



Highlights of [GAO-06-183T](#), a testimony before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, U.S. House of Representatives

Why GAO Did This Study

The disastrous hurricanes that have struck the Gulf Coast and Eastern seaboard in recent years—including Katrina, Rita, Ivan, and Isabel—have focused attention on federal flood management efforts. The National Flood Insurance Program (NFIP), established in 1968, provides property owners with some insurance coverage for flood damage. The Federal Emergency Management Agency (FEMA) within the Department of Homeland Security is responsible for managing the NFIP.

GAO issued a report earlier this week that was mandated by the Flood Insurance Reform Act of 2004. This testimony discusses findings and recommendations from that report and information from past GAO work. Specifically, the testimony discusses (1) the statutory and regulatory limitations on coverage for homeowners under the NFIP; (2) FEMA's role in monitoring and overseeing the NFIP; (3) the status of FEMA's implementation of provisions of the Flood Insurance Reform Act of 2004. It also offers observations on broader issues facing the NFIP including its financial structure and updating flood maps.

What GAO Recommends

GAO recommended that FEMA use a statistically valid method to select claims for review and establish milestones for meeting provisions of the Flood Insurance Reform Act. FEMA expressed concerns about findings related to its management.

www.gao.gov/cgi-bin/getrpt?GAO-06-183T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William O. Jenkins, Jr. at (202) 512-8777 or jenkinswo@gao.gov.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Oversight and Management of the National Flood Insurance Program

What GAO Found

The amount of insurance coverage available to homeowners under the NFIP is limited by requirements set forth in statute and FEMA's implementing regulations, which include FEMA's standard flood insurance policy. As a result of these limitations, insurance payments to claimants for flood damage may not cover all of the costs of repairing or replacing flood-damaged property. For example, homes that could sustain more than \$250,000 in damage cannot be insured to their full replacement cost, thus limiting claims to this statutory ceiling. In addition, NFIP policies cover only direct physical loss by or from flood. Therefore, losses resulting primarily from a preexisting structural weakness in a home, or losses resulting from events other than flood such as windstorms, are not covered by NFIP policies.

To meet its monitoring and oversight responsibilities, FEMA is to conduct periodic operational reviews of the 95 private insurance companies that participate in the NFIP, and FEMA's program contractor is to check the accuracy of claims settlements by doing quality assurance reinspections of a sample of claims adjustments for every flood event. FEMA did not use a statistically valid method for sampling files to be reviewed in these monitoring and oversight activities. As a result, FEMA cannot project the results of these reviews to determine the overall accuracy of claims settled for specific flood events or assess the overall performance of insurance companies and their adjusters in fulfilling responsibilities for the NFIP—actions necessary for FEMA to have reasonable assurance that program objectives are being achieved.

FEMA has not yet fully implemented provisions of the Flood Insurance Reform Act of 2004 requiring the agency to provide policyholders with a flood insurance claims handbook that meets statutory requirements, to establish a regulatory appeals process, and to ensure that insurance agents meet minimum education and training requirements. The statutory deadline for implementing these changes was December 30, 2004. Efforts to implement the provisions are under way, but have not yet been completed. FEMA has not developed plans with milestones for assigning accountability and projecting when program improvements will be made, so that improvements are in place to assist victims of future flood events.

As GAO has previously reported, the NFIP, by design, is not actuarially sound. The program does not collect sufficient premium income to build reserves to meet long-term future expected flood losses, in part because Congress authorized subsidized insurance rates to be made available for some properties. FEMA has generally been successful in keeping the NFIP on a sound financial footing, but the catastrophic flooding events of 2004 (involving four major hurricanes) required FEMA, as of August 2005, to borrow \$300 million from the U.S. Treasury to help pay an estimated \$1.8 billion on flood insurance claims. Following Hurricane Katrina in August 2005, legislation was enacted to increase FEMA's borrowing authority from \$1.5 billion to \$3.5 billion through fiscal year 2008.