



Statement  
of the  
National Association of Mutual Insurance Companies  
to the  
United States House of Representatives  
Committee on Homeland Security Subcommittee on Emergency  
Preparedness, Response, and Communications  
Hearing on  
A Prepared Community is a Resilient Community  
Staten Island University Hospital Regina McGinn Community  
Educational Center  
July 11, 2016

**A Prepared Community is a Resilient Community**

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**Introduction**

The National Association of Mutual Insurance Companies (“NAMIC”) is pleased to provide a statement for the record on ways to make our nation’s communities more resilient in the face of a rising number of devastating extreme weather events.

NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 40 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country’s largest national insurers. NAMIC member companies serve more than 170 million policyholders and write nearly \$225 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets.

Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

In 2011, recognizing the growing number of severe weather events and unsustainable path of our nation’s disaster spending, NAMIC launched the BuildStrong Coalition. The coalition is comprised of insurers, architects, emergency managers, builders and contractors, firefighters, and code officials, who all share the commitment to developing a national mitigation strategy that incentivizes states, businesses, and consumers to build more resiliently.

**The Rising Cost of Natural Disasters**

Natural catastrophes are increasing in frequency and severity every year. For instance, the number of federal disaster declarations stemming from extreme weather events such as winter storms, thunderstorms, tornadoes and hail, tropical cyclones, extreme temperature fluctuations, and drought has sharply risen in recent years, climbing from an average of 39 between 1976 and 1995, to 121 between 1996 and 2015. And with each disaster, the federal government is on the hook for more of the cost. In 1955, the federal government paid approximately 6 percent of national disaster costs per year; after Hurricane Katrina in 2005 covered 50 percent of losses, and following Superstorm Sandy, the federal government was on the hook for more than 75 percent of those losses.

The U.S. has spent nearly \$1 trillion dollars on disaster recovery and rebuilding since 1983 with more than 10 percent of that coming since 2011, and over \$60 billion spent on Superstorm Sandy alone. That is roughly \$400 per household annually. This unsustainable path of disaster spending is not the only glaring problem: at a time where the U.S. system is heavily skewed towards reactive post-disaster mitigation spending rather than thoughtful long-term investing in pre-disaster mitigation, the nation has over \$10 trillion of property in areas at high risk for disaster losses.

Natural disasters not only disrupt lives and destroy homes, but they also destroy livelihoods and cause an enormous amount of lost economic activity. A study by the National Federation of Independent Business found that 30 percent of small businesses fail to reopen following a

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presidential disaster declaration or emergency. It is clear that while many natural catastrophes are short lived, the economic imprint on a community can linger for years afterward.

**Research Shows Power of Stronger Building Codes**

The scientific evidence for strong building codes as a disaster mitigation strategy is consistent and conclusive. The enforcement of strong building codes, particularly at the state level, reduces vulnerabilities in the built environment on a macro level and will significantly reduce long-term losses. In the aftermath of Hurricane Katrina, the Louisiana State University Hurricane Center estimated that strong building codes could have reduced wind damage by 80 percent, saving \$8 billion in losses. A separate study looked at the impact of building codes during a Category 3 hurricane in Mississippi and concluded that strong building codes would reduce damage on approximately 40,000 buildings, saving an estimated \$3.1 billion. And the Congressional Budget Office has found that for each \$1 spent on pre-disaster mitigation, such as the adoption of stronger building codes, future losses are reduced by approximately \$3.

Through the work of the Insurance Institute for Business and Home Safety (“IBHS”), which simulates the effect of natural disasters on residential and commercial structures at a state-of-the-art testing facility in Greenville, S.C., the property/casualty insurance industry has gained additional data regarding the power of stronger building codes. For instance, we know that the IBHS FORTIFIED standard, which applies to both new and existing structures, is proven to strengthen homes from hurricanes, high winds, hail, and thunderstorms, and will result in significantly less damage from natural disasters. Beyond the science, however, is the real-life evidence to support the benefits of stronger building codes. There were 13 homes built to IBHS FORTIFIED standards on the Bolivar Peninsula, just north of Galveston, Texas. Three were knocked down by other houses during Hurricane Ike, not by storm surge or high winds. The remaining ten were virtually the only homes on the peninsula that survived and were able to be repaired.

**FEMA’s Current Approach: Reactionary Rather than Proactive**

Despite overwhelming evidence of the power of mitigation and stronger building codes, in a report released last summer, the Government Accountability Office (“GAO”) found the federal disaster system to be fragmented and heavily skewed towards reactive post-disaster spending rather than long-term investing. While recognizing that FEMA’s immediate mandate of ensuring survival post-disaster can make any effort to incorporate mitigation in to the recovery process problematic, the GAO determined that the federal government, including FEMA, lacks a strategy for investing in mitigation.

From 2011-2014, the GAO found that FEMA spent 14 times more on post-disaster mitigation than on pre-disaster measures, allocating roughly \$222 million through its Pre-Disaster-Mitigation (“PDM”) program compared to \$3.2 billion through the post-disaster Hazard Mitigation Grant Program. This glaring imbalance is an indicator of our federal disaster system’s approach of “wait and see” rather than taking pro-active steps to make communities more resilient.

