



January 2014

HOMEOWNERS INSURANCE

Multiple Challenges Make Expanding Private Coverage Difficult

GAO Highlights

Highlights of [GAO-14-179](#), a report to congressional requesters

Why GAO Did This Study

Homeowners insurance protects against a range of perils, but policies do not insure against all risks. Owners whose homes are damaged by natural and other disasters not covered by their insurance can be exposed to serious financial losses. Federal and state initiatives provide some assistance for catastrophes, which can involve significant taxpayer expense. With coastal populations growing and the possibility of more frequent and severe weather, more homeowners could experience heavy losses not covered by homeowners insurance, putting increasing financial pressure on government programs and thus on taxpayers.

GAO was asked to study the possibility of private insurers providing more comprehensive insurance. This report addresses (1) what perils homeowners policies typically cover and exclude, (2) how exclusions impact homeowners and taxpayers and the potential benefits of more comprehensive coverage, and (3) what additional perils insurers might be willing to cover and what challenges are associated with expanding policies. GAO reviewed homeowners insurance policies and conducted interviews with the National Association of Insurance Commissioners, other industry organizations, consumer advocates, and risk experts, among others.

GAO requested comments on a draft of this report from the Federal Insurance Office and the National Association of Insurance Commissioners. Both provided technical comments which we incorporated into the report as appropriate.

View [GAO-14-179](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or Cackleya@gao.gov.

January 2014

HOMEOWNERS INSURANCE

Multiple Challenges Make Expanding Private Coverage Difficult

What GAO Found

Homeowners insurance policies typically protect homes, garages and other structures, and personal belongings from damage caused by perils such as fire, hail, lightning, explosion, and theft, among others. The insurance industry considers these perils insurable because they are accidental, predictable, and do not involve catastrophic losses. These policies also typically exclude losses from a number of perils, including disasters caused by floods, earthquakes, and war. Industry officials said that such events are difficult to predict and involve extensive losses that are a challenge for private insurers to cover. Insurers also exclude losses from defective products, which industry participants said could be addressed by manufacturer warranties and commercial general liability insurance. Intentional losses; damage from wear, tear, or neglect; and losses caused simultaneously by covered and uncovered perils, such as wind (covered) and flood (uncovered) during a hurricane are also generally excluded.

Policy exclusions can impact homeowners, communities, and state and federal governments. When excluded losses occur, they can create significant costs for homeowners to repair homes and replace possessions. Wide-scale catastrophes can also cause shortages of building materials and contractors that delay reconstruction and substantially increase the costs of repairing homes. When damage to properties caused by excluded losses is not repaired, affected communities may experience blight and face reduced tax revenue. When federal and state governments have stepped in to cover what private insurers exclude, taxpayers may face a significant expense. In addition to federal disaster assistance, the National Flood Insurance Program (NFIP) paid more than \$7 billion in claims after Superstorm Sandy. In Florida, insurers and policyholders can be assessed extra charges to help pay for state efforts to cover wind damage where it is not covered by insurers. Industry participants suggested that expanded private coverage could provide additional protection for homeowners and reduce reliance on government programs, but the resulting policy premiums would likely be prohibitively expensive for many homeowners.

Multiple factors make expanding private coverage challenging and several conditions would need to be addressed for insurers to offer more comprehensive insurance. A main challenge is that expanded coverage would have higher costs, potentially limiting consumer demand. Even if insurers charged higher rates that were based on risk, the severity and unpredictability of catastrophic losses could still jeopardize insurers' solvency. Some industry participants said that insurers and others are discussing possibilities for expanding private homeowners coverage, with a focus on risk-based premiums, mitigation efforts, effective building codes, and sound land use policies. The challenging mix of financial risk, political and regulatory issues, policy cost, and consumer demand has thus far prevented private sector insurers in the U.S. from offering flood insurance to homeowners, let alone more comprehensive or all-perils policies. Because of this mix of factors, some in the insurance industry have suggested that a continuing financial role by federal and possibly state governments may be required, and that ensuring a response to the impact of disasters and other perils will require the cooperation and resources of government, homeowners, and insurers, as well as balance in the assumption of risk and cost by each of these parties.

