NATIONAL FLOOD INSURANCE PROGRAM

FLOOD INSURANCE MEETING

Scottsdale, Arizona
January 16, 2001
12:58 o'clock p.m.
Day 1 of 3

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(COPY)

P R O C E E D I N G

commenced at 12:58 o'clock p.m. on January 16, 2001, at the La Posada Resort, 4949 East Lincoln Drive, Scottsdale, Arizona, before MICHAELA HERMAN DAVIS, a Certified Court Reporter, in and for the County of Maricopa, State of Arizona.

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A P P E A R A N C E S

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FEDERAL INSURANCE ADMINISTRATION

MR. HOWARD LEIKIN
DEPUTY ADMINISTRATOR
FEDERAL INSURANCE ADMINISTRATION

MR. FRANK REILLY

MR. EDWARD L. CONNOR
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PANEL MEMBERS:

MR. FRANK REILLY
MR. LARRY PALMER
MR. HOWARD LEIKIN
MS. CORISE MORRISON

R E C E S S E S T A K E N

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MR. CONNOR: Let me begin by saying good afternoon to you all and happy new year to each and every one of you. Some of you I've spoken to individually, and I've extended my greeting. For those I've missed, happy new year, and let's hope you'll have a prosperous year like last year.

My name is Ed Connor, for those of you who don't know me. I work for the Federal Insurance Administration, and I want to welcome you to this meeting here in Scottsdale as we discuss strategies related to the Write Your Own expense allowance and other issues that relate to the expense allowance.

I also want to thank you for your partnership and for your shared cause in this very important program. I think that by virtue of the fact that you all are here, your presence here pretty much speaks to your interests and also reflects the sustained relationship and partnership that we've had over the last almost 17 years.

If you've had a chance to look at your agenda, I think most of you are looking at it right now, you'll see there's a lot of ground we have to cover in the next couple of days, and hopefully we'll get through everything that we need to get to.

But to start things off, I am honored that I am able to introduce our first speaker, my boss, Jo Ann Howard, who is the administrator of the Federal Insurance Administration.

Jo Ann.

MS. HOWARD: Thanks, Ed.

This looks a little bit like the Sunday school classes I used to teach where everybody comes in and sits in the back. But that's okay. We're all friends here, and I do feel very much among friends.

I guess in looking at the National Flood Insurance Program, it really is, in fact, the Write Your Own program. I don't think there would be a healthy flood insurance program today were it not for the Write Your Own program because 95 percent of our policies are written by the Write Your Own carriers. And it is this partnership that has given so much stability, I think has fostered innovation and has been the -- has been the producing force of all of these policies that have gone on the books in the last two or three years.

So we're here to really look and see how we are in the relationship, where we can strengthen the partnership, and the ways that this partnership can continue to demonstrate, I think, the best of government.

And that is where you bring the private industry in as partners. And I can assure you from working at FIA, and with the staff at FIA, that on every decision we make in policy, that how it affects the companies is one of the first viewpoints we consider. And that is never lost. And you have advocates in the staff who are thinking about this partnership at every step in the way.

You may be wondering why we're having a meeting here in Arizona with a transition going on in Washington. And right now, I'm wondering that too. They asked me if I could be at a meeting in the morning at FEMA, and I couldn't tell them I was too busy. So I'm going to be leaving here this afternoon. In fact, my flight is about 3:30 so I can get back tonight to be there in the morning.

I will answer questions when I finish. I really want to answer honestly any questions you have about any part of where we are or anything connected with the politics of it or whatever you want to talk about. I'll give you a chance, but I will say that this is a time of a bit of uncertainty for me personally but not of uncertainty of where the program is or how strong it is or where we're going.

As a political appointee, you know in coming in that you're there at the pleasure of an administration. In this case, you know, we had a prolonged period of time of not knowing exactly which party would be up on the podium this Saturday. And then with a very compressed transition time, there's a great deal more uncertainty than, I think, is customary, from what I understand, as far as a transition and who will be where when. So there are many things that I don't know about the process.

I've had a lot of advice from a number of good friends, and a lot of my Republican friends in Texas have been very, very strong in supporting me in continuing some of the things that we're doing together.

Having said that, there are a lot of factors at work, and there are always many good people to fill important positions in government. And when you think that there are about 35- to 40,000 people who said they would like to fill the 2,000 jobs that are political appointments, you know that there will be a lot of sifting and there's a lot of papers stacked up.

One of my good friends from Texas is going up to work in the White House, and she told me this morning that she will be up there in the morning. She said she told them that she would be there in two weeks, and they said, We need you in two hours. And so that tells you the urgency and I think just the backlog of administrative work that's going on.

But I'm very pleased with the fact that Joe Allbaugh is coming as President-elect Bush's head of FEMA because it's a sign that the new administration recognizes the importance of FEMA and its mission. Allbaugh, A-L-L-B-A-U-G-H, pronounced Allbaugh.

You know, some of us who are very provincial consider unless someone lived in a state 20 or 25 years are newcomers. When my husband and I moved to east Texas and we hadn't grown up there, 15 years later people were still saying, Oh, yeah, the Howards, remember, they moved here.

So, fortunately, Ed was elected to the legislature and was there six or seven years. And they were shocked. They thought you had to be a third generation in those areas before you were considered part of the community.

Joe came to Texas as a political

consultant with Governor Bush's first campaign. I worked with him in the '98 floods in Texas when we went down. He was the governor's representative on the flood issues. He's been primarily a behind-the-scenes person in Austin working in the governor's office, but is not a particularly -- has not been one of the spokespersons.

You've seen Carl Rove, you've seen Karen Hughes through all the publicity. Carl Rove being the brilliant political strategist and Karen Hughes being the press person. Joe has been much more in the background. Has a crew cut, kind of military bearing, and is quite a direct, take-charge person.

But working with Joe in the floods, he was quite interested in what we were doing. He was very involved and, I think, will provide solid leadership. But the good news is that he's so close to the President, much like James Lee was to President Clinton. Any time you have a head of the agency that is close to the President, you know that agency is going to get lots of attention.

And he will maintain a cabinet position, as James Lee did, which is kind of an ex officio, but it means he will be there in all those cabinet meetings. Which as a coordinating agency, it's very important to have that kind of firepower.

Carl Rove, Joe Allbaugh and Karen Hughes, we'll call the iron triangle because they were the steady, behind-the-scenes people who have really been right behind George W. Bush these six years.

Last year at the White House correspondents' dinner, I saw Carl Rove, Joe Allbaugh and John Evans, who is now secretary. The Washington people didn't recognize them. They weren't luminaries.

I sat down and had a nice visit. Joe was complaining about having to put on a tux. He had on his cowboy boots, and you could tell he was more comfortable in the boots than he was the tux. But I had a nice visit with him, and it's amazing how, you know, a year can make a difference in people that you knew well enough to go up and talk to and have just kind of chitchat conversation. When they get on a national stage, it's very much protected by layers and layers and layers.

So I've spoken with Mr. Allbaugh and congratulated him. He is not at FEMA yet, but he will be tomorrow. How much he will be there the next couple of days, I'm not sure.

As you know, all the inaugural to-do is

coming with a great deal of security. I know that this seems to be one of those times that people in Washington, as far as Peter LaPor, the emergency manager and the committee, seem to be very, very diligent in making sure that there is not only adequate but, it seems like, extraordinary security. So things may move slowly.

I have children coming up, and they will be coming in Thursday night and Friday. And we're sort of trying to jockey for tickets for things still. I have two tickets to the Black Tie and Boots for which I paid $75 for as a member of the Texas society. They are on E-bay, someone told me, for 3,000, which is really tempting. But I promised my kids that if we don't get enough tickets for all of us to go, my son and daughter-in-law -- my son, Jay, I will have to say that we have various views in a family, just like you do in your family.

Jay was on the Florida recount and went to Palm Beach twice and sat there looking at those chads and ballots. He has all those T-shirts that says he's on the A team and Palm Beach teams. So needless to say, he has good tickets to everything.

But he and my daughter-in-law are coming. My daughter, who is a new attorney in Austin, and a granddaughter are coming. So we're sort of trying to get the thermal underwear and the coats.

I'll get on to what I'm going to say about FIA, but I thought I'd give you some personal insight.

I did get a letter from the Texas society saying checking coats will be such a problem with 15,000 people that we suggest you don't bring a coat. And I thought, Really? It's January. They suggested you not bring a car; that you take the Metro; and that you bring a flask if you want something to drink. I mean, that was sort of an unofficial thing, but you could preorder drink tickets if you call the hotel today. And I was thinking, how would they know? This sounds like a real logistical nightmare.

I know one young couple from Austin who has a hotel room at that hotel. So our strategy is use their room as the coat check and changing room. And for all I know, I'll be up there watching it on television and my kids will be using the tickets below.

I don't want to pass up the opportunity to say how exciting these years have been for me in the program. I think that we're at the cusp in this program, and sort of the most exciting and the best part is just ahead.

I think with our blueprint for the future and what we've done for the past year and a half or two years in really looking very closely at our business, what we're about, our partners and our visions and listening and listening and knowing from agents, from companies, from vendors, from lenders, where they see improvements that need to be made and now starting to act on them.

You can keep taking polls and keep taking polls, but there has to be management in a direction. And I'm really happy to say that I'm so confident in Howard, in Ed Connor and Ed Pasterick and Harriet Kinberg, in Joe Coughlin and Mac Plaxico and many other people at FIA -- Bonnie Shepard -- that there will not be any -- there will not be a gap because this is a business that is moving.

We have a solid background. It's not a political decision. It's not, Oh, let's do this. This has been well thought out, and it's very well mapped. And we have a commitment from the people to enforce it.

And I didn't mention Neil Furst. What will we do without Neil's planning system and making sure we stay on it? And Jim Shortley's looking at those and knowing where we are in claims.

So our challenge is now in enacting this. We now have, and we just had Friday, the first overview of some moves for technology to really start doing the things you're telling us.

Let's get some things going in real time. Let's get feedback to you quickly if there's an error. By the way, we'd like to know how our business is running in much shorter time than 60 days. How can we edit for mistakes and how can we keep you from going through three processes before getting it right? How can we simplify the process?

And Keith Phillips is here with Bozell. And Keith, you're back at the back. I just want you to have a chance to visit with Keith. And we decided not to get into the technology here because that's a whole separate meeting. That is as important as this.

But we can do -- let me just give you one quick line, and I don't want to take anybody's thunder from the next phase, but there are some things we can do with Middle Ware. There are things we can do to extract information that's already on our system that can make it much more available and accessible that will make you feel great and make -- give us all a chance to do business better in the short term.

That's the good news. We know we have several models we can work off of for the future and that's one of the things that the technology subcommittees, that I hope will be formed and that Howard will be putting together, can start discussing. Because we don't have any weeks or months to lose in momentum.

You know, to make a change, and to make a really significant change in improving our systems needs to be well thought through. It needs to have some parallel system. The development has to be done very systematically. And thanks to our Bozell process, we have the background to make excellent decisions about these important technology opportunities.

And the FIA staff is being deliberate but not at all chilled or not afraid to do the right thing. But you as companies can be the best allies for taking these important steps, by demonstrating your confidence once you arrive with FIA or wherever the plan goes.

There's several options. Support them. Your voice, both within FEMA to the director, your voice in articles to the magazines, to articles to put on the web site, your support is absolutely crucial. Because any time you get into expenditures and change, one of the first questions that everyone from Congress to the people in FEMA ask is, How do your partners feel about this? Is this okay with the companies? What's this going to do to the agents? How does this interest fit in? What happens to this? How does this work?

So it's very, very important that you speak up when you think something is -- hey, this won't work because, or, I think we ought to do it this way and that way. And you will be given that opportunity in the short haul. But be very vocal.

And then wherever it comes out, I really urge you to be a strong proponent and really back up these good people who work at FIA because they are there, and they really -- they really do want to do the right thing. I promise you that, and you know that. But give them the support they need and deserve to take some bold steps. And I believe you will.

We're looking at the important evaluation of the program. It will take two or three years to get that done, but it's starting. And I think that that will be one of the biggest markers out there. And it may take two or three years because there are many things -- for instance, how well are communities doing in compliance after 30 years? That isn't completely answered today because the data is not in one place.

You'll have to gather data. You'll have to do sampling. So we're asking questions that are not just on the top of the ground. That would be too easy. We would already have them answered. That will be the best marker for really the future of the program, for directing course, for saying yes, this is working and we know that because of X.

And the fact that we've done that without Congress prodding us, I believe, will be a strength. Because if you wait until somebody puts a gun to your head and says, You do this and you have two years, you are frequently at a disadvantage to really deliberately get into something and do it well. So I think the program will be stronger after that.

I'm sorry all of you couldn't be in December at the E-rating meeting. I know it was a hard time, but I'm trying to push things before the year end. And we had a very, very good dialogue. You should have heard the voices there. And I hope that this is something that I know Howard's committed to continuing. We have Ed Pasterick who has been very,

very active in this area.

We have to get the rating simpler for the agents. Now, we can do some things in the short term to try to make the elevation certificate more user friendly. We can do more training. We've even talked about some innovations perhaps here for a year or two to relieve the agents of some perceived liability of using the EC certificate which you will hear about, I hope, soon.

But it is extremely important that we work together on coming up with some simpler rating. I heard this coming into the program. It's not anything new, it just takes time. And the problem of being an appointee with this much time is you come in and there's everything on the plate.

I feel like if I were staying this next year, I would continue and look at three big things and knowing that Howard and the managers were keeping everything else going. It's hard to take care of the details and the big picture. But they are committed to both taking the day-to-day and this vision. It is so important on the vision.

I don't believe any appointee coming in in the next few years -- and by the way, it will likely take, before another appointee could be in place, it took me seven months. Six months, seven months.

In talking to the transition people the other day, they said, Wow, that was fast. At the beginning of an administration, particularly where you have this huge, huge pool, it will take them a long time.

And as you can imagine, Senate-confirmed positions, those Senate committees have a lot of other meetings they would rather go to than listening to confirmation, so they put them off kind of like a root canal trip. They will do four or five and then maybe a month later have another hearing. So it's a very arduous process. Don't let that deter you or the program.

We forged new partnerships. I'm really pleased that I could bring in some of my relationships from state legislatures and get FIA working in partnership with NCOIL, the National Conference of Insurance Legislators. The state legislators, as you know, are the ones who have complete insurance authority in -- for the private sector.

We forged a close relationship now with NCOIL, and Ed Connor is right on their trail. In fact, we did a $100,000 grant for education. And any time you give people money, they start treating you a little nicer.

But in March in Hilton Head, there's going to be a training session, and we're getting those state legislators understanding the flood program, in understanding floodplain management and how all this fits together because they truly don't know. And want to know. So we have a good relationship now with the insurance legislators and the states.

As you know, we have done the plain English policies. And, I think, look at this as an opportunity to work again with your customers, with your agents. And as we look at what we have, understanding why we have a policy the way we do and what the policy provisions are.

As you know, we've worked long and hard on repetitive loss. And I believe when the new Congress gears up very soon, repetitive loss will be an area they do pass. We have Bentson, Blemenauer and Bereuter. They are very interested.

Repetitive loss makes a difference to our bottom line. I know it's a thorn to you, but from our side with the money, it's a $200,000,000 hole every year for those properties.

Lender compliance. As a matter of fact, we have a meeting coming up this week. I'm going to get back before our meeting to talk to the GAO looking at lender compliance. I'm hoping that GAO is the big muscle to come in and really look at what the lenders are doing and put something on the record that will give Congress the boldness to strengthen lender compliance. To even help even more in making sure that the lenders are, in fact, fully complying with the '94 act because we know that's where we had such a big push in policy.

Well, I hope we use ICC more now that it's up to 20,000. We tried to do that. The actuaries relented and kind of looked at their shoes and went and decided, well, we didn't have that many losses. So if we get a whole trainload of ICC losses, you know, we may find out that we're collecting too little premium for that much benefit, but right now, we're not.