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**A National Strategy for Investing in Mitigation**

In an effort to shift policy away from the manner in which the federal government does little to prepare communities before disaster strikes only to dole out billions to federal agencies in their aftermath, NAMIC and the BuildStrong Coalition released a comprehensive disaster spending reform report last fall. The report, titled “End the Cycle of Destruction: The U.S Should Invest More Before Disasters Through a Comprehensive Mitigation Strategy” highlighted a number of principles that should be the core of a national, comprehensive strategy for investing in mitigation. These principles were designed in part based on GAO’s recommendation that the most effective way to reduce losses is through pre-disaster mitigation and the facilitation of strong building codes through a package of incentives.

Since the release of the report, NAMIC and the Coalition have worked with members of Congress to turn those principles into a legislative package, known as the National Mitigation Investment Act, H.R. 5177. H.R. 5177, introduced by Reps. Carlos Curbelo (R-FL) and Albio Sires (D-NJ), would incentivize mitigation on a broad scale at the state, local, and individual level in a comprehensive and efficient manner, create a comprehensive study on disaster losses and trends, and establish a first-of-its-kind building code enforcement grant program inside of FEMA. The components of the National Mitigation Investment Act are described in further detail below:

**Incentives to Build Stronger**

H.R. 1748, The Safe Building Code Incentive Act, has been the most widely supported disaster reform legislation in Congress and is included in Section 4 of the National Mitigation Investment Act. Strong, enforced statewide building codes promote a level, predictable playing field for designers, builders, and suppliers and are the simplest and most effective means of disaster mitigation. H.R. 5177 would increase the amount of federal monies available to a state under current disaster relief legislation by four percent if that state adopted and enforced nationally recognized building code standards.

**Comprehensive Study on Disaster Losses, Trends, and Mitigation**

H.R. 5177 would create a commissioned study on comprehensive disaster costs and losses that will foster recommendations on how the federal government can reduce its exposure, particularly through pre-disaster mitigation measures. The study commissions the Administrator of FEMA to commence through the National Advisory Council (NAC) a panel to conduct this study, the type of which hasn’t been undertaken in more than 20 years.

**FEMA 5-Year Pilot Building Code Grant Program**

H.R. 5177 would create a new building code grant enforcement program inside FEMA that would provide states and localities federal grants to enforce qualified building codes. In many instances, states have the political will to enact a strong building code but lack the budget resources to pay for a quality inspection and training regime. This grant program would sunset five years after enactment of H.R. 5177.

### **Incentives to Promote Resiliency**

There are other legislative and regulatory initiatives NAMIC supports in tandem with H.R. 5177. Each is critical to the creation of a comprehensive strategy for investing in mitigation that includes incentives for states, individuals, and contractors to build more resiliently.

### **The Disaster Savings and Resilient Construction Act of 2015, H.R. 3397**

Introduced in late July by Rep. Tom Reed (R-NY), the Disaster Savings and Resilient Construction Act of 2015 would provide a tax credit to owners of qualified residential and commercial property that meets the 2009 or later International Code Council Standards, has received the designation of FORTIFIED for Safer Living/Business from the IBHS, and was constructed within three years following the occurrence of a disaster. In the case of qualified residential property, homeowners can receive up to a \$3,000 credit, and for qualified commercial property business owners can receive up to \$25,000.

### **The Disaster Savings Account Act, H.R. 2230**

The Disaster Savings Account Act, introduced by Rep. Dennis Ross (R-FL) would allow eligible individuals to deduct up to \$5,000 contributed to a designated “disaster savings account.” An eligible individual is defined as any individual who owns a home in the U.S. that is insured. A disaster savings account would be a trust created in the U.S. exclusively for the purpose of paying disaster mitigation expenses of the trusts beneficiary.

### **FEMA’s Disaster Deductible Concept**

FEMA announced in January that it is considering creating a disaster deductible, which would require a predetermined level of financial or other commitment from a recipient, generally a state or local government, before receiving assistance following presidential major disaster declarations. As part of this effort, FEMA is considering allowing recipients to receive credit toward their deductible requirement through proactive pre-event actions such as undertaking mitigation measures, including the adoption of enhanced building codes. NAMIC is supportive of the concept and believes the adoption and enforcement of standardized and enhanced building codes in exchange for a reduction in the amount of the deductible would be the most effective means to incentivize recipients to mitigate disaster-related losses.

### **A Major Discovery**

The 2015 disaster reform report revealed that according to the last publicly available data, billions of dollars appropriated over three years ago for Superstorm Sandy relief remain unspent. Further, of the more than \$50 billion appropriated to various federal agencies as part of the Sandy relief package, more than half, \$36 billion, went to non-FEMA agencies like the Department of Housing and Urban Development and the Department of Housing and Transportation, going towards a variety of infrastructure projects around the nation. NAMIC believes that by shifting the federal government’s approach to disasters from reactive, post-disaster spending to thoughtful, long-term investing, solutions like H.R. 5177 will help ensure the kind of waste and misuse of relief funds that occurred following Superstorm Sandy does not happen again.

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**Conclusion**

NAMIC thanks Chairman Donovan and members of the subcommittee for examining the important issue of community resilience. While NAMIC commends FEMA for taking steps to increase the resilience of states and local communities through the exploration of a disaster deductible concept, we maintain the position that FEMA currently invests far too little on pre-disaster mitigation. The components of the National Mitigation Investment Act, as well as those in the Disaster Savings and Resilient Construction Act, the Disaster Savings Account Act, and FEMA's Disaster Deductible Concept, would address the major flaws in the federal disaster spending system by fostering a national and comprehensive strategy for investing in mitigation.