Contents

Letter		1
	Background	2
	Policies Cover and Exclude Various Perils Based on Policy Provisions and Other Factors	8
	Policy Exclusion Impacts Could Be Reduced by Expanding Homeowner Coverage, but Premiums Would Likely Increase	16
	Multiple Challenges Make Expanding Private Coverage Difficult	24
	Agency Comments	28
Appendix I	Objectives, Scope, and Methodology	31
Appendix II	Information on the National Flood Insurance Program	33
Appendix III	Information on the Citizens Property Insurance Corporation	35
Appendix IV	Information on the California Earthquake Authority	38
Appendix V	GAO Contact and Staff Acknowledgments	40
Tables		
	Table 1: Types of Homeowners Insurance Policies for Single-Family Homes	4
	Table 2: Perils Covered for Personal Property in the HO-3	9
	Table 3: Perils Listed in the Exclusions Section of the HO-3	11
	Table 4: Other Excluded Perils for Dwellings and Other Structures Listed in the HO-3	12
Figures		
	Figure 1: Damage Due to Floods	16
	Figure 2: Damage Due to Sinkholes	17

Figure 3: Selected NFIP Flood Loss and Payment Information,
2005 to 2012

Abbreviations

CEA	California Earthquake Authority
FAIR	Fair Access to Insurance Requirements
FEMA	Federal Emergency Management Agency
FHCF	Florida Hurricane Catastrophe Fund
FWUA	Florida Windstorm Underwriting Association
IHP	Individuals and Households Program
III	Insurance Information Institute
ISO	Insurance Services Office
JUA	Florida Residential Property and Casualty Joint Underwriting Association
NAIC	National Association of Insurance Commissioners
NFIP	National Flood Insurance Program

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



January 30, 2014

Congressional Requesters

Homeowners in the United States are exposed to a wide range of disasters, including hurricanes, earthquakes, floods, and wildfires, and may also experience losses from lightning, hail, and fire, among other perils.¹ When these and other catastrophes occur, they not only devastate individuals and communities by destroying homes and other possessions, but also have a significant financial impact on homeowners, insurers, and state and federal governments. Superstorm Sandy, for example, caused over \$18 billion in privately insured property losses, according to industry estimates, and the Federal Emergency Management Agency (FEMA) has paid more than \$7 billion in claims through the National Flood Insurance Program (NFIP).

At the same time, the population of coastal states facing possible weather risks such as floods and hurricanes is growing. As of 2010, approximately 39 percent of the nation's total population, approximately 123 million people, lived in coastal counties, a 39 percent increase since 1970.² As of 2012, properties in hurricane-prone areas on the coast had an insured value of about \$15 trillion, with Florida, New York, and Texas having the greatest risk exposure. In addition to floods and hurricanes, some states such as California face risks such as earthquakes and wildfires while Florida faces risks from sinkholes. With more people moving to coastal areas, the possibility of more frequent and severe weather could impact the ability of homeowners and insurers to protect homes and other property. These and other risks underscore the importance of insurance to help protect homes and property from various hazards. Homeowners insurance, however, does not cover all types of perils and some homeowners may not clearly understand what protection their policy includes and excludes until after an event occurs. Homeowners count on insurance to help rebuild their lives and minimize financial burdens and may suffer severe losses depending on the type of peril and the coverage offered in their policies.

¹A peril is a specific risk or event that may cause a loss.

²National Oceanic and Atmospheric Administration, *National Coastal Population Report: Population Trends from 1970 to 2020* (Washington, D.C.: Mar. 2013).

In light of recent concerns about homeowners' ability to protect their assets, GAO was asked to examine issues associated with the possibility of more comprehensive homeowners insurance. This report addresses (1) the perils homeowners policies typically cover and exclude; (2) the impact of exclusions on homeowners, communities, and taxpayers and the potential benefits of more comprehensive coverage; and (3) the additional perils insurers might be willing to cover and the challenges associated with offering expanded coverage. To do this work, we reviewed a standard homeowners policy from the insurance industry and policies from select property/casualty insurers that were chosen by market share based on premiums written and participation in different geographic markets. We also interviewed insurance industry association officials, consumer advocates, and academic experts. Further, we interviewed selected state insurance regulators from states that experience major perils such as floods, hurricanes, and earthquakes, among others.³ Finally, we obtained information from a panel of insurance experts who participated in a roundtable discussion on issues associated with private insurers' willingness and ability to cover floods and other natural catastrophes. We discuss our scope and methodology in more detail in appendix I.