We're looking, as you know, at legal changes in the arrangement that would prevent your companies from being in state court on lawsuits related to the NFIP. In fact, we even, in our new policy, put some language that I understand is working very effectively.

We're looking at how these relationships, as far as responsibilities, should lie in the arrangement. And I think you'll be seeing in the next couple of months, have an opportunity to comment and look at some of these important topics. Because the aim is to get a better, clearer underwriting with some incentives for the responsibility for underwriting, but protection, protection from state court liability and state laws in areas where the companies are complying with the guidance and the rules of the NFIP.

So we come together as partners, and you're on the front line. We value your partnership and what you do. The program is, I believe, one of the best programs out there. The transition team was duly impressed from our discussion with them of the business that we have.

I believe that we have the business of the flood insurance business so well organized and running on such a predictable future of projection that it won't be susceptible to criticism from within or without, as far as how it operates in the interest of government.

So I'm very confident that the best days are just ahead. And I'm hoping that in one capacity or the other, I'll be here or there to enjoy some of those successes.

I believe you'll see the NFIP get government awards. It will take probably a couple of years. You know, it always has to be after something's been completed. I think after the new technology and the new blueprint for the future, I believe that that is a government award just waiting to happen when we go through the process because it will eliminate paper. It will reduce costs from every piece of the system, I'm confident. It will enable information to flow faster and be in the hands of people who need it the most.

I believe Cover America is another topic that's very open for awards, the way we're looking at grass root marketing where we're taking it down to the community level.

The CRS, we've already put it up for a government innovation award, and that's a Frank Reilly creation. Not alone, but certainly he has been the architect of that. The CRS program is working so well.

So I think that you will be proud of the FIA and the NFIP. And, I believe, I predict that within this administration, you will start seeing FIA and FEMA being recognized for some of these innovations, and you can say, oh, I remember when we were in those meetings and we debated it and fought about it. But you know what? We did it. And I'm pleased to say that I was here during that time.

Thank you.

MR. CONNOR: Well, if you take a look at the next speaker, we'll have a slight deviation from the agenda.

There is a special presentation that needs to be made, and I think that Bruce Bender is going to be the one to do that.

MR. BENDER: Actually, Larry and Corise, if you could join me up here.

First, let me welcome you to the sunny southwest. Right. Not my fault. But if you're here Friday for the Write Your Own marketing meeting, it will be sunny then.

Knowing that this may be one of the last times a lot of us are together with Jo Ann, I thought we'd interrupt the meeting and take advantage of it.

When I first heard who the new administrator was going to be and they described achievements, I was very impressed. I said, Who is she? And they said, A little gal from Texas. I think most of us know that "little" is not really the word to apply to her.

It has been a very busy two years for all sections and stakeholders that are related to the program. It's been a privilege knowing Jo Ann professionally as well as personally. I think we all know she's got an absolute heart of gold. And what she asks personally for her friends as well as for the program has always been in the best interest.

She has done big things, which, of course, is very Texan. They do everything big. In fact, our convention in Austin was the biggest one we've had with the most attendees.

I was staying at the Hyatt there in Austin and waiting, like most of us did, for the elevator. There was this big, pot-belly man talking. He was from New Hampshire, if I said that right, and the guy was talking about his property, how big his ranch was and how many head of cattle he had.

Don't take this wrong, Corise.

But just everything was big, big, big. Tractors and trucks and telling the person, My property is so big, it takes all day for me to drive my car from one side of the property to the other. And, you know, New Hampshire is known for the dry wit.

And he looked at the guy and says, you know, I once had a car like that, but I sold it.

Well, Jo Ann has done big things during her time. And, in fact, I went to Yahoo.com and typed in "Jo Ann Howard" and got 365 matches. And I couldn't discuss all these today, but let me hit some highlights first. And this has been two years, which is pretty amazing.

You guided the policy rewrite with enhanced coverages and the simplified wording; you progressively looked at ways to enhance the program; you had the call for issues and recent meetings in December and even now this meeting, and you heard her talking future even though she's not here of what else can be done.

You analyzed ways to improve the FIA internally which has a positive effect on the stakeholders and the program. You reached out for new strategic partners like NCOIL like you just mentioned in your introduction here. You launched a comprehensive study of the NFIP.

You introduced the special direct facilities and found a way to manage the repetitive losses; you enhanced the awareness for the need for flood insurance through Cover America II. You signed on Al Roker. I think that's a great achievement there. You got Visa as a partner.

A lot of progressive things were done in the short period of time. I think very important also was that you filled the deputy administrator's position. That way your mission, your vision, can be carried on as we wait for a new appointee and that ship will continue to sail that you've set sail. And you created that new brand Be Flood Alert.

I know Howard will carry on your mission, Jo Ann, but you will be missed by all of us here. Wherever you'll go, good things will happen, and I know they will happen quickly.

I was wanting to get a T-shirt that said Be Jo Ann Alert because you go in with such great ideas. You took on the flood program like taking on the bit of a bronco and taming that.

And in appreciation of that, the IBHS, FISCAA and Write Your Own marketing committee, we'd like to present you with a couple things, if you wouldn't mind coming up.

First, a plaque that I'll read to you. It says, In recognition of her outstanding achievements and dedication in enhancing and developing the National Flood Insurance Program during here tenure as FIA administrator, Jo Ann Howard is presented this plaque of appreciation. IBHS, FISCAA and the Write Your Own marketing committee.

MS. HOWARD: Thank you so much.

MR. BENDER: And for taming that bronco, so you can remember, a Remington.

MS. HOWARD: How fabulous. Thank you. How do I carry that?

Thank you.

Notice Bruce did not even mention the three-year policy. But thank you.

Let me just say, I don't want to take away this wonderful aura that we have here, and that's very, very kind of you.

I will be easy to find as far as being in Washington. I don't plan to be out of town quickly, in any case. I think that we'll see in the next week or two sort of how things are going to flow.

Now, I said I'd answer some questions. You can ask me anything you're curious about that I can answer, and I will answer it. From, you know, what are my chances? I don't know.

My impression from my friends from Texas is that it is largely the Cheney influence that's guiding the transition and the appointees more than it is the President-elect. Which may seem a little counterintuitive, but when you think about the President suddenly, I mean a month, trying to gear up for a presidency, with his style of management of being very much of a delegator of responsibility, a CEO type of model where you get the best experience in the best places and you hold them accountable, but you don't second guess. You don't make the decisions for them.

James Lee told me this last week too, because several of us thought, of course, they are going to ask James Lee to stay on or ask him to stay for a while. And when that ended up not being the case, and, in fact, I think he only found out about it right before the press conference announcing his successor, it was obvious that things were going very quickly in some accounts.

So I think it's probably more Vice President Cheney's background being kind of a Washington insider than it is the people I know best from Texas who have been the Carl Roves and the people who will be probably the White House staff and very loyal and very close to the President.

But I have a good friend in Texas who is the agriculture commissioner, Susan Combs, and I think she was anticipating and very much wanted to be head of the agriculture department. But there are 50 states and there are many, many things that happen in a political process. It is all about timing and who and why and things that you never know.

I will say this. When I was appointed to the insurance board in Texas, people were saying, You need to see so-and-so and you need to see so-and-so. And it is very much about marshalling support.

It so happened that Governor Clements' young chief of staff was a young man, quite young, from Dallas. And his wife had been a baby-sitter of mine in Texarkana, Texas, and my husband had given her her first job out of college.

So I called Vicki and I said, Vicki, what do you think my chances are? And she says, Well, we're having dinner with the governor tonight, I'll tell him he has to do that. And you know what? She did.

It's kind of one of those lessons that you don't ever know exactly who might be able to influence. And it's not always political people. It can be somebody who just is a person here who is a confidant or a close person. So one never knows.

But I'm very confident. Again, I think that there is a matter of prayer there too that, you know, things do work out.

Any other questions about that or anything else about FEMA or what happens? You're not intruding asking.

Well, I think it will be a -- I don't think there are any political appointees that have been designated to stay at FEMA. There was a man, Mr. McGaw, G-A-W, who came over who had been, I believe -- help me, Howard. Was he with the CIA?

MR. LEIKIN: Secret service.

MS. HOWARD: He is a mature person, and he's been there for about six or eight months in the terrorism area. I believe he will be the acting director. Clay Hollister who is near retirement in the IT area will be acting chief of staff.

It seems as if the interest of the transition team has been focused a great deal on terrorism and, I would say, more defense-oriented types of backgrounds.

So I guess that's the good news for FIA, and the bad news, in a way. One is, we're not getting the high-level attention; and B, we're not getting the high-level attention. Which sometimes it's nice to do your business and go along.

Isn't it, Frank?

MR. REILLY: I think the FIA has been very lucky. All the administrators that it has had over the years have been outstanding people. And too bad I didn't serve under you, but I hear certainly nice things of what I've seen of the program.

MS. HOWARD: You've been running the Florida branch down there.

And in coming in, I really appreciate the chance to go back and capture history from all the administrators. You had not lost any person that had served over a 30-year period, which is a wonderful coincidence, as a matter of fact. I guess because the program is young and most people were young coming in.

We captured that on tape, and you've seen those excerpts on tape. It's very important for me to go back and capture the history of the program.

We have also imaged about over half a million pieces of paper, reports, important documents from the beginning of the program that are now on film which is accessible from our offices so we can pull up by date or name or topic many of those reports.

We have captured the very vivid history that had been embedded in the hearts and the minds of the people who had started the program. I think that's an important function of government or of any business. You can't rely on the short-term memory of the people being there.

And it was very, very hard to get some of those books out of Howard's office that Frank had left him. He still has most of them, but they are orderly. We had redundant copies because no one was quite sure. Everybody was keeping their own little treasure trove wanting to make sure it wasn't lost.

So we have now a central repository, and Verna Riggs is running really an important library and historical operation there. But Frank certainly has a rich history with the program. And I agree, I found very interesting the backgrounds and lives of the administrators.

I don't think it's a terribly distant thought that within the decade, all insurance will be regulated from a federal source in Washington. I don't think it's completely unthinkable that FIA might be moved over to some new entity that is, quote, the federal insurance system, whether you have catastrophic reinsurance by the government, whether you have a federal charter in addition to state charters of insurance, you know, at the NAIC meetings.

All these are being talked about now from the liquidation side, which is something I did before coming in the program. When you have a multistate insolvency, I see no reason that those should not be liquidated and managed from a federal or a unified position, rather than state by state because you have the Guaranty Fund, but they could very well be reimbursed from a central place.

I think FIA may be the very beginning of a much bigger federal insurance entity. And with all the experience and the background that FIA has, wouldn't that be wonderful? I think that would just be a very interesting development.

Not taking anything away from states, but as we know, insurance is the most fluid interstate commerce. So I guess we have a lot of things to see there and look at.

But thank you for letting me get started again. See what a mistake it was. What was it I read today? Something was unlikely as having a political rally for Buchanan in Palm Beach.

Thank you.

MR. LEIKIN: Well, good afternoon.

For those of you who are looking at your watches and looking at the agenda, you know me. I'm not verbose enough that we can't get back on schedule.

I'd also like to take an opportunity to thank Jo Ann. Her list of accomplishments has been read off quite well already. But I'd like to say that under her leadership we presided over a sweeping set of reviews of and reforms to the program, reaching out to stakeholders, improving customer service, improving our management systems and improving our financial bottom line.

I know as we look back on all of this, it really is extraordinary on how much has been done in such a short period of time. I know I speak for everyone in FIA, and particularly and me personally, to thank her for the understanding and creativity and vision that she has brought to the program.

The success of the National Flood Insurance Program has been due in such a large part to the participation and commitment of the insurance industry. For sure, the Write Your Own program partnership stands as one of the most successful models ever of government and the private sector working together. Together we are achieving outcomes that no one entity could achieve by itself.

What we are here about today is improving the partnership arrangement to more effectively and efficiently support the goals that Congress set out in establishing the NFIP 30 years ago. That is, educating U.S. property owners about the risks of floods and providing flood insurance to accelerate recovery, mitigate future losses, reduce the personal and national costs of flood disasters.

In that process we want to ensure that our arrangement works for the benefit of you, our partners, and also works for the benefit of our customers and our stakeholders.

Over the course of the last couple to three years, we've examined certain aspects of the National Flood Insurance Program in terms of financial and underwriting risk. Because of the different roles that we play, along with the companies, we've sometimes arrived at different conclusions regarding how, when and whether to implement certain program changes.

It's appropriate that we take time together as partners to look at the compensation and incentives and to explore whether there are inconsistencies in the way that these tend to steer the program. Because in reality, we don't have a single objective to achieve.

Rather, we must make progress towards

several public policy goals, often requiring the balancing of conflicting objectives, particularly when considering marketing and expectations for the financial performance of the program, when considering simplified processes and the program's integration with floodplain management decisions being made in local communities.

Continuing and rapid technological changes alone may properly cause us to take stock of our roles in this program. And further, we should take a look at what other opportunities there are for economies of scale that we haven't yet explored.

The Write Your Own program, now in its 18th year of operation, has evolved and still provides a solid institutional base for us to build upon. Let's explore together how we should define our roles, along with compensation and incentives so that we can all meet our business and public policy goals, whether they somewhat differ or, as in most cases, we hold them in common. And particularly, as a new administration begins, we must jointly be prepared to answer the inevitable questions regarding financing and efficiencies of all aspects of our operations.

Jo Ann mentioned that we met with the transition team a couple of weeks ago and -- well, first off, their eyes really were popped open by one and a half billion dollars of premium income as well as out-go annually. It certainly merits attention.

A couple of their first questions had to do with, How are the companies compensated and are they interested in assuming the risk? So we know that these are, once again, the inevitable questions that will be asked by a new team coming in. I look forward to continuing that dialogue here today and in the future with you all.

This meeting's agenda affords us a great opportunity with discussions today covering the background of the Write Your Own relationship, the evolving roles of the companies and the government and the risks and rewards of participation in the Write Your Own program.

Tomorrow, we're going to explore some of the pros and cons of some of the alternative compensation models. And Thursday morning we'll wrap things up with a discussion of what our next steps should be.

At this point, I'd like to bring up Frank Reilly to -- and I was true to form. I kept us -- got us back on schedule.

I'd like to bring Frank up to provide a

bit of history on the development of the Write Your Own concept and some background that affected the decisions that were made regarding compensation and the responsibilities assumed by the companies and assumed by the government.

For most of you, Frank doesn't need much introduction. But in any case, let me say that prior to his retirement as chief actuary and deputy administrator in the FIA, Frank worked tirelessly and truly brilliantly to further the goals of the National Flood Insurance Program. And if he's no longer tireless in his retirement, he is still -- he truly remains brilliant.

So Frank.

MR. REILLY: With many vacations.

In a way, it seems fitting that we're meeting here in Phoenix since the FIA was born out of the failure of the industry/government relationships that existed from 1969 to 1977. And a lot of what we did with the arrangement and the method of compensating the companies came out of that failure.

It's been 18 years since the first drafts of the Write Your Own arrangement were fashioned in collaboration with a few people from the insurance industry side. And it's been about 17 years since we fashioned the method by which the companies would be compensated for the services that they provided to the NFIP.

But I think we should go back to see a little bit on what HUD said. FIA at that time was part of HUD. The environment was a lot different than it was in 1981 when Jeff Bragg decided that we needed to reinvolve the insurance industry.

While we were in HUD, we also had the responsibility of administering the urban property protection program and very much involved in HUD's interest in the insurance business and its red-lining in urban areas.

So on one hand, under the flood program, we tried to have a collaborative partnership with the insurance industry. And on the other hand, we were one of their most severe critics of the property industry's red-lining, the automobile assigned risk plan's underwriting. We were issuing reports on red-lining and issuing reports on what we perceived to be the failure of automobile assigned risk plans.

We also were involved in criticizing the industry on workman's compensation because we were assigned to labor, Department of Labor, as their technical assistants on the black lung compensation problems. We also got involved in medical malpractice.

And I think it was clear to Jeff Bragg in 1981 that you can't be a severe critic of your partner on one hand and then hope to have a productive relationship on another program dealing essentially with the same CEOs and the same top officials in these companies.

