-disaster and post-disaster mitigation projects. As of October 1, 2021 for new policyholders and April 1, 2022 for existing policyholders, projects involving installing flood openings per 44 CFR 60.3 criteria, elevating structures, and elevating machinery and equipment above the first floor (i.e. hot water heaters) may reduce rates both inside and outside SFHAs. For detailed information, refer to the "Risk Rating 2.0 Equity in Action" fact sheet.

HMA Program	Program Information
Flood Mitigation Assistance (FMA)	<ul style="list-style-type: none">• Pre-Disaster grant program• Obligations of \$1.4 billion from 2004 to 2021• More information: https://www.fema.gov/grants/mitigation/floods
Building Resilient Infrastructure and Communities (BRIC)	<ul style="list-style-type: none">• Pre-disaster grant program• Obligations of \$1.2 billion from 2020 to 2021• More information: https://www.fema.gov/grants/mitigation/building-resilient-infrastructure-communities
Hazard mitigation Assistance Grant Program (HMGP) and HMGP Post Fire	<ul style="list-style-type: none">• Post-disaster grant program• Obligations of \$15.3 billion from 1990 to 2021• More information https://www.fema.gov/grants/mitigation/hazard-mitigation and https://www.fema.gov/grants/mitigation/post-fire

Take Action to Reduce Flood Risk

States, tribes, territories, local communities, and individuals can all take mitigation actions to reduce their flood risk and potentially reduce their flood insurance premiums.

STATES/TRIBES/TERRITORIES

- Promote/expedite pre-disaster HMA grant applications for FMA and BRIC.
- Prioritize, plan for, and take advantage of HMGP funding after a disaster occurs.
- Offer tax credits for flood mitigation.
- Establish and maintain a revolving loan fund for flood risk reduction projects.
- Promote higher regulatory standards for development.

LOCAL COMMUNITIES

- Participate in the Community Rating System.
- Prioritize mitigation grants for owners of Severe Repetitive Loss and Repetitive Loss properties.
- Apply for Hazard Mitigation Assistance grants through the state.
- Adopt and enforce building codes and zoning regulations.

PROPERTY OWNERS

- Buy flood insurance.
- Install flood openings or elevate the home, and elevate all machinery and equipment to a higher floor such as hot water heaters.
- After a flood, NFIP policyholders in the SFHA should consider using Increased Cost of Compliance (ICC) coverage to access up to \$30,000 to help cover the cost of elevating, relocating, or demolishing substantially damaged structures.
 - For a structure to qualify as being substantially damaged, the total cost of repairs must be 50% or more of the structure's pre-flood market value. Non-residential buildings may choose floodproofing as an option in addition to elevation, relocation, or demolition.
- Severe Repetitive Loss and Repetitive Loss homeowners should contact their local floodplain manager and State Hazard Mitigation Officer to learn how up to 100% of mitigation project costs may be covered.

Additional Information

For more information on ICC and substantial damage, visit:

- <https://www.fema.gov/floodplain-management/financial-help/increased-cost-compliance>; and
- <https://www.fema.gov/press-release/20201016/fact-sheet-substantial-damage-what-does-it-mean>.