We conducted this performance audit from December 2012 to January 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Homeowners Insurance Policies

Homeowners insurance provides consumers with financial protection against unexpected losses. Most homeowners policies provide a package of coverage that protects against damage to different types of property

³For the purposes of this report, "industry participants" refers to those entities with a role in the insurance industry, including regulators, consumer advocates, industry associations, insurance company officials, and academic experts.

and liability for injuries and property damage policyholders cause to others. The following are the main types of coverage:

- *Dwelling*. Pays for damage to a house and to attached structures, including plumbing, electrical wiring, heating, and permanently installed air-conditioning systems.
- *Other structures*. Pays for damage to fences, tool sheds, freestanding garages, guest cottages, and other structures not attached to the dwelling.
- *Personal property*. Pays for the value of personal possessions, including furniture, electronics, appliances, and clothing damaged or lost even when they are not on the subject property—for instance, when they are in an off-site storage locker or with a child at college.
- *Loss of use*. Pays some additional living expenses while a home is being repaired.⁴
- *Personal liability*. Pays for financial loss from lawsuits for injuries or damages to someone else.
- *Medical payments*. Pays medical bills for people hurt on the property or by a pet.⁵

Homeowners can purchase several types of insurance policies. These policies differ based on the perils they cover (see table 1). For example, named perils policies insure against losses caused by perils that are specifically listed in the policies. Open peril policies are broader policies that insure against losses caused by all perils, except those that are specifically excluded. However, according to industry participants with whom we spoke, currently no homeowners policies are available that cover every possible peril a homeowner could face.

⁴Additional living expenses are extra charges covered by homeowners policies over and above the policyholder's customary living expenses. They kick in when the policyholder requires temporary shelter due to damage by a covered peril that makes the home temporarily uninhabitable.

⁵See National Association of Insurance Commissioners (NAIC), *A Consumer's Guide to Home Insurance* (Kansas City, MO: 2010) and Insurance Information Institute (III), *Insurance Handbook: A Guide to Insurance: What it Does and How it Works* (New York, N.Y.: 2010).

Table 1: Types of Homeowners Insurance Policies for Single-Family Homes

Policy type	Description of policy
HO-2: Broad Policy	A named peril policy, it covers the dwelling and personal property against 16 perils listed in the policy.
HO-3: Special Policy	The most commonly written policy, it is a combination of a named peril policy and an open peril policy. It covers the dwelling against all perils except those specifically excluded (such as flood and earthquake) and covers personal property against 16 named perils.
HO-5: Comprehensive Policy	More comprehensive than the HO-3, it is an open peril policy that covers the dwelling and personal property against all perils, except those that are specifically excluded (such as flood and earthquake).
HO-8: Modified Coverage Policy	A named peril policy, it is designed for older homes, where the cost to replace is greater than the market value.

Source: Insurance Services Office (ISO), National Association of Insurance Commissioners, and Insurance Information Institute.

Note: These policy types are examples of homeowners insurance policies developed by the ISO, which is a provider of data and analytics for the risk management industry, including property/casualty insurers. ISO has developed other policy types not included in this table, as have other companies.

In addition to different policy types, homeowners may choose between three different levels of coverage for their homeowners policies.⁶ These options are:

- **Actual cash value.** This type of coverage pays to replace the home or possessions after deducting for depreciation. Value is determined by taking into consideration the age of the home and wear and tear.⁷ This level of coverage may not be enough to fully repair or replace the damage.
- **Replacement cost.** This type of coverage pays the cost of rebuilding or repairing the home or replacing possessions, up to the coverage limit, without a deduction for depreciation. It allows for the repair or rebuilding of the home by using materials of similar kind and quality.