Anyway, in 1977 under the Carter administration, the situation had gotten so bad between the FIA and the insurance companies under the old NFIA arrangement that the secretary of HUD terminated the arrangement stating that it was in the government's best interest to eliminate the insurance companies' involvement in the flood insurance program.

So we went down in flames. And there's enough blame on both sides here. But in 1992, it only -- this event only took about one paragraph, but I'd like to read from it. In 1992, the NFIP went under extensive examination of its purpose along with disaster relief. And the House committee on banking had a report written on disaster assistance and the NFIA in dealing with the sale of flood insurance policies.

They had this to say. This is their

view, looking at what Harris, Secretary Harris had done and said, and their interviews with people.

But they summed it up in this manner. The problems that had developed between the NFIA and the federal government included whether the secretary of HUD had the right to review and approve NFIA's overhead operating budget, NFIA's refusal to bid its services competitively and disagreements between the NFIA administrator and the NFIA over policy decisions and regulatory authority.

What they don't say here is what was going on at the same time that these problems came to a head in 1977. Congress was hearing hearings on a GAO report that the insurance industry had lost financial control of the flood insurance program.

So when Jeff Bragg came in with the Reagan administration and we were being asked to identify those programs that would be candidates for President Reagan's private sector initiative, it was obvious that the NFIA, NFIP was a prime candidate for President Reagan's private sector initiative.

With the help of Paul Wise from the Alliance of American Insurers and Frank Nutter from the Reinsurance Association, Jeff Bragg had meetings with several CEO's of insurance companies and really appealed to their interest in getting involved in a private sector, President Reagan's private sector initiative. Otherwise, it may not have happened. Timing was just perfect, and Jeff took advantage of it.

These CEO's loaded their operating people to form a group to study the feasibility of getting reinvolved in the flood insurance program. And these meetings were sponsored by Frank Nutter from the Reinsurance Group. Interesting, Frank Nutter had been one of the top executives of the old NFIA. And also hosted by Paul Wise of the Alliance of American Insurers.

Liberty Mutual, who is a very big force in that alliance, their president was -- he was a top official. I don't know if he was president at that time, but he was way up there, was Gary Countryman who was also deeply involved in the old NFIA.

But after several meetings -- by this time though, I was pretty much in the doghouse. I wasn't very popular with the insurance industry since I was the assistant administrator over the urban property insurance programs conducting floodplain hearings in that one.

But John Leo, who was an assistant

administrator dealing with FIA's finances, and Jeff Bragg did meet with the industry, and this group showed a real interest. Of course, they came down from the top -- always works better that way -- and they agreed in concept to the Write Your Own program. Which wasn't new.

The industry had proposed that around 1976 to the federal insurance administrator who was not interested in letting companies write the business under their own name and then have the risk underwritten by the National Flood Insurers Association.

So there was a concept that the industry had proposed around 1976, '77, and the people involved here were familiar with it; that a general framework was developed to offer the companies a way into the program individually through the Write Your Own concept, rather than an umbrella of the National Flood Insurers Association.

But when it came to the technical nature of it, I was a natural candidate. So I got back out, got out of the doghouse, and Jeff put me to work to deal with the details. And I was very fortunate that Wes Umes, Dick Roth, John Malady -- you know some of these names -- were all in the working group along with Howard. They worked with me and Neil Furst and Jim Taylor and, of course, Don Collins.

What would we do without Don Collins? The words you read in the arrangement were written by Don Collins.

The way we operated is we would have meetings. The FIA would then fashion a document, and then Wes Umes and Dick Roth and the others would suggest changes. We'd meet again and meet again, and this went on for several years.

But we came to an agreement, and the agreement in the form of the arrangement was to deal with the issues that had led to the failure of the government industry relationships before. One is the need for, absolute need for, financial control. So conceptually, right from the beginning, it was, We're going to have to deal on a transactional basis on almost every financial activity.

With respect to the expense side, the companies were very much opposed to getting into any detail coding of expenses. A lot has to do with their method of doing business. They had all kinds of problems with inviting the GAO or anybody else in to look at how they do business, which led us to agree on a 29-percent negotiated fee.

The first year it was 29 percent, and the industry didn't argue too much. We needed something in there to move forward to go to the Hill and to other interested parties to explain what we had in mind.

And as Wes Umes said it, we'll do it for 29 percent like the butcher will sell hamburger meat for 50 cents a pound when he has no hamburger meat. They had no policies, so the 29 percent was really academic.

But what happened is we got a good reception on the Hill. The industry had said before they got involved that they had several prerequisites that the FIA had to meet before they would get involved again.

One is, they didn't want to be a federal contractor. They really wanted, you know, partnership, joint venture, whatever you call it. They were not to be subservient federal contractors. This was very important. But again, Jeff Bragg, with his influence with the director of FEMA and OMB and the help of our general counsel, got the solicitor general to agree that an arrangement of the type that we had fashioned was not a federal contract. And that was reduced to writing, and it met that first objective.

The second objective is they didn't want their meetings to be subject to the Federal Advisory Committee Act requirements. Almost every federal program that deals in the private sector has to have consumer representation. You have to have open meetings, they have to have minutes, post agendas and all of this rigmarole. And they just did not want to get involved.

And frankly, it was in Bob Hunter's heyday, and they knew Bob Hunter's involvement. And they thought he would use this as another opportunity to beat up on them, and they were pretty vocal on that.

Well, GSA oversees this federal advisory committee. And again, with the help of our office of general counsel, we got them to make a finding that the meetings between -- under the auspices of this arrangement did not fall under the Federal Advisory Committee Act.

Although we had it in writing, we were nervous, and we proposed several times that our legislation be changed to state that specifically. And it was generally accepted on the Hill, but everybody was afraid to open up the Flood Insurance

Act to any changes because you got tagged-on amendments you hadn't wanted. You never know what's going to come out of the woodwork.

But when the 1994 act was passed, it's now in the legislation. So meetings of this type, it's between partners. We don't have to bring in the world. We don't have to post. We don't have to have all of these other conditions that are imposed upon. This, again, satisfied the insurance industry.

The second is, they wanted the government to agree that -- I mean, they wanted the government to agree that the arrangement wouldn't be operated in such a way that it would destroy their producer and policyholder relationships. Which leads me to refer you to, if you're interested in any of that, the regulation that sets up the conditions on which the arrangement is to apply. I'm not talking about the arrangement itself, but those regulations that say, hey, Write Your Own companies are authorized to operate under an arrangement.

Now, this was very big with State Farm. That regulation, which is 44 CFR 62.23, if you'll look it up, it talks about redundancy. It goes -- I think you'll find it five pages -- five times in a four-page write-up, which talks -- I'll sum it up, what it says.

If you are using your customary business practice with these relationships, okay, and you can show that, that's all you need to do. So it cover -- they can cover the agents' errors. They can cover the -- if they wouldn't deny a homeowner coverage because something got screwed up on a renewal and that their own producer relationship -- which State Farm does -- that their own producer relationship was so unique and so close, they didn't want the flood program giving State Farm a bad name between its producers and its policyholders.

And this is why I think the industry was very fortunate to have people of Wes Umes and Dick Roth's caliber serving on that.

But the FIA did, under this regulation, fashion a lot of words that deal -- and that's really what we're talking about. It not only says that, it says that FIA is bound; that the arrangement also provides that claim adjustment under these customary procedures are binding upon the FIA.

Now, I suppose you can get Wes Umes, but I'm saying it here. It really was a concern with companies like State Farm or any company that has a close relationship with its producers and policyholders. USAA, of course. They were very concerned that this relationship would not tarnish their reputation or that relationship.

So I think it offers an avenue for which the arrangement might be improved, or maybe to make it clearer. I mean, it's really time to reevaluate it. And the good thing about reevaluating anything is you now develop the knowledge and the answers that you are probably going to need with any new administration coming in or any new administrator coming in.

If you're familiar with what it says and what it means, the task of reevaluating the arrangement and the expense costs and the expense allowance will give you that knowledge. And I think it's probably something that should be done under the auspices of the flood insurance company.

With respect to the expense allowance, although we had negotiated a 29-percent figure, the industry didn't really expect that Omaha and EDS would get together and, before the dust had settled, they wrote the first policy. Although we viewed it as amusement, I think the industry was a little bit upset.

They weren't totally comfortable where they were, but somebody was moving into the flood insurance business very aggressively. And with producer lists that had been maintained by EDS as the servicing agent for the old federal program, they were out harvesting these producers left and right, including State Farm producers.

Well, it got State Farm off the dime, and State Farm is very -- and rightly so, was very nervous about the appearance of antitrust violations. And even though the act can be read -- and I've written a paper for the FIA at Ed Connor's request. And maybe the FIA might want to share it with you when I clean it up a little bit, when Howard corrects my mini-vacations on my memory.

But, you know, the act does protect you. But in spite of the language in the act on the negotiation of expense allowances -- they even talk about expense allowances -- they were very nervous about the appearance of antitrust.

Now, there was something else going on at the same time. Again, timing was right. And timing is very important, as Jo Ann has said before. You have a new administration coming in, the Bush administration. They are going to take a fresh look. They are going to have fresh ideas. It is a good time to really understand your program. And if you both can get on the same page, the FIA and the companies, you may get something really -- it's a good time to plant the seeds to get the changes made that you want to make. And if you're on the same page, it makes it even better.

But what was going on at that time is, and like Jo Ann was talking about, I smiled when she said it, because at that time, State Farm again was a leader. I mention State Farm a lot. Personally, a lot of the success, I have to say, you know, that Wes Umes and Bob Deschant -- I mean, I know Don Collins would say the same thing. They were tremendous contributors to the thinking process. I mean, we had the ability to deal with people who are in the actual operations end of the business. You don't get -- I found I never got too far with trade association types, but dealing with the Wes Umes and the John Maladys and Dick Roths.

But State Farm had -- this is a later edition, 1985. But they were still very much -- and now they were into the Write Your Own program. The relationships -- a lot of the nervousness in the beginning had been overcome.

They had a proposal for a Federal Disaster Insurance Fund Corporation. A new type of FDIC, a quasi government corporation which could shelter the catastrophic reserves, which would cover -- it was the big Write Your Own program for natural hazards.

Of course, then there was the coalition, under the NCPI, was also heavily involved in trying to get the government's interest on all natural hazards insurance protection.

But as the cynics would have it, and I guess being part of the administration, immediately the charges came up concerning industry bail-out. And unfortunately, that kind of characterization really put a damper on what I thought, and a lot of us technicians thought, not from the political side, was a really wasted opportunity for the industry and the government to do something really good with respect to insuring natural hazards and leveling out the catastrophe impact on the insurance industry.

You know, we did this with the riot reinsurance program, and the federal government made money on the program. But there's a lot of work that can be done for the future. I mean, this program is really very young.

We used to tell the story that, you know, the gestation period of any federal program is probably 25 or 30 years. So maybe it's just about the time where we're going to get a new birth or whatever you want to call it. This is a very good time to reevaluate the expense allowance on the way you did business.

When I left in '93, Howard asked me to do a few things.

If I might, Howard.

One was the expense allowance. And I wrote a paper in which I really -- first of all, I started to look in detail at who are these Write Your Own companies. And we don't have the traditional homeowners distribution of business. So I looked, like Aetna has over 40-percent expense ratio. American Bankers has 39. Of course, when you throw in State Farm, the elephant, at 28.9, that kind of depresses the average.

If we weighted expenses differently, maybe based on flood premiums rather than industry premiums for the homeowners, you might go a little different. Because who the players are are different from the normal industry average.

But that wasn't really what I was getting at. That would just be kind of fine tuning maybe what we already have. But I always felt, and I wrote down here that at some point in time, the insurance industry and the federal government -- and I think we've been in the business long enough now that what we perceive to be a very important need, that everybody charge the same rate, everybody pay the same premium for the same policy was important to us because we now had several years in which it was an all federal program.

We had several years before that there was just one rate schedule, and everybody paid the same regardless of what service carrier you were with. If you were under the old NFIA, we felt we had to maintain that under the Write Your Own.

So whatever insurance company you went with, the premium would be the same. But that's not the way the homeowners business is done. So conceptually, I thought the industry and the FIA should look into an alternative concept in which, under the arrangement, you would see the loss cost of pure premium.

We're not asking you to take a risk yet, although that's the next logical step. But one of the areas -- we didn't do that at this time because if I make my point clear, both the industry and the FIA said we needed, no matter what company you did the business with, under this new Write Your Own program, the people would pay the same premium. Because it was still considered, quote, an all federal program even though we had now reinvolved the insurance industry.

The way I thought it might be structured is we still have to make rates for the director. I don't know if any of you are old enough. I came out of the insurance industry, 20 years in the insurance industry when we had what we call those old bureau rates.

And what you could do is, the rates would be structured by the FIA from which they would determine how you would see the loss portion of the rate. The companies could deviate from those rates based on what their -- what they thought their cost of operation was. Let the market forces do the rest.

Now, the way that used to be done is a company would go to, under prior approval, would go to a state insurance commissioner. And I'm not suggesting that FIA would regulate it. It might have to set some parameters, like maybe you couldn't have upward or downward deviations more than a certain percentage. You know, kind of phase it in until Congress, the GAO and everybody else became more comfortable.

But I think that, getting back to the

way it used to be done, is that a company would say, Look, here are my expenses, I'm going to write 10 percent of bureau rates or 10 percent off bureau rates or I need an upward deviation. My expensive operation because of my relationship, the way we're structured with the producers, I need 10 percent of the bureau rate.

And I think you really should get together and, maybe under the auspices of the FIA and the flood committee, do some brainstorming. But I think the arrangement and the expense allowance has completed the purpose for which it was intended. And that is, to get Congress, the GAO and the inspector general comfortable with the arrangement and comfortable with the method of compensating the companies.

In 1987, the GAO did a study of the Write Your Own program and raised no concern over the way the companies were compensated. In 1994, they published a report concerned about the financial stability and the financial welfare of the NFIP. Never once raised the question that there might be some problem with the method of compensating companies with the Write Your Own.

What I quoted to you before about the

history of the program was a report published in 1992. And again, although they went into the NFIP, and they talk about the Write Your Own program in there, never once raised the question or put a criticism with respect to the arrangement or the method in which the companies are compensated. So I think you're really at a time when you can move on. You can build upon where you are. It served its purpose, is what I'm saying. And it served the program very well.

And I think you should take a keen interest in how you might make it clear so that companies through trying to live within a government framework might be put into a position to jeopardize the relationships with their policyholders or producers. Or that the government constraints in terms of compensation places an unfair burden on some companies and enriches others.

So I think you're at a good point in time to open up all these questions again. If anybody has any questions, I'll be glad to answer them.

Okay. I hope you're not all asleep.

MR. CONNOR: Frank, I guess talk a little bit more about the -- I assume that you were in the position to look at the averaging of the expenses of the five property casualty lines. Do you want to talk about that, setting that as the expense allowance?

MR. REILLY: Yes.

Again, working with that industry group, in 1984, the FIA proposed that we do a talk like that. And frankly, our first thoughts were to use homeowners only. But with discussions with the group of company people, let me just put the framework of which they were looking at it.

One is they didn't want to specifically say you would gain any profit on the expense side since the government was taking all the risk, but through volume, you should be able to reduce your expenses and make a profit.

They also -- and I will say that Jeff Bragg was a leader in this. I was not a proponent of it, but I think Jeff turned out to be absolutely right. He encouraged the vendor approach. The NCSI, did I get it right? EDS. He encouraged that as a means by which the companies, either the start-up course or the way they do business, if they couldn't live under the average, it provided them with a way out.

Now, we also had other companies that said that they considered this a service to their producers and their policyholders and they were going to keep it in house. So it was really a business decision individually, but Jeff had insisted that the vendor was a way by which companies could attenuate their course by not taking it in house to meet these transactional financial recordings and all of these other rigmarole that we were asking for.

