NATIONAL FLOOD INSURANCE PROGRAM

New Processes Aided Hurricane Katrina Claims Handling, but FEMA’s Oversight Should Be Improved

What GAO Found

NFIP paid an unprecedented dollar amount for a record number of claims from Hurricanes Katrina and Rita. Congress increased NFIP’s borrowing authority with the U.S. Treasury from a pre-Katrina level of $1.5 billion to about $20.8 billion in March 2006, but FEMA will probably not be able to repay this debt on annual premium revenues of about $2 billion. As of May 2006, NFIP had paid approximately 162,000 flood damage claims from Hurricane Katrina and another 9,000 claims from Hurricane Rita. Most paid claims were for primary residences where flood insurance was generally required.

FEMA and its private sector partners faced several challenges in processing a record number of flood claims from Hurricanes Katrina and Rita, among them were (1) reaching insured properties in a timely way because of blocked roadways and flood water contamination and (2) identifying badly damaged homes to be inspected in locations where street signs had washed away. Despite these and other obstacles, FEMA reported that over 95 percent of Gulf Coast claims had been closed by May 2006, a time frame comparable to those for closing claims in other, smaller recent floods. To help keep pace with the volume of claims filed, FEMA approved expedited methods for claims processing that were unique to Hurricanes Katrina and Rita.

To provide oversight of the claims adjustment process, FEMA’s program contractor did quality assurance reinspections of Hurricane Katrina and Rita claims adjustments. FEMA did not adopt our October 2005 recommendation that it select the claims to be reinspected from a random sample of the universe of all closed claims; thus, the results of the reinspections cannot be projected to a universe larger than the 4,316 claims adjustments that were reinspected. FEMA agrees with our prior recommendation and plans to do quality reinspections in future flood events based on a random sample of all claims. FEMA did not analyze the overall results of the quality reinspections for Hurricanes Katrina and Rita.

FEMA has made progress but has not fully implemented the NFIP program changes mandated by the Flood Insurance Reform Act. For example, 15 states had adopted minimum education and training requirements for insurance agents who sell NFIP policies, as of October 2006.