⁶The amount of coverage available under a homeowners policy is subject to limits, which are the maximum amounts the insurance policy will pay in the event of a loss. The limit for the dwelling is typically selected by the policyholder. The limits for other structures, personal property, and loss of use are expressed as percentages of the dwelling limit.

⁷According to industry participants, the valuation method used to determine the value of a home depends on the language in the insurance policy. For example, the home's value may be determined by the insurer or may be based on an appraisal. Each structure may also require a different valuation method.

-
- *Guaranteed (or extended) replacement cost.* This option is the most comprehensive and expensive. It pays a certain percentage, typically 20 to 25 percent, over the coverage limit to rebuild the home in the event that materials and labor costs increase as a result of a widespread disaster.⁸

The HO-2, HO-3, and HO-5 policies typically provide replacement cost coverage on the structures.⁹ Contents coverage under homeowner policies is typically provided on an actual cash value basis, unless the replacement cost option is purchased. The HO-8 typically provides coverage for older homes on an actual cash value basis. Full replacement cost policies may not be available for some older homes.

Cost of Insurance to Homeowners

Several factors affect the premiums consumers pay for their homeowners policies, including the type and characteristics of the home. For example, homes that are primarily brick or masonry typically have lower premiums than wood frame homes, and older homes and homes in poor condition tend to have higher premiums than newer homes and homes in good condition. A homeowner's characteristics, such as a history of filing claims, and choices, such as the dollar amount of coverage selected, may also impact the premium cost. Other factors that impact the premium cost include the degree of exposure to catastrophes (such as hurricanes or earthquakes), the type of protection devices in the home (such as sprinkler or security systems), and the type of structures on the property (such as swimming pools or trampolines).

In addition to paying premiums for their insurance policies, homeowners generally have to pay a deductible when they file a claim—that is, an amount of money a policyholder must pay before an insurance policy will pay for a loss. The deductible applies to both home and personal property coverage and is paid on each claim. Higher deductibles generally mean lower policy premiums. In some locations, there are also catastrophe

⁸See NAIC, *A Consumer's Guide to Home Insurance* and III, *Insurance Handbook: A Guide to Insurance: What it Does and How it Works*.

⁹According to information from a state insurance department, many insurance companies require policyholders to purchase coverage for at least 80 percent of the home's replacement cost, and some require 100 percent. If a homeowner is underinsured and suffers a total loss, the homeowner may be reimbursed up to the coverage limit the homeowner purchased.

deductibles that a homeowner must pay when a major natural disaster occurs. They are expressed as a percentage of a claim instead of an insured amount.

State Regulation of Insurance

Insurance in the United States is primarily regulated at the state level.¹⁰ State insurance regulators are responsible for enforcing state insurance laws and regulations, including through the licensing of agents, the review of insurance products and premium rates, and the examination of insurers' financial solvency and market conduct. The insurance regulators of the 50 states, the District of Columbia, and the U.S. territories created and govern the National Association of Insurance Commissioners (NAIC), which is the standard-setting and regulatory support organization for the U.S. insurance industry. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based regulation in the United States.

Risk Management by Insurers

Insurers assume some financial risk when writing policies, but also employ various strategies to manage risk so they can earn profits, limit potential financial exposures, and build the capital needed to pay claims. For example, insurance companies establish underwriting standards, such as refusing to insure customers who pose unacceptable levels of risk, or limiting coverage in particular geographic areas. Insurance companies may also purchase reinsurance, or insurance for insurance companies, to cover specific portions of their financial risk. For catastrophic losses, insurers may also sell financial instruments such as

¹⁰The federal government retains the authority to regulate insurance, but has given primary responsibility for insurance regulation to the states in accordance with the McCarran-Ferguson Act of 1945. See Pub. L. No. 79-5, ch. 20, 59 Stat. 33 (1945) codified as amended at 15 U.S.C. §§ 1011-1015. See also GAO, *Ultimate Effects of McCarran-Ferguson Federal Antitrust Exemption on Insurer Activity Are Unclear*, [GAO-05-816R](#) (Washington, D.C.: July 28, 2005). Nevertheless, the federal government is involved in a wide range of areas with respect to the insurance sector, including operation of the National Flood Insurance Program, and crop and terrorism insurance programs. In addition, the Federal Reserve Board supervises insurers designated by the Financial Stability Oversight Council.

catastrophe bonds. Reinsurers use similar strategies to manage their risks.