Okay. So, having settled on that, they thought -- I mean, flood insurance isn't homeowners. It's more like something else. So rather than argue over it -- and we really had a good cognitive effort. I can't emphasize that too much. And the gentlemen involved on the insurance industry side, with no objection, we agreed to include virtually all the property lines of insurance. It brought the average up a little bit.

Then came the question of what to do about acquisition cost. Now, here, the FIA did have some thoughts. The independent agents, and using some of the producers, the captive producers, had stood by the FIA through thick or thin from day one of the program. And they felt that they were under siege by what was going on with commission reductions under personal lines.

The other residual market mechanisms

under the assigned risks plans were reducing commission allowances. So the decision was made by the FIA that we would provide the companies with 15 percent, and the agents could then argue. Because that's a matter of individual contract. The agents could argue FIA is giving you enough, you don't have to cut our commissions, and you don't have to cut them this way or that way. Basically, that's why we came to the 15 percent rather than dealing with the total acquisition cost.

Then the question came up, if I remember correctly, and I stand to be corrected if I'm wrong, but my memory is, we said, Well, wait a minute now. You take the other acquisition for State Farm, and particularly USAA, and it's up around 18 or 19 percent for other acquisitions, where it's a much lower figure in terms of the independent agency companies.

But again, because there was a good feeling, we really felt like we were doing something. We really hoped with the training that would have to be done and the market penetration that the companies would now be assuming, although it would be supplemented by FIA through its servicing carrier, that we would allow to use the average for the other acquisition, which is slightly inflated because of not dealing anything with the direct writers that had a heavy allocation of expense in that area. And we all felt that that was fair.

But no one's done an in-depth study as to what impact that really had on the expense. I mean, we might do a little research on that. But again, it was trying to be fair in a way that the FIA felt it could justify it to GAO and the inspector general.

So you may want to look at the other acquisition again and what responsibilities are there. Of course, the FIA has improved it, I think, with the marketing incentives.

Now, I think the Cover America was a great program. We were discussing about it earlier today with a few folks that Cover America has really made the sale of flood insurance more palatable to the American public.

I know in the early, early years, people were really mad at having -- being forced to buy flood insurance. They had no perception of the risk at all. And I think Cover America has done an awful lot in educating the public and making the sale more palatable. They still may not like it, but it tastes a little better.

Okay.

AUDIENCE MEMBER: Just your view. Since the beginning of the program, we've got basically, well, 100 companies, Write Your Own. There are over 5,000 insurance companies out there. What's your view in terms of why the other thousands of companies have not joined the program?

MR. REILLY: Well, one experience we had was with AIG, and frankly, they -- I don't know if we could find that paper, that AIG paper. They don't trust the government. They were and remain very much afraid that once you took over the book of business, the government would pull out the option that you couldn't take the risk. In other words, you'd be stuck with the business with the risk by some congressional fear, by some administration rolling over the insurance industry.

We always thought that was a little schizo, but there were others that really felt that you can't -- and they had listed historically, I don't know how many things, in which the government had betrayed their partners in the past. I can't run them off because I just don't remember, but they were pretty much convinced that you couldn't trust the federal government on a financial subsidy arrangement and that their push was that they push risk sharing on you.

On risk sharing, I think risk sharing is a real option that companies ought to look at again. Although we went down in flames with the companies in 1977, one thing that was fashioned was a very unique way of risk sharing. And it was a proposed regulation issued by HUD in 1977 which we called the Pointing Formula. And one of the major architects was Gary Countryman and his actuarial committee.

Basically, what they tried to do mathematically, and I think they did do, is to say a company that was in the program 20 years or more was almost assured of an underwriting profit. It would be pretty tough not to have an underwriting profit. You would take a risk in the bad years. You would share with the government in the bad years.

The sharing was done on an excess loss reinsurance agreement that went along with the risk sharing. So it put a limit on the underwriting loss you could take in any one year.

But the formula then would shift the next year, so it was pretty hard for you to ever take a loss in the next year. And gradually, your risk vulnerability would increase, so it kept moving with the catastrophic events.

But it had the advantage that we felt at that time was being able to say to Congress, we're sharing in the bad years, and we're sharing in the good years. And that just is a good academic exercise.

You might have some of your actuarial people take a look. It's just pulling out that HUD regulation. And that's one reason we kept in the first paragraph of the arrangement that the long-term -- the intention of the arrangement was to generate an interest in risk sharing with the industry.

MR. LEIKIN: Frank, could you comment on, I believe that Pointing Formula also still retained premium equalization.

MR. REILLY: It would not -- thank you, Howard.

The Pointing Formula also realized that the premium income was not actuarially sound, and it made adjustments to take into account the level of subsidy.

But, I mean, all of these are just probability and mathematical. Howard has done great work in terms of the probability of the financial impact of catastrophes, which was very helpful in explaining to Congress, you know, we were going to lose money some years and we could lose big.

Does that answer your question?

AUDIENCE MEMBER: Frank, I have a hypothetical for you. Knowing what we know now, but pretending we're starting the Write Your Own program from scratch this year, what would the top two most important agenda items be as to start the program anew, to you today?

MR. REILLY: Oh, God. I don't know. You know, I've been retired eight years now, seven years.

I still think you've got a good basic framework. And from everything I can see, it's still a collaborative framework, and you're in a better position to say what should be changed.

But I think risk sharing -- I know if I was still a deputy -- he's not listening -- I always felt I would be more comfortable if the company only were feeling the loss portion of the rate, and you had flexibility to deal with the expense side yourselves.

Negotiation between partners over money can be counterproductive. It can leave hard feelings. I always used to say, it's too bad the people that do negotiations can't buy a reinsurance contract because they will always look bad to their management. No matter what. Because that's the nature of negotiation. It's a compromise. No one gets everything they want. So your principals always look at you like we could have got this. I really feel we need a reinsurance program for negotiators.

Any more?

MR. CONNOR: Thank you, Frank. Appreciate it.

Well, we certainly appreciate that historical discussion, Frank.

There are many issues and elements that you discussed relative to the thought process that went into the Write Your Own program, and particularly the expense allowance which I think is certainly a learning process for me and maybe some others in this room. And we do appreciate your time. How long are you going to be around?

MR. REILLY: You asked me to stay until noon on the 18th. Unless you changed my tickets, Howard.

MR. CONNOR: That's not why I asked.

I urge some of you to take advantage of Frank's knowledge and background. He's going to be around for the next couple of days. Take advantage of him being here and tap upon his expertise, and I think that you'd be well served to do that.

At this point I think we'll take a break and come back in about 30 minutes, and we'll get started with the next part of the program.

(WHEREUPON, a brief recess was taken from 2:41 p.m. to 3:15 p.m.)

MR. CONNOR: We're going to move ahead in the program now.

If you look at your agenda, we're down to the section that talks about a discussion of the government and company roles.

Let me just give you a little background in terms of why I thought this was important that we have this discussion. I think that, and most of you will agree with me, over the last three to four years, either through discussions with you and other company representatives or with my colleagues in Washington and government, whenever we have a discussion which relates to the expense allowance, inevitably the discussion of the role of the companies and the role of the government always came up as it relates to the compensation elements of the program. And while I think most of us will agree that with respect to our respective roles, many of them have remained unchanged over the years.

At the same time, there has been some changes that have occurred, and for a good reason. But I thought it might be appropriate that we, to the extent that we can, for a period of time this afternoon have a discussion about that from a historical perspective. And that is, to have a discussion about what the roles were from each of our organizations at the inception of the program and then to bring it forward and have a discussion in terms of what the roles are -- our respective roles, the government and the companies, as they stand today, and why some of those roles have changed and where do we see the future in terms of how we move ahead.

To help us with this discussion, we're fortunate to have four individuals who have been in the program for a while and are very much knowledgeable with respect to how these roles, how they were crafted, what the thought processes would be and maybe even some discussion in terms of -- or insight in terms of why they have changed.

I don't need to introduce them all, but I guess I should just in case somebody doesn't know who they are. But when we -- the first part of this discussion where we talk about the early part of the program, the inception of the program, we're going to have, speaking for the government side, Frank Reilly.

And for the company side, representing the companies' perspective, we'll have Larry Palmer who is vice president from Redland Insurance Company. They will begin the discussion from the inception of the program and bring it forward.

As we come up to where we are today in discussing and identifying what those roles are, that's when we'll ask Corise Morrison, who is the chair of IBHS flood committee, who is executive director from USAA, and Howard Leikin, our current FIA deputy administrator to discuss where those roles are today as we look at the operation of the program today and where we see it moving as we move into the future.

I would encourage you -- this will not be a point/counterpoint discussion. This is going to be basically a discussion from each of their perspectives. And I think as Frank gave us information earlier in terms of some of the thoughts that went into the creation of the Write Your Own program, the expense allowance, I think that this is also going to be somewhat informative in a sense that we can all get a better understanding of why the roles of each of our organizations were the way they were then from our perspective and yours and how we look at things today and perhaps why they have changed.

So we'll start with whichever one of you guys want to go first. Frank or Larry. And then once you're done, we'll pass that on and bring it up to today's activities with Corise and Howard.

The final thing I will say is there will be an opportunity to ask questions. There's nothing formal about this. If there is something that you hear that strikes a question in your mind, if you want to ask a question, then by all means, ask a question. Or if you want to wait, that's fine. Any one of these individuals are more than willing to respond to those questions.

MR. REILLY: Well, obviously the government role is to make sure that the program lives within the authority of the statute. And that's pretty much done by the regulations that are promulgated.

Early on in the discussions of reinvolving the insurance industry, both the industry folks and the FIA agreed that under the auspices of the old National Committee on Property Insurance, the Flood Insurance Committee would be formed in which they could deliberate on operational procedures and coverage. But it was really the final responsibility and authority of the administrator to promulgate the regulations that formed the framework, the policy, the financial control plan, the cash management procedures.

And then some of the nonregulatory things, the wind and water manuals, was our responsibility after deliberation with the industry, mainly through the auspices of the NCPI committee which is now the IBHS committee.

We had for a long time the Agents' Committee, which is another avenue that the FIA gets input from, and the flood committee does -- has representation on the Agents' Committee.

So again, it's to -- the government role was to foster, to the extent we could, communication so as to strengthen the relationship. There's nothing as debilitating in partnership as one partner to feel something is happening that they did not know anything about. So it really fell upon the FIA of the responsibility to assure that this -- these communication links were maintained.

It was also very important that the -- that we be able to answer to the people who investigate us, the GOA, the inspector general, who could be potential adversaries to the companies in any situation to try to head it off. In other words, early detection of problems before they could become major problems, which would reflect upon the image of the relationship.

In order to do that, right from the outset, the industry and the FIA people agreed we needed a standards committee because one of the things that broke down the previous relationship was a very adversarial nature under which we would do a review of the work being performed by the servicing carriers or the NFIA.

So what we did is we formed a standards committee, which would be made up -- it started with three and three, but it's five and five. But the numbers are not important. What was important was that the industry would provide people in all the disciplines that the administrator and the chairman of the standards committee felt were necessary. So we need obviously underwriting and claims, management, and financial management. And I don't know about -- we had actuarial in there.

And what was the other one, Howard?

But anyway, the major disciplines had to be covered by the industry.

MR. LEIKIN: Systems.

MR. REILLY: Systems.

On the government side, to the extent we could match that, which we couldn't match them all, but what was important on the government side was to have people familiar with how the government cash management worked and the way regulations work and the way regulations -- in other words, expertise on the side of administering a program under a federal governmental structure.

It was agreed early on that the administrator would make official appointments of the members, but all the industry people would be nominated by the industry. The administrator's oversight was really just to assure that the disciplines were covered. In other words, they didn't want 500 of us. They would say, You got to go back and do it again. We never had that problem.

But because the FIA administrator appointed the people, the chairman of -- the committee would always be chaired by the insurance industry, and they would select the chairman. The reason was, if we had an operational concern with a company, or even more broadly with the program itself, the FIA administrator would not take action without first getting the input from the chairman personally.

In the early days of the program -- and now you're a little more settled. Now we're a little more settled. In the early days of the program, that worked very well. And the thing might have fallen apart, except for the fact that before it came to the attention of the administrator or the GAO or the inspector general -- by the way, the inspector general sat in on all the meetings. They were invited to all the meetings to sit in so they could hear the deliberations.

Since the deliberations dealt with individual company performance or complaints against company operational procedures, this was a very close-knit group. It was not open even to other FIA people unless the administrator deemed it was some reason that it should be. Also, industry people other than the standards committee members did not attend. We tried to keep it as confidential as possible because it sometimes dealt with allegations and suspicions rather than with facts.

But what we were able to do by having the chairperson, an insurance industry executive, they would contact the CEO or chief operating officer or some high official above the principal coordinator to say, We think we have a problem, and meet with that executive to say, Here's what we are finding.

And I must say that we had an outstanding collaboration with that chairman. He usually had an FIA person from the standards committee attend that meeting so that we were on the same page, if he had to report to the administrator.

And in the early days, we had as many as, I guess, about 24 companies who just said they couldn't meet requirements, and they pulled out of the program. But there was a strong belief that we head these things off. If the company couldn't or didn't understand the program -- that's why it's a one-year deal. Every year they have to sign up again. They pulled out before they were too deeply enmeshed and had committed too many resources and expenses.

But it's still very important if there is a problem with a company, no matter where it surfaces, we believe that the standards committee -- which means that company has a friend in court -- there are five other people who know the disciplines of operating a day-to-day property insurance program who get a chance to look at what is perceived to be the difficulty. And our rule was to listen to what their professional opinions were, and if it could be fixed or rehabilitated or whatever the situation is, that was supposed to be the administrator's initial course of action.

So this was, again, to foster, again, a cooperative effort and to keep these operational aberrations from spreading or getting worse. And so that was -- I guess that type of cooperative oversight was the federal role.

Now, there were a lot of operational things, and Larry has provided me with a list of things. I might ask Larry to get some of the operational aspects that we got involved in in those early days.

MR. PALMER: Thank you, Frank, for that segue.

I must say, when Ed called me up to ask me to give a perspective on the early days, first of all, I'm always flattered to be invited to participate in these things. And then I got to thinking, My gosh, do you think I've been in this too long? And really, folks, I started in this when I was in my mid 30s.

MR. LEIKIN: He said the early days, not the olden days.

MR. PALMER: But yes, I can give a

perspective back to the very first policy that was written under the Write Your Own. And Frank reminded me in his presentation of a lot of those.

And what I did was I went back and I looked at the agendas on the Write Your Own conferences going back to the unofficial one in Oak Grove, Illinois, and I kind of traced that over the 15-, 16-year period and have broken this summary down into three areas. And it kind of reminded me when I had to go in and explain this concept of the Federal Flood Insurance Program to the profitability committee.

And you might remember that there were just -- the company I was with was not involved at the high levels, like State Farm and USAA and Nationwide, and all the background and the development of this through the old NAII days evolving into the National Flood Insurance Program as you see it today.

We were a company learning about this on the periphery. And it reminded me, it was kind of like a skit that you would see on Saturday Night Live. If you can imagine me going into the profitability committee. And back then in the early '80s, you could still smoke in the board room. And I was charged with the responsibility of explaining this concept to the senior officers.

And the story kind of goes like this. I was doing my pitch, and I have never seen cigars sucked down that fast in my life, but, poof, five minutes, they were gone. And the idea was, what, you mean there's a program out there that pays you a fee to use your property and casualty charter to front a program? And what, you mean all the loss adjustment expenses are paid in addition to the losses? And what, you mean there's 2 million policies out there and you get to jump at them along with everybody else? I mean, it was the beginning of a feeding frenzy for about the first five years.

And that's kind of what I was thinking about when I went in and looked over the history starting in 1983, '84. And I broke it down into three concepts.

Basically, from 1984 to 1988 you were getting to know the basics. And then from 1989 to '94, the focus became on the market. And then from '95 to the present, the maturation of the program or the reality of where we're going.

Some of the points I discovered from early Write Your Own conferences basically built around the theme of the partnership. And I remember doing a panel with Mike Moy where we talked about this partnership. And bottom line, the definition of the partnership is the sharing of resources. In this case, it was the resource of the talent of the industry.

The initial concerns in the '84 to '88 period were some of the basic items such as where do you report this product line in the yellow book and annual statement? I think the initial statement was allied lines, and now it's evolved to specific lines. And then the premiums assessments boards and bureaus. And then the guaranteed fund assessments. Those were all factors to take into consideration.

Of course, the infamous rollover. You had about 2 million policies that were up for grabs that were purposefully being shoved out of the federal program to be passed around the private industry to benefit and service the customers. And all the distribution channels were in the niche of agents from the direct writers to insurance agents to captive agents.

And in that five-year period, it was also important to attract new Write Your Own companies as well, in addition to the ones piped in with the experience of the program prior to the '83 to -- I think it was Wally that mentioned there's something like 3,000 to 5,000 property and casualty companies in the United States, and yet there's only about 100 of them that are participating in the program.

I think the impression was that, well, we'll write more business if you just sign up more Write Your Own companies. And that proved out not to be the case necessarily.

What to do with agents and how do they operate under the program? Do they have to be appointed? And where are existing agents? They are not a problem, but what about new agents to sell this? What are the procedures to follow under those circumstances?

Claims. Getting experience with claims under the National Flood Insurance Program was another issue. And also, the initial interpretations under the Write Your Own arrangement. Basically the fee issue, but also to make sure we weren't an agent of the government because that created a whole different set of rules if you were to comply with that.

All in all, I think the first five or six years of the Write Your Own conferences were basically identify the basics, develop the partnership, figure out what to do with this program to move forward.

I don't think there was much focus on the market though. It was a gigantic rollover in the first five-year period. And then about 1989, we had the famous hurricane that went through the Carolinas. What's the name?

Hugo. And I think everybody woke up big time to what this program was all about. There were enough flood policies issued to the Write Your Own infrastructure that the impact was significant. Not only was there the challenge of claims worthiness of the Write Your Own companies to perform, even though the losses were paid through the National Flood Insurance Program, the private companies could not call out the National Guard to help them administer their losses.

And the point that Frank made early on, it was a worry about the infrastructure on the claim side whether or not the industry could handle this. They had the arrangement in place, but had they ever been tested?

Other issues in the 1989 to '94 period too in focusing on the market was the insurance versus disaster assistance. There was evidence that existed of other alternatives to insurance; that a lot of the people that built homes on the floodplains are families that have lived there for years and were relying on free money basically paid by you and me as the taxpayers.

And that also challenged the market because I think it was a mind set of I don't need to buy flood insurance because Uncle Sam is going to come in and help me if my house is flooded.

Mitigation and map issues. Figuring out how best to disseminate the maps. And education, how to read them and the agents to make correct adjustments as to writing a policy.

Statistic reporting. The PRP developments. Think about a way to expand the market. It was bringing it to the people on the fringe flood zones to be seen, now the X zones. That was implemented in that time frame.

And the infamous legislation, Flood Insurance Reform Act of 1994. That pretty much recognized the fact that the two million policies were basically rolled over from the National Flood Insurance Program. But unfortunately, the marketability of the policies to the Write Your Own infrastructure was not developing at the pace everybody had expected.

So we concluded that five-year period from 1989 to 1994 by starting to reevaluate where we were going with this concept. And that brings us up to 1995 through the present.

And clearly, this work in progress for the first ten years continues to be just that, a work in progress. It is getting better and it is maturing and we're getting more sophisticated problems as we start to look at it. Certainly, the agents have become more sophisticated.

What is on the radar today is legal and litigation issues. I think Spence Perry recognized there was an incredible amount of money going out the door just on the litigation side of this. The Write Your Own companies were now being sued in the performance of this arrangement with the government. And how was that really going to work?

And I know in our case, having lawyers out there that had experience with the National Flood Insurance Program was rare. They were charging many hours of billable time to do research on a program they knew nothing about. And they started out with prairie fires and natural disasters. It had nothing to do with floodplain management and stuff like that. I think Spence set the rudder right on that by focusing and controlling that and setting some guidelines.

Substantial damage and ICC became significant issues, and today we understand why that is important with the natural disasters.

Repetitive loss and the community rating. There's no question that that is -- we focus on the rating, the actuarial soundness of the program and justifying it to Congress and why we're continuing to pay under this program.

If this whole program was simply a private property and casualty company, would you continue to underwrite that risk and continue to keep paying for those losses year in and year out? We have to look at this as a private company and what has evolved into it.

Cover America, fee issues and incentive bonuses. Though I think we have various opinions about the significance of Cover America, I think when we all sit back and think about it, as they say in the federal city, at the end of the day, it has contributed to where we are with over four million policies today.

Some of the Write Your Owns, their egos are such that we did this on our own. But elevating the awareness and a perception of risk, teamed up with the Flood Insurance Reform Act of '94 on the compliance side, really has made this a little more palatable to the typical average consumer today that has to make a choice, whether they are required through a lender or purchase it voluntarily, that they are aware that it does flood, that it is a significant calamity in our country, and that it is wise to protect their investment with the policy.

No longer do I have to explain when I'm out trying to sell a flood policy why there is that value there. It is becoming increasingly apparent to them that it's valuable. The questions today are, is the value there? Is the price right? And what am I getting for this coverage?

Project impact, mitigation and controlling claims expenses are still on the radar today, as is the coverage and the policy rewrite. And as we start this new year, we're dealing with a whole new policy in a sense that is a renaissance to the coverage that we've been providing for the last 15 years.

It's going to create new challenges for us and new levels of sophistication of litigation and the defenses of the Write Your Own. And also, believe it or not, we're talking now about alternatives to the National Flood Insurance Program, bearing risk and things along those lines.

But where we go into this year -- and there's a lot of Write Your Own companies that are represented in this audience. We really don't stop to think all about the aggressiveness that we do to market this program, to try to get our market share, to maximize the incentive bonuses and things like that.

The thing that we're forgetting to stop to give some thought to is the fact that look at how many thousands of families that the Write Your Own program has helped in the claims administrations of this program over the years. Going on 16, 17, 18 years now, that's kind of a side issue that we don't emphasize that we need to tell Congress about that has been administered fairly well.

This does help families out, whether the policy is written through Travelers Insurance Company or Bankers or any of the good Write Your Owns out there. The fact of the matter is, a lot of claims have been paid over the years. They have been administered on balance fairly well and a lot of people have been better off today under this program than they would have been without it.

With that, I will pass it onto Corise.

MR. CONNOR: Can I just ask a question? Three areas that I'm curious to get both of your perspectives on with respect to the roles of the company or the companies in the early days. Training and education as it pertains to agents and claims adjusters. Underwriting integrity. When I say "underwriting integrity," I'm speaking about the underwriting of the individual risk. And then the last piece being the marketing.

Where do you see those roles? What was the intent in the early days from the perspective of the company and from the perspective of the government on those three operational areas?

MR. PALMER: I think in the first five years, there wasn't as much emphasis hit on the training and education down to the agents' level. It was more at the company level.

But then I think it evolved to the point that it was a marketing tool to get your company out and get involved in the education and training and developing your expertise, for not only your agent force, but also in the communities as well.

And I think that is a good point. And

it somewhat had been overlooked, but that, clearly for about the last ten years, has been significant.

We're concerned about the manual, and we have a new one out now. And there is way more agent training and train the trainer going on than there was ten years ago. And that's part of the maturing of the program.

And then the underwriting integrity, there's a lot more emphasis in the last five years on the Write Your Owns complying with the rules and regulations under the National Flood Insurance Program, and that means the underwriting guidelines. I don't think there was much emphasis on that in the first part.

MR. REILLY: Although there was a lot of emphasis on the rollover, the FIA through the NFIP servicing agent really took the burden of having the agents' training programs and the claims adjuster programs.

The problem we had is we weren't getting the agents in enough force and we were -- knowledge of the program. And we were astounded at the ignorance of so many agents about the flood insurance program and the misinformation that was getting to them.

So there were probably good reasons, but there was immense frustration at the FIA that the agents were not getting the message and were not in large enough numbers and not understanding the program and really providing misinformation to their policyholders.

So we continued to have our CSC, and before them even EDS, run the agents' training. We hoped that the industry would supplement that or somehow get more agents to these meetings. Although we did get quite a few, I don't know if there are repeat performers, but we used to publish some numbers. I don't know.

Do we still do that, Ed?

Would you agree that that was our major frustration? The details -- I mean, telling people you can only buy insurance if you're in a special flood area. That was a common feedback we were getting after a flood.

And so in the early years, this was, I would say, very frustrating to us that the agents' training just wasn't working to the extent that we hoped it would.

But on the other side of the coin, we found -- we found we did get relief when it was all federal after a significant-size flood. Since it was all federal, if the policyholder didn't like the treatment by the claims adjuster or didn't like the settlement, we started to have to deal with congressional staffers who were acting much like public adjusters.

So we suddenly turned. Since it was all federal, we started to get a lot -- and the mail we used to get was just overwhelming at the FIA. We were so late on answering mail, we were forever being beat up by the FEMA director's office. It was very difficult.

So from the FIA employee point of view, and certainly mine since I had to sign a lot of those letters since it was too overwhelming for the administrator to sign them all, it was a great relief. When the companies got involved in the claims process under a policy that had their name, it didn't connect anymore. They didn't go to their congressman apparently, and suddenly we were relieved of what was really an insurmountable problem.

So there was a great plus in my mind that the industry using its name and its infrastructure was settling claims faster. There were less gaps in the coverage. Before, it used to be we'd get there late because the companies would have ongoing relationships with adjusters. We only had the temporary shot at it from time to time, right, and maybe in states not for a couple of years of any significance.

We would arrive there late and the insured would suddenly find out his homeowners for the wind and the rain and the flood that we were offering didn't cover the loss. And us being there late, we were the bad guys. So there was a lot of good things that went on.

And I think I mentioned earlier, and I think that has helped, is a few companies, we actually used the company's adjuster. We made an effort to use the company's adjuster even though we had the direct insurance, to use either the WIN pool or the company's own adjuster and let them adjust both losses just to solve that kind of problem. But we see a lot less of that, if I'm right.

So on the other side of the coin, it worked very well. So the adjustment of claims, which is really delivering what insurance is all about, bringing the benefit to the purchaser, to the consumer, was working much better in my mind than it did under the old federal.

But we're really having trouble with

agent training. Do you agree with me on that? I don't know if that's been solved.

AUDIENCE MEMBER: It hasn't.

MR. REILLY: And so, anyway, that's an ongoing problem.

MR. LEIKIN: On our side we wind up with different perceptions than the company folks as to what's being done with agent training. Because I think if we're talking about our evolving roles, in many respects, which I know we've had discussions back in Washington about it, that's one area where I think our role has expanded as we tried to fill certain voids in the agent training arena.

It's an area that Corise and I and Jo Ann and others have had some discussions about it being ripe for us to take another look at the roles that we're playing in agent training to see that it's done more completely and efficiently.

AUDIENCE MEMBER: I just wanted to comment on that, Howard. One of the steps maybe we may need to better refine is who our training audience is in terms of the agents.

I think one of the frustrations from, I'm sure from the companies' standpoint, is there's a certain corps of agents that we're not all concerned about their training. They are good agents and doing a good job, and that's the same from our perspective.

And then there's the broad mass out there that we've never been able to come up with a good scheme as to how you reach an agent that writes five policies a year.

And so I think probably what we need to try to understand is who the audience is and break it down in some kind of logical components and address it in some targeted way, rather than just shotgunning everybody out there.

I just think that may be one of the steps in the process.

MR. LEIKIN: Certainly would seem that's part of it.

I think we found a few years ago when we were doing our intense evaluation of the community rating system, we had a number of information-gathering efforts to see whether that was fulfilling its objectives. And we had a number of focus groups, with agents in particular, to find out about whether they were being served by the activities we were crediting to CRS.

But what we found in that process was that they were -- and these -- ostensibly when we set up the focus groups, these were agents who were intended to be more knowledgeable about the program. We found that they were somewhat alarmingly unknowledgeable even though they were purported to be the knowledgeable agents.

So we know we have an issue to grapple with together still.

MS. MORRISON: I think in addition to that, I know there's a lot of companies, at least in the IBHS committee, we conduct our own training.

One thing we're concerned about is, are we communicating the correct word? Do we have all the information we need and the tools we need to be the right person to communicate these changes or the program policies? Are we making the correct interpretations?

And that's something that even in IBHS meetings we discuss at great lengths, so that's another concern we have with training. We need more information to be able to assure that we are communicating the accurate word to the agents.

I promise I'll go fast, so for once I don't want to be responsible for a flood committee meeting going beyond the agenda.

As I see it, the company role, for the

most part, is probably the same as it started, and that's to be in partnership with the Write Your Own program with the federal government, to offer flood insurance to consumers as an alternative to relying on disaster relief when a flood occurs. And I think that is still primarily the role that we serve.

I'm going to come about it from an IBHS perspective and the changes that I've seen in the IBHS committee since I've been a part of that committee, probably something between seven or eight years.

The mission of the committee, whether it was NCPI or IPLR, or now IBHS, was to be a liaison between the insurance industry and the federal government on technical matters as it relates to the National Flood Insurance Program and the flood policy.

And when I first started on the committee, I think it certainly did serve that purpose. We talked about technical matters more than anything else on the agenda, whether it was rolling out PRP, the credit card, considering elevation certificates, central repository, condo inspection, just a multitude of things. Basically technical matters. And providing input back to FIA on ideas that we saw for the program and the direction that we thought the program should go from a technical standpoint relating to trip plan or anything else.

We still have those topics today, but what I see is there's an underlying discussion about the future of the program, and the changes that we see now concern us at times about where the program is evolving to.

I'll go through a list of some of these. And at times, even in the IBHS committees, we've gone through this and kind of looked to try to see, where are we taking this program in the next few years? Are we focusing on marketability of the product, or are we focusing on reunderwriting the product we have today? Are we doing our best to make sure that costs are controlled, or is that not an issue?

Some of the changes that we assist with, like policy rewrite, that was certainly a step in the right direction. That's something I think all of us were on board with, and I think we've come up with a product we rolled out and going in the right direction on that.

Cover America was the same thing. Federal preemption. We partnered with the federal government in coming up with very important rules and guidelines around that. So there's been a lot of good work together coming out with some very good results.

Also, there's other topics like address corrections, PRP cleanup, whether it's claims loss history or remapping. A proposal to maybe do a nonspecial flood hazard cleanup. Remapping all those and looking to see if they are still accurate or the grandfather should be taken away. Should the subsidy be reduced, and how are we going to do that?

What about the repetitive loss program? There's another program where we look at that, and it looks like a reunderwriting effort. Monroe County compliance is another one of those issues which served the reunderwriting purpose rather than make the product more marketable.

As we look at some of those proposals, some of them are already in place, and some of them are still on the table to consider. What it does is it certainly adds, as we all know as Write Your Own companies, a lot of costs to our operation.

In many cases, it's taking the business away from us. We're losing the business, we're losing the policies in force and we're losing the premium. We're not getting anything back in return out of that.

We understand certainly the repetitive loss program. We understand the basis for that and why that was very important. But the reality is that was a very expensive program, and in the end, we've lost the written premium for that. And being very frank and candid with everyone, because most everyone sits on the IBHS committee anyway where those kind of issues, I think, contributed to why we're here today.

Where are we taking this program so that all of us, whether we're a Write Your Own company or from the FIA, we understand where we're going so we can go together, rather than somewhat at odds with each other.

So I think really that's where I see where we are today. Trying to nail that down, so if the emphasis is going to be on reunderwriting, we understand that. Or if it's still focusing on marketing and marketability of the product, we can move in that direction.

But at least over the next short term or long term, whatever you might see fit for your involvement in the program, we all can move in that direction together.

MR. LEIKIN: Well, one thing about going last in a chain of everyone talking about their roles, I can pretty much throw out my presentation, particularly when we didn't coordinate this ahead of time. So if this sounds a little bit fractured, you'll have to forgive me because I'm piecing together actually a whole new presentation.