Both insurers and reinsurers must also predict the frequency and severity of insured losses with some reliability to best manage financial risk. In some cases, these events can be fairly predictable. For example, the incidence of most automobile claims is predictable, and losses generally do not occur to large numbers of policyholders at the same time. However, some infrequent events, such as hurricanes, are so severe that they pose unique challenges for insurers and reinsurers. The unpredictability and sheer size of these types of events can result in substantial losses that deplete insurers' and reinsurers' capital. If a company believes that the risk of loss is unacceptably high given the rate that can be charged, it may decide not to offer coverage.

Government Involvement in Homeowners Insurance

If the private sector will not insure a particular type of risk, the public sector may create markets to ensure the availability of insurance. For example, several states have established Fair Access to Insurance Requirements (FAIR) plans, which pool resources from insurers doing business in the state to make property insurance available to property owners who cannot obtain coverage in the private insurance market, or cannot do so at an affordable rate. In addition, some states have established windstorm insurance pools that pool resources from private insurers to make insurance for wind risks available to property owners who cannot obtain it in the private insurance market.¹¹

At the federal level, Congress established NFIP in 1968 to provide flood coverage to homeowners where voluntary markets do not readily exist.¹² FEMA is responsible for the oversight and management of NFIP.¹³ Designed to help reduce the cost of federal assistance after floods, NFIP may be the sole source of insurance to some residents of flood-prone areas. Participating communities are required to adopt and enforce floodplain management regulations, thereby reducing the risks of flooding and the costs of repairing flood damage. Under the program, the federal

¹¹Examples of wind risks include hurricanes and tornadoes.

¹²Pub. L. No. 90-448, Title XIII, § 1302, 82 Stat. 476, 572 (1968).

¹³FEMA is part of the Department of Homeland Security.

government assumes the liability for covered losses and sets premium rates and coverage limitations. Like private insurance companies, federal and state government insurance programs also collect premiums, but their rates do not always reflect the risks that the programs assume, in part because they are designed to keep insurance affordable for most homeowners.¹⁴

Policies Cover and Exclude Various Perils Based on Policy Provisions and Other Factors

Homeowners policies provide protections against a number of perils that can impact individuals and families. Policies, however, do not protect against all perils that homeowners could face. Various sections of a homeowners insurance policy outline perils covered and those the policy excludes. Policy provisions and other factors, such as location, can impact the coverage insurers offer homeowners.

Homeowners Policies Typically Cover a Range of Perils

Homeowners insurance policies typically cover a range of perils and are critical to providing financial protection against losses such as fire and theft, among others. According to many industry participants, the Insurance Services Office's (ISO) HO-3 policy is the most commonly purchased homeowners policy and outlines the typical coverage and exclusions found in most homeowners policies.¹⁵ The HO-3 covers a person's dwelling or home and other structures—such as detached garage, or shed—against all perils except those specifically excluded. This is commonly known as “open perils” coverage. For possessions, or personal property, the HO-3 covers only those perils listed in the policy, typically the 16 outlined below in table 2. Insurers refer to this kind of coverage as “named peril” coverage.

¹⁴For more information on NFIP, see Appendix II and recent GAO work, including GAO, *Flood Insurance: Implications of Changing Coverage Limits and Expanding Coverage*, [GAO-13-568](#) (Washington, D.C.: July 3, 2013); *Flood Insurance: More Information Needed on Subsidized Properties*, [GAO-13-607](#) (Washington, D.C.: July 3, 2013) and *Flood Insurance: Strategies for Increasing Private Sector Involvement*, [GAO-14-127](#) (Washington, D.C.: Jan. 22, 2014).

¹⁵In addition to providing data and analytics services, ISO develops standard insurance policy language for use in the insurance industry. According to some industry participants, insurers may develop their own proprietary policies that deviate from the HO-3, but the covered perils and exclusions in those policies typically remain the same.

Table 2: Perils Covered for Personal Property in the HO-3

1. Fire or lightning	11. Weight of ice, snow, or sleet
2. Windstorm or hail ^a	12. Accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning, or automatic fire-protective sprinkler system or from within a household appliance (with certain restrictions)
3. Explosion	13. Sudden and accidental tearing apart, cracking, burning, or bulging of a steam or hot water heating, air conditioning, or automatic fire protective sprinkler system, or an appliance for heating water ^d
4. Riot or civil commotion	14. Freezing of a plumbing, heating, air conditioning, or automatic fire-protective sprinkler system or a household appliance if reasonable care has been used to maintain heat in the building or shut off the water supply and drain all systems and appliances of water ^e
5. Aircraft, including self-propelled missiles and spacecraft	15. Sudden and accidental damage from artificially generated electrical current (with certain restrictions)
6. Vehicles	16. Volcanic eruption, but not earthquake, land shock waves, or tremors
7. Smoke ^b	
8. Vandalism or malicious mischief	
9. Theft	
10. Falling objects ^c	

Source: ISO's HO-3 policy.

^aSome states have established windstorm insurance pools as private insurers sometimes exclude coverage for wind-related damage. In addition, this specifically excludes from coverage damage caused by rain, snow, sleet, sand, and dust unless the wind or hail damage to the building permits those perils to enter.

^bThis only applies if it is sudden and accidental damage.

^cThis only covers property in a building if a building is also damaged by the falling object. However, damage to the fallen object itself is not covered.

^dThis does not include losses caused by or resulting from freezing.

^eThis does not include a sump, sump pump, roof drains, gutters, downspout, or other similar equipment.

Private insurers determine which perils are insurable risks on the basis of certain characteristics or criteria of the losses associated with them, including the following:¹⁶

- *Losses that are definite and measurable.* The loss should be definite or determinate in time, place, and cause, and the insurer must be capable of setting a dollar value on the amount of the loss.

¹⁶For more information on insurable risk criteria, see GAO, *Terrorism Insurance: Measuring and Predicting Losses from Unconventional Weapons Is Difficult, but Some Industry Exposure Exists*, [GAO-06-1081](#) (Washington, D.C.: Sept. 25, 2006) and George E. Rejda, *Principles of Risk Management and Insurance*, 8th ed. (Boston, Mass.: Pearson Education, Inc., 2003).

-
- *Losses that are sudden, random, and accidental.* The loss must result from chance and not be something that is certain to happen. If a future loss were sure to occur, coverage would have to be priced at the full value of the loss plus an additional amount for the expenses incurred.
 - *Losses that are not catastrophic.* The losses should not affect a very large percentage of an insurance company's policyholders at the same time in, for example, a limited geographic area.¹⁷ The losses should be independent of each other in order to spread and minimize risk. Additionally, the peril should not be so catastrophic that the insurer would be unable to charge a sufficient premium to cover the exposure.
 - *Losses for which the law of large numbers applies.* There must be a sufficiently large number of homogeneous units exposed to random losses, both historically and prospectively, to make the future losses reasonably predictable. This principle works best when there are many losses with similar characteristics spread across a large group. The greater the experience with losses, the better insurers can estimate both the frequency and severity of future losses.

When these criteria are generally satisfied, the insurer can add other expenses and profits to the expected losses and determine a price that is appropriate for the risk. Insurers may still decide to offer insurance for risks that deviate from these ideal characteristics. However, as one or more deviations occur, the ability of the insurer to estimate future losses decreases, the risk increases, and the insurer's capital is more exposed to inadequate prices for the coverage that the insurer offers.

Homeowners Policies Also Exclude Other Perils

Despite covering a range of perils, insurers also exclude a number of perils. Insurance companies may determine that a peril is uninsurable and exclude it from an insurance policy by inserting a provision that excludes coverage. These provisions can be located in different sections of a homeowners policy. For example, the HO-3 contains a section titled "Exclusions," but other policy provisions that exclude coverage are located elsewhere. Table 3 lists typical perils excluded under this section.

¹⁷Alternatively, a catastrophic loss is one that is extraordinarily large relative to the number of properties at risk in a given insurance pool.