But doing that on the fly, I thought about, well, what are some of the main influences that drive us towards the roles we're playing and our points of view.

Certainly one of them, as Frank talked about a bit, was this idea of program and financial control in the early days. In consideration of that and in the development of the Write Your Own program, we can't emphasize enough the significance of what we had to prove to others, driving us to mechanisms that were not only exercised from the program, but dispelled any appearance of anything otherwise.

And that leads us to certain statistical and financial reporting requirements on this program that may be a bit more detailed than would otherwise be the case.

We certainly -- of course, as of now, the government assumes all the underwriting risk. And, of course, what that means is that ultimately the taxpayers are assuming the underwriting risk, which leads us to certain viewpoints as to whether -- as to the financing of the program and the considerations of underwriting decisions and what we're doing to move the program towards eventual actuarial soundness.

Maybe the biggest role that FIA plays, the biggest role we play really transcends the Write Your Own program. The role we play as stewards of the totality of NFIP goals, we manage the business operations, pursuing insurance and financial objectives.

At the same time, it's incumbent upon us to support the mitigation and floodplain management objectives of the National Flood Insurance Program, as well as coordinating the government's responsibility in providing disaster assistance. And, in fact, it's those other goals that justify, to a large measure, the involvement of the government in insurance.

For those in this room who have followed some of what has transpired with proposals for other natural hazards insurance approaches, that -- how insurance interacts with mitigation efforts and encouraging appropriate mitigation decisions is a sticking point when discussions are held with the potential of the government stepping in some expanded financial role in other natural hazards. So our challenge in FIA, along with you, is to strike a careful balance of these often conflicting objectives.

I was mentioning to someone earlier

today that we wind up in a role which I would describe as sort of a go-between role because we wind up having certain discussions with the -- on the insurance business end. We have certain other discussions with the lending community. And we certainly have very different discussions with the floodplain managers and their objectives and what they are expecting from this program. And really, sometimes it feels like the shuttle diplomacy between the Palestinians and the Israelis doesn't really hold a candle to what we go through.

But in looking at how our roles may change in the future, I would like to talk a bit about our blueprint for the future that we have developed along with -- I would certainly add the fine assistance of Keith and his folks who -- Keith and one folk being in the back there.

We put this -- we've developed this blueprint for the future with a lot of input gleaned from significant discussions that were held with a variety of stakeholders. And we broke it down into three visions for the future, each of which we've developed certain goals for.

Our first vision element of our blueprint is a program -- and I'm going to have to read this because I haven't really absorbed it enough to be able to spout it out. One of these days. A program that efficiently delivers insurance products that are accessible, desired and seamlessly provided to our customers and partners.

And to support that vision element, we have the goals of increasing the numbers of policies in force and also to provide fast and accurate program policy, technical guidance and program information among all our divisions and among all our stakeholders.

Second vision element is a program where communities not only meet but exceed our floodplain management standards. And in support of this, we have a goal to optimize the current mode of what the insurance contribution should be towards achieving compliant, disaster-resistant communities.

We have a number of efforts underway that should begin to come to fruition over the course of this next year which should give us an opportunity, I hope, that we'll have a forum towards the end of this calendar year where we can bring together the insurance industry, the floodplain management and the mitigation and to really jointly discuss how, after 30 years of the NFIP, the insurance side should be supporting the floodplain management side and vice versa.

Hopefully, some of the details that are needed or have been needed in the rating system that can make life difficult are not as necessary at this point in time. But it may mean that we pick up other responsibilities as a trade-off. And we should look at that together as far as what can be accommodated from a business perspective and what needs to be accommodated to further justify why we're in this program.

The last vision element is a program that is financially sound, both as an agent of change and as a long-term insurance solution. And in support of this vision, our goals are to identify and implement mechanisms that achieve financial soundness, perhaps even redefining what financial soundness means for us at this point in time beyond where we've defined it so far. And to review underwriting results and incorporate new risk information as they become available.

Although it's a little bit premature for us to be talking in too much detail about where we'll be going in terms of business process and improvements stemming from carrying out this blueprint, it is safe to say that we should at least be examining our roles and the systems that will be needed to carry them out.

Future roles. We should be looking at more economies of scale. There are economies of scale that are not available to any one company that I don't think we have dealt with enough in crafting what services perhaps should be provided on an overall basis.

The bureau function of collecting and disseminating information is a role that needs to be looked at as our roles perhaps shift, and particularly, if we -- in our discussions on what roles we should be bearing in relationship to compensation schemes. Perhaps -- and maybe this talks to some of the concerns, perhaps the reunderwriting efforts; that we need to embrace more of a front-end information and service role, rather than as so much of a back-end quality control role, especially in the underwriting area.

I'd like to see FIA play more of a, I think, a facilitation role as opposed to a go-between role that I mentioned before. That we get different sectors talking to each other.

And to the -- in the future, where this program is headed, we need a bit more appreciation --

or I'd like to see more appreciation and an embrace of the mitigation objectives and need you to be exploring how we can meet them. It's what will actually provide the incentive to do that.

Maybe it's time, and we'll hear a little bit of this over the next couple of days, maybe it's time, and certainly it was originally envisioned to think more in terms of some risk-sharing role, and maybe that's what fosters this larger view.

There is certainly a role for the premium structure in NFIP to encourage appropriate mitigation and land use decisions. Again, that's, I think, a particularly important feature to have in -- somehow in our structure that continues to justify the government being involved in the flood insurance program.

MR. CONNOR: Howard, is there, without going into a lot of detail, because I know that we don't want to do that yet, can you conceptually describe how this front-end underwriting would work? Hypothetically.

MR. LEIKIN: Well, there's really a range. We worked on this blueprint for the future, not as in isolation from our intention to look at what business process we have and what concepts of operations should be explored for the future.

And particularly with regard to our relationships, our relationships with the companies, in terms of a concept for the technology that's needed for the operations, it ranges from making hardly any change at all from what we currently do to perhaps a set of capabilities that gets us quicker access to each other's information, gets us out of the 30, 60, perhaps even longer turnaround times, and for us receiving the data from companies and turning it back.

Today, we have technological capabilities that weren't available even just a few years ago that facilitate a much quicker exchange of information. And there is an extreme concept of operations, at least extreme from what we have today, where we perhaps take on more of a processing role where, again, we want to retain the character and flavor of what it really means for a company to have a relationship with its agents.

But again, in terms of these economies of scale, there are perhaps systems that could be put in place where rather than having certain transactions hitting a company system and looking at business rules for whether it's an appropriately underwritten policy, rated policy, it can be done once because it's done in some central location.

But there are certainly pros and cons of each in that continuum of possible arrangements, concepts of operations that need to be explored. And we haven't done that. Certainly we're going to do that. We need to do that with the companies. And we've just begun those kind of discussions ourselves as to where things might head.

AUDIENCE MEMBER: In regard to risk sharing, does that happen before or after the program is financially sound?

MR. LEIKIN: In what was discussed earlier as a starting point, let's say the Pointing Formula, that approach would still be necessary today. Maybe not necessarily the Pointing Formula. But obviously, we're not actuarially sound today. So if we're going to wait to be actuarially sound to hold those discussions or to get us down the road, moving more towards that eventuality, I would say we can't wait. Some other arrangement would have to be made.

We're still quite a ways away -- well, as you know from our discussions we've had with the flood committee, when we talk about subsidy reduction and repetitive loss, it is certainly driven by quite a large premium shortfall, even for the current business, even what is out there and not insured, to the tune of about 800 million dollars a year, we estimate. Maybe this is what causes the industry nightmares to have the risk thrust upon them without accommodating that reality.

MR. CONNOR: Just one final question that I had that I wanted to ask. And that is, the blueprint that we've talked about, can you talk about the relationship that that has to the companies expense allowance? What we pay them or how they are to be compensated. Is there a relationship?

MR. LEIKIN: I would think that when we get into concepts of operation where we perhaps change our roles, modify our roles in terms of who's performing what function, it has to have some impact on discussions of what the appropriate compensation is for the expenses of the companies.

It should be something that we talk about over the next day. I think it's -- we don't have a lot of details at this point, but it's certainly -- if we think through together what role or what operations could be performed centrally versus at the companies, it certainly has a bearing on how we either compensate or charge back or somehow fairly share in the costs.

MR. REILLY: I just want to say, Howard mentioned earlier the equalization. We did operate prior to -- it was in 1975 we changed. But what we had, we had a formula by which we calculated the shortfall in the provision for losses because the premiums were not actuarially sound. And that money, the federal government put outside the federal government in a trusted liability account managed by the partnership. Meaning at that time, the NFIA.

The idea was that was a source to meet the losses when it exceeded what was collected for loss provisions. So there are devices that can be used, premium equalization, under a Part A risk-sharing agreement as authorized by the statute itself.

So if you wanted to address that, just get some actuaries to agree on how money would be placed outside the treasury in a trusted liability account managed by those who participate in the risk.

It became vulnerable because -- and that's the problem with -- when the budget crisises became bigger, they shut off paying the obligation. Okay. So that's to be addressed.

But even when we went to an all federal program, when we developed a few hundred million dollars, they rated it. They rated policyholder money, which in today's value must be close to 600 million dollars.

MR. LEIKIN: At least approaching 500 million.

MR. REILLY: They think it's taxpayer money, but it's really policyholder money.

The point is, you have to address these and carefully write the arrangement so that money is protected from budgetary rates.

AUDIENCE MEMBER: This is just a question. You mentioned there's an 800-million-dollar shortfall, if you will, in the correct premium. I want to make sure I understand correctly. It's not really the premium required to manage the exposures that exist, but just the dollars necessary to pay the losses anticipated on those exposures?

Where I'm going with that is, back to the expense, it would take a billion, 200 million dollars if that were premium. If the correct premiums were being charged, it would require about a billion, 200 million dollars to make up 800 million dollars worth of losses. That's because of the expense component. All things being equal.

MR. LEIKIN: If all the expenses were

compensated at the same rate, the 800 million is the shortfall needed to pay losses.

AUDIENCE MEMBER: I have a comment, Howard. I'm not really that comfortable in discussing risk sharing at this meeting without --

MR. LEIKIN: I think that goes way beyond what we anticipated for this meeting.

AUDIENCE MEMBER: I'm hoping we're not going to get involved with that discussion. That will involve some discussions with senior management, and there's some other related issues that need to be reviewed before we get -- I'm not even sure what you mean by "risk sharing," which maybe we don't need to get into today.

I hope that -- maybe I'm speaking just for myself, but I hope everybody understands that maybe some of us would prefer not to discuss that item.

MR. LEIKIN: I think the value of just at least putting it out there is it's just as we talk about where are we all headed, either --

AUDIENCE MEMBER: What does that mean? What does "risk sharing" mean? What do you mean by that?

MR. LEIKIN: That the government is no

longer --

MR. REILLY: Over the long term you would make an underwriting profit, as you do in your fire business, but because of the extreme fluctuations, you have to do it within a range which compensates for those extremes.

So in the years you would make a bundle, you actually only make so much, and you put it in a trusted liability account. In other words, it tries to keep the underwriting profit within a manageable range of gain and loss. So that over 20-plus years, you should average about somewhere close to 5 percent underwriting profit, like you do, which is what you expect on your fire, except for what happens because of competitive forces. That would be what the actuary would try to price it at.

But I agree with your comment, and I think even when I started the discussion, I think the question came up, and I think that's beyond. That's when you're comfortable with the basic compensation. You know, deal with those issues first. But if you want to have a bunch of brainstorming guys out there taking a look at whether it's feasible to risk share at some future date, maybe when it is actuarially sound or whatever, there are some things that could be looked at from the technical point of view.

I don't think the FIA, at least while I was there, although it was always a hope for future results of the arrangement, we never pressed that to be accomplished.

MR. LEIKIN: And I think the value of just throwing it into the mix of what's in the back of our minds here is that as we talk about roles, responsibilities, compensation, how we craft it and what the incentives are that are built in, I think it's important just to where are we going in the grand scheme as opposed to just over the next year. It may have an influence on what we determine to be the best course in the near term. Even if we're not talking about risk sharing.

MR. REILLY: I really think to those outside the program who tend to criticize, it's easy for them to attack the nonrisk-bearing role in the insurance industry. But if you were in a risk-bearing role, I think there's less to criticize.

AUDIENCE MEMBER: I'd like to speak to that just one second. The expense allowance figure is a break-even point. If you're efficient, you can make some money. But as Corise mentioned in hers, the points she made, a lot of the things that we're asked to do, and she listed many of them, in my opinion go beyond what it might take to break even, even if you're efficient.

I think, Frank, you talked earlier about back in 1977 or '80 the starting point was 29.5 percent. Then these 20 or 25 years, I think we'd all agree that expenses have escalated significantly as far as what our underwriting expenses are compared to written premium. And the fact that they are going down, which I don't know how familiar you are with where we're at, but the fact that they are going down is troublesome to the companies and concerning as to how we break even under the current arrangement and what we need to get this to a point where everybody is comfortable. The government, the companies. And I think that's where we're at.

I'll tell you that -- and this is public information, but our last two years, our expense figure for the flood program is around 34 percent. That's expense that we need to break even. So we can substantiate that.

MR. PASTERICK: Jack, you have no way of knowing that, but you're jumping the gun because that's exactly the kind of thing we want to talk about tomorrow is to lay out some possible -- because we have been hearing that, and we are, in fact, kind of sensitive to those issues.

And what we'd like to do is to discuss possible alternatives that might address exactly what you're talking about.

AUDIENCE MEMBER: Okay. We have jumped the gun in talking about risk sharing and everything else. I think we need to get to a point where the companies are comfortable with the expense allowance before we start talking about some other things.

MR. PASTERICK: And all I'm saying is tomorrow is when we're going to see if we can figure out what may be the best route for that.

MR. LEIKIN: You never know what you're going to regret you dwelled on, and this is one.

MR. REILLY: In relation to that, how does the industry feel today about having a single premium or -- I mean, can you have different premiums depending on different companies? In other words, be more like the regular homeowners insurance?

AUDIENCE MEMBER: We could if there were 80 million flood policies in force today like homeowners, and then you could say, yeah, we can compete on price. For one, you could afford to hire actuaries to price it, and two, it would be a situation where it isn't the people who aren't insured.

MR. REILLY: I think that's what you would have to find out. Does the industry still want one set of rates that applies to all types of insurance operations? Because then how you compensate the companies on different levels takes on a different new meaning, as opposed to allowing companies to deviate from a rate schedule up or down based on what they have to be their cost of operation.

AUDIENCE MEMBER: In a sense, haven't we done that though? An expense allowance is an average. I think that's what we discussed from the beginning. It's kind of like that terrible joke where a guy is 5-foot-10 if you average the heights of Shaq O'Neal and Danny DeVito. It's great, but it doesn't reflect much.

I think we discussed, there's pricing problems. If you take the $800,000 in premium, again, if it were privately placed coverage, that 800,000 would probably be underrated and the current commission structure applied to a much higher premium. Would be getting more premium.

MR. REILLY: Maybe that's a basis to start. I think it's better to start maybe on maintaining your infrastructure as a percentage of an actuarial premium and leave the commission thing aside for the moment.

But you have your general expenses, your boards and bureaus and those things; right?

AUDIENCE MEMBER: Yeah, there's a list. The taxes even vary depending on companies.

MR. REILLY: You may be able to build some sound justifications for modification of the expense allowance based on actuarial premium as opposed to collective premium.

MR. LEIKIN: This is for tomorrow.

AUDIENCE MEMBER: The 29.5, Frank, you brought up about 1977. At that time we had a direct program. There wasn't such a tax called premium tax or municipal tax.

MR. REILLY: No, the 29 that I mentioned was not -- had nothing to do with actual expenses of us running the program. It was a negotiated number. It was providing the companies enough to make a fair contribution to their infrastructure on the expense side.

As I said before, there was no in-depth actuarial analysis to that 29 percent because it's 29 percent of no premium. No one was writing any business. Before it was fully addressed, Omaha jumped the gun to -- point to this guy.

And we were in the ball game because State Farm and others felt they had to move because of the fact that Omaha was out soliciting agents that were their agents, and their agents were writing to Omaha because State Farm was not offering them an alternative for Aetna.

AUDIENCE MEMBER: Can I make one more point? Just to go back to what Wally started to say an hour or so ago. It seems to me, I thought where he was headed was there's 5,000 insurance companies out there and only 100 are participating.

One of the goals of this meeting or series of meetings should be to find a way to get more companies in rather than fewer companies to remain. Because, I mean, you could drive it either way. You could make it lucrative for all companies to participate, or you could tighten the expense allowance to the point where all you've got left are the most efficient companies and you've got five companies running the whole program.

And that I don't think is in the best interest -- even though I'm one of the big companies, I don't think that's in the best interest of the program.

MR. REILLY: Well, I think that's something the industry has to come to the FIA for because let me tell you, the 100 companies that did participate have really made an investment to capture and service that market.

Looking at the other side, looking at all sides, if it now suddenly has made it attractive to 5,000 companies, these companies that have made the investment, which a lot are small companies who weren't heavy into homeowners, are just going to lose the business.

I mean, you got -- there's some fair play in here. You'd have to be careful on how disruptive it would be to the marketplace to make it so attractive you'd have such an influx of new players.

AUDIENCE MEMBER: We're not even close to that at this point.

MR. REILLY: I know that and --

AUDIENCE MEMBER: And that's a problem.

MR. REILLY: That's why we would like to have -- FIA would like to have more companies participate. But they are not dissatisfied -- am I speaking right? -- with the level of participation.

If the market could still be penetrated.

AUDIENCE MEMBER: Just as an example, 100 companies can't do all the agent training because they are tied to other companies, irregardless of what kind of training you do.

MR. REILLY: That's why I think that's a government role. I think Howard said that is something the government is going to look more at, its role in agency training.

MR. CONNOR: Are there any other questions for this panel before I excuse them?

This is a part where I'm pretty excited about it, and I think you can all identify with this.

One of the things that we've done over the last two years, and I'll be the first to admit that we haven't done it as well as we would like to have done it just because we haven't had the time or resources to do it. And it was certainly on Jo Ann's agenda. It was to visit many of the Write Your Own companies and speak directly with your CEOs, senior managers and along with you guys with respect to the Write Your Own program, what your thoughts were about that.

Some companies have actually come to Washington to visit with us, and they were very candid in terms of what they thought about the Write Your Own program. And, of course, whenever we went out to visit the companies and met with the presidents and CEOs, they were very candid and direct in telling us what they thought.

And it came down to -- it never failed that whenever we had these meetings, the inevitable question was asked, and that is, why should we continue in this program? What is it about this -- I mean, there are things that, as we've talked about today, because you guys communicate to them, there are things about the program today that are somewhat different than they used to be.

And I guess my question would be, and this is what they are saying, considering the cost, the compensation, the change in that whole structure, why should we continue in the program?

And I thought -- I thought it would be a valuable discussion for the last part of today to be a discussion about -- or before I get into that. One of the companies that we visited, I thought that the way they presented it was a way that I think that all the companies are thinking about it, but may not have necessarily articulated it this way.

When they presented in the form of

rewards and risks, what are the rewards and what are the risks of participating in the National Flood Insurance Program?

And that's something I think, and I'm hitting you with this somewhat cold, but I think that's something that we are very much interested in. We meaning Jack. We meaning the FIA and the companies. I have to clarify that.

We are very interested in getting your input on that for a couple of reasons. One, I heard someone indicate that or state that are we not interested in getting more companies interested in joining the program. Yes, we are. I mean, that's one of the things that I'll be trying to do, but I think that, as I mentioned to someone this morning at breakfast, I am more interested in having 150 companies that are going to be productive companies as opposed to 250 that are just, as we used to say in the industry, live-with companies.

But so how do we do that? And when you look over the course of the last couple of years, when you think about new companies that have entered the program, and there have been some exceptions to this, most of the time those companies are coming into the program because their vendors pretty much have talked to the companies and say, This is a good deal, you ought to get into this, and we'll take care of anything. And rarely do they call FIA and say they are interested, I've heard things, let's talk about it, what are the risks and rewards, so forth and so on.

What I'd like to get out of this discussion today, in addition to getting more information from you in terms of how you define the rewards and risks, is to down the road be able to put a document together based on your views of this. Not ours, but your views on the risk and the rewards of participating in this program. So that as we go further out and try to encourage companies, other companies to come to the program, I don't have to or anyone else from FIA has to say, Well, here's what we think are the rewards and here are the risks.

We would like to say, Here are companies that have been in the program for a number of years, very successful companies, companies that you know of. Here's what they say are the rewards of participating in the program.

So that's long-range what I'm looking to do, but I can't do that unless I get input from you. So what I'd like to do right now, this is just an open discussion, jump in whenever you want, but I'd like to start with a discussion of what do you as company representatives who've been in the program, many of you for almost 17 years, some of you a little less, but all of you long enough to have gone through some degree of the maturation process, how do you define the rewards of participating in this program?

AUDIENCE MEMBER: Well, one of them could be retention. I mean, underwriting or marketing. If you're writing all consumer insurance business, it has an improvement on your retention, so you retain more business. As opposed to if it's another market that is providing part of that coverage, then you have the potential from a competitive standpoint of losing that risk.

MR. CONNOR: Anyone else?

AUDIENCE MEMBER: I was going to say geography plays a role in it. Our company is in Florida. There are requirements by lenders, requirements by residual markets. People that have flood. The products in the market we want to participate to an extent.

MR. CONNOR: It would be the mandatory purchase mandates so you could provide that service.

AUDIENCE MEMBER: And as for risk on the

flip side, we were a smaller company until recently. There's an adverse effect for A. M. Best in participating in the flood program in our view. Makes it more difficult to get an upgrade, and that's a risk.

MR. CONNOR: That's a new one. That's the first time I've heard that.

AUDIENCE MEMBER: Because we have too much at risk. They considered the 10 million dollars of flood at risk.

MR. CONNOR: Anyone else?

AUDIENCE MEMBER: I think it lets our reps do a better risk analysis job for the individual when they are going over their whole portfolio of assets and risk evaluations. For the flood piece, you don't have to send them somewhere else or seek another level of input. You have something you can put on the table, and let them make the decisions accordingly. I think they do a better job overall, which probably mirrors the retention issue that was observed.

AUDIENCE MEMBER: And at the time of the loss, the fact that the customer could be in a position where they are calling just one agent because that agent is handling all of their insurance needs, rather than haggling with multiple adjusters as to, well, the wind policy covers this, the homeowners covers this, the flood covers that. So customer satisfaction.

MR. CONNOR: Any others?

AUDIENCE MEMBER: And all of these comments center around product density which leads to policyholder loyalty.

MR. CONNOR: Which leads to retention.

AUDIENCE MEMBER: A different way to say it is it's another opportunity to provide good customer service to our policyholders which, in turn, allows us to retain business, to help people that don't understand the risks that they are facing, educate all kinds of people and companies and communities and agents about the whole thing.

AUDIENCE MEMBER: Jim, just something our marketing people have told me is it's easier to explain a coverage than it is an exclusion.

MR. CONNOR: Which is what you have on your typical policy.

Anyone else?

MR. KENEFICK: I have a list. We talked to FIA in the summer, and we basically put together this risk/reward presentation.

I'm Tim Kenefick with Travelers. We

thought a lot about this, which is something we thought about. Why are we in flood? We had management change in the personal lines, and so that was a discussion we had.

But I'm passing around kind of our overview. When we talk about the risk, not the underwriting risk that we've been talking about a little bit today, should we get into that, but just other risks we see in running the flood program and then what are the rewards we see. These have to balance each other to stay in the flood business.

The rewards. Does everyone have a handout at this point?

The rewards. The rewards, as you see it there, there's a couple pieces, and then there's the risks. And I'd like to talk about each of these, and we touched on some of these in the discussions.

But rewards are financial, obviously. We get money for running the program. We have expenses, and then whatever is left over, if there is something left over, is the profit that we get in running this program.

Servicing carrier allowance. The first bullet point. That's been going down, and there's pressure. I'm getting the feeling that going forward, that's going to continue going down. So there's pressure there.

Meanwhile, as we have been hearing, and I think I've been hearing this ever since I've been in the program, but this has been something that's been said for years is, there's increasing costs and complexity in running the program. You look at some of the new initiatives, underwriting initiatives, those things going on that makes it more difficult to administer this program. So as the rate is going down, what we have to do to run the program goes up.

We haven't seen growth. That's really a this-year issue. We had pretty good growth last year and the year before, but retention this year in the overall program has been bad. So that's the type of thing where Travelers says, We want growth every year, and that has not been delivered this year.

Couple of the other things that are happening, and I heard earlier today repetitive losses where a meaningful percent of our policies were taken from us. That's earnings that's gone from us. Supposed to come back at some point, but we have to see.

And then the subsidy reduction. I'm concerned about that. I look at my book of business which is heavily concentrated in New England, East Coast. And there's a lot of older communities there that are today subsidized rates. And if we got rid of the subsidized rates, how many of those people are going to go away from the program?

For me, those two things, as a taxpayer, I think those are things we should do. But as somebody running the flood program, I do say that takes my earnings away and I don't like it. That's a tough one to balance.

The resulting earnings from service carrier allowance. It's going down. We're making less. We see the commission, at least since I've been in the program in the last two years, commission is going up. That's another reward I think that I don't see, or I don't see at Travelers, is I see some commission levels where I think competitors are using flood as an entry into an agency. They get in that agency, look at this and say they are losing money writing flood. But they are using it to get into the agency. So that's a reward, I presume.

The growth bonus side of it kind of slides in with the service carrier allowance. With the large book we have, that's a difficult to achieve thing is to grow that to a level that we got. A meaningful growth bonus, and then changes in that over the past few years. So it goes up and down, and we're not sure where we are going forward on that.

And then you touched on a Florida company. I mean, we see this as a product that regionally it's something we need to feel -- maybe we need to have this as a product offering in Florida and maybe the southeastern United States. But other parts of the country, our marketing people say, I don't care if you have flood or not. They don't care. That's the way it is.

Unfortunately, it's that way, and unfortunately we look at our performance in Hurricane Floyd and how many claimants called us up. And I've talked to people that said, I have a loss that's a flood loss. Well, you don't have coverage, you just have a homeowners policy. There are still issues with that, and that, as an additional product, that can help us to get to those customers. But it's just not happening in a lot of the country.

One other thing not on the rewards here, and it depends on your expense costs in your company, is the ULAE costs. You can make money on the loss side, and maybe it can make you money. That's another reward.

So overall, the rewards are financial generally, the ability to provide customers a product. As an independent agent company, we see that our agents put their flood business generally with one company. And for us, it could be with us, could be with somebody else. It doesn't matter for our other business in that agency. It can be if it's with us or not with us. They are going to be writing their homeowners and auto with us, and we don't see the flood helps us with retention at all.

And I heard some of you talk about it. I suspect most of you are direct writers where you have an agent that's serving all the customers' needs. We look at our customers more as the agency. And that's something that's a reward for other companies, but we don't see it for us.

The risk side. We talked a bit about this here already, or we touched on a lot of these. But agency issues and claimant issues, those are two big things. And then the litigation stuff as we heard a little bit earlier.

The agency issues. Floods is the most frequent. E&O problems we see an agency have. It's not because they didn't necessarily recommend flood. It's because they had recommended flood and done something wrong on it. We talk about the agencies that are good flood agencies. There's a bunch of them out there. And they write a few and don't know what they are doing. It's an education issue.

That's the second piece there. You have an agency that writes five policies a year. They are not going to come to a flood education program. They are not going to take the time for five policies, yet they need to because they write the program. It's a difficult product for those agencies to understand.

We have today homeowners, auto, and it's a one-touch -- both products are one touch for that agency. They look at it once and it's done. That's not the way with flood. We need zones. Zones are a lot better, and I thank EDS for that, I guess, but they have gotten a lot better. They can happen very fast for us, but that's not for everybody because of the map process.

There's people that have the split lot. And there's manual zones. There's a big chunk of the people who come back. And then the elevation certificates are even worse. So this is not a one-touch product. It's not that way. So it's difficult for agents compared to the other products out there.

One other thing with the agents. All these things are agent issues, and that maybe that E&O problem is our fault. Maybe it's the agency's fault. Maybe it's the combination, but that problem has a potential to damage our relationship with that agency. We have individual agents that we make more money from than we do in the whole flood program. And that relationship is at risk because of the flood program. One agency with us or a number of agencies with us, we make more money from that one agency with the other products than we do in flood for everybody. That's at risk.

Claimant issues gets to the customer again. Our claims adjusters when there's a flood, generally there's some other CAT out there. Our adjusters are stretched at that point. So there's a big correlation with flood claims and the other CAT claims.

And just the plug for why we don't want to share in the underwriting risk. That's the same thing on the loss side. When we have flood losses, we have CAT losses we don't want to add on top of that.

So that's my perspective of sharing the underwriting risk on flood. One point of it, I guess.

I also have seen surveys from people

that have had claims on the flood side, and there's a lot of people that go through that flood claim that come out of it on the other end that are happy. But there's also a bunch that are unhappy. They have basement coverage which is limited, and they come out of this -- and maybe this is a training issue, but even with disclosure in advance, people come out of this unhappy and that's a problem. That hurts our relationship with that customer.

So that's really the claims side to it and it gets at the agency issue. If they have an unhappy customer because of the flood claim, then that could potentially get between us and that agency.

Litigation exposures. It's something you've heard a bunch about. You've talked a lot about the policy. The punitive damage, unfair claim settlement practice piece. And that's something our claims adjusters look at. I have to know flood to do flood claims because if I do something wrong, I'm in state court for punitive damages. We look at that as a very big risk. We do a lot as a community, but we think the risk is still there.

And other litigation exposure. I guess -- and my lawyer is not here to kick me at the moment. I shouldn't say a whole lot about this. And we have some -- and I heard earlier today other parts of the government getting involved in looking at the flood program and seeing that it's administered right.

We have issues going on today with other parts of the government and that's very expensive and it's going to go on a long time. It's gone on a long time already. So that takes a big chunk of our earnings, or maybe all of it, away. And that makes you wonder why are you in flood, this type of situation.

Another risk that we see, you know, that type of litigation or the state court litigation, we see our name in the headlines. Travelers or Citigroup has done something wrong to a customer and punitive damages of 6 million dollars or something like that. That's a big problem for us. Our name and reputation are very important to us at Travelers, and we're putting that at risk in the flood program.

So the rewards, I think the rewards are pretty easy to quantify financially. The risks are not as easy to quantify financially. But the risks are there. Are we balancing in this program the reward we get for writing this business with the risks that we take in writing this business? And that's something we at Travelers have to continually address.

Is this a product line we want to continue in writing?

And you talk about 1,000 companies versus 150 or 200. Obviously, there's 100 companies that today feel that the risk is worth it, but that means there's a couple thousand that say the risk is not worth it. Is it the risk or the effort of doing it? That's the question. It's not necessarily always the risk but maybe the effort to get it started.

But there is -- and I heard mention of AIG said the risk is not worth it. That's another risk here that I didn't mention that down the road we take the underwriting risk. So we have to evaluate that, and that's kind of the issue we're getting at at this meeting.

Service carrier allowances that cover your expenses. We need to have a discussion about, well, we don't want to just cover our expenses. We are not doing this for free. We have risk in writing flood. We want to get paid for taking that risk. And the servicing carrier allowance not only has to cover the expenses but has to cover us for that risk.

And that's a difficult thing to quantify, but that's the discussion we need to have to figure out what is the appropriate servicing carrier allowance. As it is today, the servicing carrier allowance covers that risk for us, hopefully. But that's -- I mean, so that's the discussion we have to have.

MR. CONNOR: We appreciate that.

AUDIENCE MEMBER: And this is risk without even thinking about the underwriting exposure.

MR. CONNOR: Does anyone have anything to add to that?

AUDIENCE MEMBER: Well, I think it's a great summary of all the meetings that we've been to that summarizes a lot of comments that have been made.

I think what probably should also be made is the risk of what if the fee continues to drop? Kind of finishing up. I didn't know if you were going to go there.

If the fee continues to drop, let's say, throw out a number, 50 million dollars worth of business. Well, we just had the fee drop about a point. What if it drops again another point? That's a million dollars off the bottom line, not the top line, on an already small-margin product.

That's a risk because now that has put the entire program at risk which goes back to the relationship with your agents. And suddenly you have to make the crucial decision of, Are we in this or not? Because what if it keeps going? This is, at least, not supposed to be a nonprofit organization, and so I think that's a risk that would add on there as well.

MR. CONNOR: Any others?

AUDIENCE MEMBER: Ed, I heard a few comments today about projections and business planning for the future. And it seems the last couple of years, we've had quite a few of these initiatives and projects launch, some of them with some pretty good preparation and warning and participation on committees. Others with lesser amounts.

And when we sit here and reflect backwards, we get concerned overall because we really didn't know what all the costs were going to be on a given project at the time it was being launched. So we get into this cost/benefit quandary. Was this the best choice of our resources at that point in time? Then you multiply it by six, eight or ten projects, and you really get concerned.

So when I look at the rewards and risks list, which is very good, I'm also perplexed by, we don't know what's in the five-year plan, the two-year plan, the ten-year plan. We don't know what Howard is thinking of, except for some of the things that are in the back of his mind, and that worries me. Because as Bruce mentions, we have to deal with the realities here of what's our level of commitment versus what we can attain participating in the program. That's going to come down to a cost of business benefit decision at some point. You stack the deck against me, and I can't win. In other words, I have to be able to manage within the commitment of participating in the program. If you max me out, I can't run at optimum efficiency. I can't get the gain I would like to be by being a participant.

So with a lot of words used, we have to look out a ways with your plans and your projections to see where you're going and how we can best participate or give you our best advice and say that's a bad plan, that particular project is not going to work.

MR. CONNOR: I think that's a fair statement. And I think that's fair that the companies would request that of us, and I think that's what Howard was speaking to when we talked about the blueprint for the future.

And -- I use the term "future," but don't think it's that far in the future, and don't think of it as something that we're going to work in this box in Washington and then spring this thing on you.

I can tell you from -- and I'll let Howard chime in. I can tell you from what I've seen of this, the things that the Bozell folks and Dee Woodard and others, this thing has been looked at from almost any angle that you can possibly imagine. And I can promise you and I can assure you that the discussions that we've had internally within the government is that nothing moves on this without pulling in input from the companies.

And I think -- I think that's an important point that you raised, and I think that's a concern; that while it may not have been expressed that clearly among some of the companies, I know that is a concern that companies have.

And so, Howard, if you want to add anything to that, you can.

MR. LEIKIN: I'd like to say that the work we've done with the blueprint, and you've gotten copies of the blueprint, we put that together really as a result of a lot of input we get. It was our attempt to assimilate a lot of what you all and other stakeholders have told us and to put our own thoughts into it as to where we're headed in the next three to five years.

But it perhaps would be good for us to cast a lot of what we've planned as a result of that blueprint in terms of this risk and reward outline or these concerns that you have to better match it up with what you all see as your risks and rewards of participation so you see directly what things we are addressing to take care of concerns together.

And I'd also like to say that, you know, in the scheme of things, having this meeting itself, at this particular point in time, we debated whether this was a good point in time to have this meeting or not, given the transition that is ensuing. But having this meeting and the discussions we need to have with you all and explore these issues really shouldn't stop because of what's going on.

We have a program that's institutionalized, and we need to make progress. And we thought it was important just to go ahead with this meeting, and it will serve us all well and hopefully give us the important information and ammunition really to talk with the new administration coming in about why this partnership works.

AUDIENCE MEMBER: As I listen to the overall risk and reward for Travelers today and I hear some comments from the audience and then I hear your statement that says that the government program would not spring anything or things would not come about without the input from the company, I guess my question would be, how did the last cut in compensation come about? How did that happen?

The general consensus here is that the expenses are too low, and the government is saying we won't do anything unless we see the input. And how did the last cut in compensation come about? Is this a change in the thinking of the companies; that they didn't care whether we had a cut in compensation the last time? Or am I hearing two different things? I'm a little confused on that.

AUDIENCE MEMBER: When I was at the meeting where it was discussed before where the allowance was going to go from net to direct, there was not a company in the room that agreed with it, but it was done anyway.

MR. CONNOR: One of the things that -- and I will try to make this an abbreviated version of what transpired over that period of time.

One of the things that took place after that meeting that you're referring to was there was a work group that was formed, and we discussed not only the basic expense allowance as a component of compensation, but we also talked about the various incentives. And there were recommendations that were asked of the companies, what should these incentives be?

At the end of the day, at the end of those discussions, it was decided that, well, you know, we're going to probably move toward this calculation based on direct ratios, but we are not going to just roll it over one year. We were going to give a one-year transition which would allow the companies an opportunity to get used to this new way of calculating that compensation. And that was agreed upon by the group that we met with.

The other part that we discussed with respect to the incentives, there are a variety of different ways that we were considering on how can we incentivize the companies based on the things that they are doing, including such things as the company says, I'm in a geographical area where I am not going to grow, but I provide excellent service, but is there a way you can give me some incentives to the service I provide?

While that's a great idea and maybe we can do that, well, how do you quantify good service?

That's an example. And I think there were about six or seven different models that were presented in terms of how to provide incentives for the companies.

And what we came up with was there certainly was a concern among the group that we met with that, one, we need to give some recognition to new growth because it takes, from what I heard from what the companies were saying, that it takes an enormous amount of energy and effort and resources to get that new policy in the door.

So we need to be -- there needs to be some recognition for that. And at the other hand, our concern from the government side was, well, that's interesting and that's good, but we're also interested in retention.

So the balance of the two was, we're going to work out a plan where we come up with a dual incentive. The dual incentive would be that you would get, in addition to whatever the base allowance was as promulgated by A. M. Best on the direct ratios, that there is an opportunity to earn an additional one and a half points based on what you could do with respect to new growth to the program.

And there was an opportunity to earn another half point based on your ability to retain based on the scales that we developed and that we all agreed on. This is what -- which is the agreement that we came to with this particular work group.

That's where we are today.

MS. MORRISON: Here we need to be careful around the "we." And that's, I think, where companies get sensitive to that.

I think the movement to direct was something that was mandated. The agreement to the midpoint certainly took place because we didn't want to absorb that drastic change all in one year.

So in cooperation with FIA, we agreed that the midpoint would be the best way to do that and spread that out over a couple of years so we wouldn't have to go through that after we already budgeted for the upcoming year. That is the part certainly the companies were in agreement on. At least that's the way I remember it.

AUDIENCE MEMBER: And I recall some of those discussions too, and I think particularly the persistency bonus. I think we had pointed out back at the time that was discussed that it was probably unachievable.

Speaking for our company, mortality tables work against us. We have older citizens insured and more than 5 or 10 percent of them pass away in a year.

MR. CONNOR: But to answer your question, I think that, meanwhile, we may -- I think there will always be some discussion in terms of when I use the term "we" and so forth. The bottom line was we came out of this, and I thought, it was my impression, and I think it was the impression of some others, that we did have an understanding of how we were going to proceed.

The point being that certainly what did not happen was all of the sudden a rule went out and said, This is the way it's going to be, without any dialogue or discussions with the companies. And I think that everybody in this room can agree with that.

To the extent that we all agreed in terms of how we should come out or maybe there was misunderstandings, maybe we all share in that, but I certainly don't want for anyone to have the impression that where we are today happened in Washington and we just rolled this out without any discussion because that clearly was not the case.

AUDIENCE MEMBER: I think one of the things that happened there, followed by what Corise said, when we agreed to that midpoint was -- at that time the expense allowance was 31.6. When we ended up figuring out the final midpoint, it was 31.7. So that was actually higher, so that year that was supposed to be a step down, it actually went up.

And then here we come with this year, and we dropped the whole apple down to 30.9. And I think that's what caused a big shock in the thing. That midpoint that was supposed to be a step down which really never occurred because of the way the numbers worked out.

MR. CONNOR: Well, yeah, but the intent was that there would be a transition because we didn't know how the numbers would come out.

AUDIENCE MEMBER: We get the feeling that somebody said, We need to find a way to drag down this expense amount and let's look at the numbers and let's find the right combination of numbers that will drive down this expense ratio or the expense allowance. And going from direct -- or from net to direct did that.

MS. MORRISON: And I think this, coupled with the fact that we bear the expense, and although we're compensated for that expense, we feel the costs are something we can't control many times because of the changes that are mandated to the program that we have to follow.

And then you add that to the fact that we also don't feel like we can necessarily control the expense allowance because that's also something, though we may try to work together to come up to something the best we can, it's something we don't have control over also. And that's what creates the frustration is the lack of control of costs coupled with the lack of control of our expense allowance, and it puts us in a very difficult position.

Obviously, the biggest benefit for us is that we don't bear the risk or share the risk for this adverse selection type of product, and yet we're able to offer this very necessary product to our insureds.

So that's the big reason that I think, at least at USAA, that we continue to participate in the program. But the risk associated with that, coupled with the costs associated with these changes is becoming more and more a concern, I think, with all companies.

AUDIENCE MEMBER: And we never agreed to the retention formula because we were talking about the roll-offs and roll-ons. And it was either going to be starting at 80 percent if you kept all that stuff in there, or 85 percent to 90 if you netted it.

And we came out with an incentive formula that started at 90 percent whereas -- realize, we couldn't improve the overall program retention and still nobody could earn a bonus because the overall retention is only 87 or something.

AUDIENCE MEMBER: Just, you know, we're here because we're here. What's happened has happened. And these are the numbers that are working. And the important thing to me is what we do from here on in. Because we've sort of kind of hit the bottom here in terms of the compensation that the companies are getting. So I don't know. How much more proof do we have to provide?

However, until we solve this, we have to solve it quickly and get on with producing business in the flood program. We have to do this and get it in back of us so we can work on the other things.

MR. CONNOR: I agree with that, but I think at the same time -- and I've heard these before. We need to hear this. I mean, if this is -- I don't want to hear about the three-year policy.

But there is one thing I want to say. And I know we're going to have a lot of time to talk about this. There is one thing that I wanted to say that relates to this, but without getting into what we said and what we didn't say, one of the things that I wanted to try to include in this meeting this week was to have someone here from the NAIC to talk about the instructions and how those numbers should be reported to the flood line.

The reason for that is because -- and, Larry, you kind of alluded to this when you said that, well, the direct number was we get to this number because of whatever reasons that may be in the company's mind. But the bottom line is there is now a line to report on flood. And while it's been out there three or four years, if you look at the numbers, you're looking at a number somewhere around 24, 25 percent and, I will agree, is unrealistic.

I discussed this matter with some people at the NAIC who actually put together the instructions for how that reporting should be done. I explained to them what the concerns are and why we think that's an important number. I invited them to this meeting. The only reason they couldn't come is because the individuals that would be able to help us understand that, and there's more to this, was not able to come to this meeting.

What I want to do and what they have agreed to do is to come to the conference. It's going to be a panel workshop that talks about the arrangement, and that workshop will get into the financial piece and we can talk about that.

But the reason why -- one of the major reasons why it was important for them to be here was I wanted them to hear what you're saying. But what was encouraging to me was they were saying to me that, well, you know, maybe we're able to adjust the instructions. Maybe there's something in the way that we're asking for these numbers to be reported that's not right or capturing everything or maybe it's confusing. And I wanted them to hear that, but unfortunately, they couldn't make the meeting.

But I think all I'm trying to say to you is two things. One, I'm hearing what you're saying and we're trying to address this issue and we're trying to clarify from the standpoint of the reporting how that should be done. And we aren't the people in the government to do that.

I think the people who need to be able to do that are the people who collect those numbers, and I would urge you to consider bringing some of your accounting people, the ones who are responsible for submitting those numbers. You may want to consider having them at the conference because I don't know how many of you actually get involved with submitting the numbers.

The second reason why I bring that up is because I think that is important because as we go forward, there has to be some credibility in whatever number we choose. A. M. Best, the net numbers, that's all that was out there. And now we have another number that specifically identifies flood. And if there's confusion with that, I think that we just need to clear that up so that we can start looking at that.

I fully intended for that number to start going up for the last couple years. It has not. It's still very, very low. So there's still something wrong with the way it's being reported, and that's what I was trying to clear up.

But we are hearing you. And that's another attempt on our part to try to at least get resolution to that piece of the problem.

AUDIENCE MEMBER: I talked to my accountant about this, and he said -- I don't know if I should repeat this or not -- but he can make that number as high as I wanted it to go. So, you know, we can pad it right now. They are not putting much of anything in there except premium taxes and something else. So --

AUDIENCE MEMBER: They are probably not putting any corporate allocations.

MR. CONNOR: But that's the piece that they need to hear, the people at the NAIC collecting the data. They need to hear that.

AUDIENCE MEMBER: The other numbers are allocations also. The numbers that you're using in your aggregate and averages and everything that comes in the company, they are allocated expenses also.

AUDIENCE MEMBER: But they are much closer to reality.

MR. CONNOR: Those are industry numbers that are used everywhere.

AUDIENCE MEMBER: Just to kind of follow up on a point that Corise was kind of going towards, and that is, the additional requirements that WYOs are put on or requested to do that aren't, quote, normal or that we're used to, kind of akin to, if I contracted with a software company to build a program and they are going to service that through the year, and then I say I want to make some unusual changes, they are not going to do it for free. They are going to charge me an hourly rate or whatever.

And when you get energetic administrators who have big great ideas for the program, and we had one with Elaine, and Jo Ann had great ideas and we're moving forward and very quickly, suddenly there's expenses unplanned. And as Corise pointed out, we're told to do them, and we have no choice. And those really start running you over that edge of into the risk area.

Those are unknown quantities, and for some reason, sometimes you don't have control over them. It comes from the floodplain management side. And I think as maybe in our discussions in the next couple days, we keep that in mind of how can we balance that in there so it doesn't become more expensive to us and push us over that edge so it is still profitable.

AUDIENCE MEMBER: The discussion over the next few days is going to be important. It goes beyond just whether we should be 30 percent or 31 percent. We could argue back and forth for weeks on just that.

We need to look at what the compensation models are and how true that process is. It's a more measured approach and perhaps one you feel you have more control over.

MR. CONNOR: I think the other thing, and I'll close with this. The other thing we did ask for -- and I appreciate the input we're getting in order for us to move forward on this.

The other element we needed is what are your true operating costs. And we started getting that information, and I think that we will start analyzing that as we start going through this process in terms of what we're going to do. Because that is going to be very, very important. Because now we're looking at true costs as opposed to what we think the costs are or et cetera. So I think that's important. We've gotten several reports already.

For those of you who are, and I think I clarified in the letter that Jo Ann sent to you, that the concern that you have with respect to FOIA and confidentiality. And we addressed that and there's a concern. We'll keep it in the hands of people who need to see it, and that's it. But I will ask again, if you can provide that information. Again, that's another step getting toward, I think, where you want to be.

AUDIENCE MEMBER: I'd like to ask everybody to join NCSI for a drink. We are being run out by 7 o'clock. We're in Room 124 right on the other side of the pool over there. We'd love to have you all join us.

MR. CONNOR: Okay. See you tomorrow.

(WHEREUPON, the proceedings adjourned at 5:25 p.m.)

C E R T I F I C A T E

STATE OF ARIZONA)
) ss.
COUNTY OF MARICOPA)

I, MICHAELA HERMAN DAVIS, a Certified Court Reporter, hereby certify that the foregoing pages, numbered 1 through 156, constitute a full, true and accurate transcription of all the proceedings had in the above matter, all done to the best of my skill and ability.

DATED at Phoenix, Arizona, this 8th day of February, 2001.

____

Michaela Herman Davis, RPR-CRR
Certified Court Reporter
Certificate #50574