Table 3: Perils Listed in the Exclusions Section of the HO-3

1. Ordinance or law (such as an ordinance or law requiring or regulating the construction, demolition, remodeling, renovation, or repair of property)	8. Intentional loss (an action the insured commits or conspires to commit with intent to cause loss)
2. Earth movement (such as earthquakes, landslides, mudslides, or sinkholes) ^a	9. Government action (such as the destruction, confiscation, or seizure of property by order of any governmental or public authority) ^c
3. Water (including flood, waves, water which backs up through sewers or drains or overflows or is otherwise discharged from a sump, sump pump or related equipment, or water below the surface of the ground) ^b	10. Weather conditions (only if the weather conditions contribute in any way with a cause or event excluded above to produce the loss) ^d
4. Power failure	11. Acts or decisions, including the failure to act or decide, of any person, group, organization, or governmental body ^d
5. Neglect (failure to use reasonable means to save and preserve property at and after the time of loss)	12. Faulty, inadequate or defective: planning, zoning, development, surveying, siting; design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction; materials used in repair, construction, renovation, or remodeling; or maintenance ^d
6. War	
7. Nuclear hazard	

Source: ISO's HO-3 policy.

^aA direct loss by fire, explosion, or theft resulting from an earth movement is covered.

^bA direct loss by fire, explosion, or theft resulting from water activity is covered.

^cThis excludes acts taken by the government at a time of a fire to prevent spread of the fire if the loss caused by the fire is covered under the policy.

^dThese three items are specific to dwellings and other structures.

Other policy provisions that exclude coverage are located under "Perils Insured Against" in the HO-3 policy. Under this section, which applies to the dwelling and other structures, but not to personal property, damage caused by certain perils will not be covered (see table 4).

Table 4: Other Excluded Perils for Dwellings and Other Structures Listed in the HO-3

1. Collapse (including abrupt falling down or caving in; loss of structural integrity; or any cracking, bulging, sagging, bending, shrinking, leaning, settling, or expansions related to the falling or loss of structural integrity);
2. Freezing of a plumbing, heating, air conditioning, or automatic fire-protective system or of a household appliance, or by discharge, leakage, or overflow from within the system or appliance caused by freezing, unless reasonable care has been used to maintain heat in the building or shut off the water supply and drain all systems and appliances of water;^a
3. Freezing, thawing, pressure, or weight of water or ice, whether driven by wind or not, to a fence, pavement, patio, swimming pool, and other listed structures;
4. Theft in or to a dwelling under construction, or of materials and supplies for use in the construction until the dwelling is finished and occupied;
5. Vandalism and malicious mischief and any ensuing loss caused by any intentional and wrongful act committed in the course of the vandalism or malicious mischief, if the dwelling has been vacant for more than 60 consecutive days immediately before the loss;
6. Mold, fungus, or wet rot (except under certain circumstances); or
7. Wear and tear, marring, deterioration; mechanical breakdown, latent defect, inherent vice, or any quality in property that causes it to damage or destroy itself; smog, rust, or other corrosion, or dry rot; smoke from agricultural smudging or industrial operations; discharge, dispersal, seepage, migration, release or escape of pollutants (except under certain circumstances); settling, shrinking, bulging or expansion, including resultant cracking, of bulkheads, pavements, patios, footings, foundations, walls, floors, roofs, or ceilings; birds, rodents, or insects; nesting or infestation, or discharge or release of waste products or secretions, by any animals; or animals owned or kept by an insured.

Source: ISO's HO-3 policy.

^aThe term plumbing does not include a sump, sump pump, roof drain, gutter, downspout, or similar equipment.

Insurers exclude these perils from homeowners policies for various reasons. According to some industry participants, some perils are excluded because they do not meet the criteria for insurable risks. For example, perils that result in catastrophic losses are generally infrequent, high-impact events that are difficult to predict and measure. The chances of these events occurring are difficult to calculate, and the losses can be so large and simultaneously impact so many homeowners that they could jeopardize a company's solvency because the insurer may not have sufficient capital to pay out the large number of claims. Examples of these types of risks include flood, earthquake, war, and nuclear hazard.

Other risks are excluded because they could raise moral hazard issues if they were covered and because they are not accidental. Moral hazard is an increase in the probability of loss caused by the policyholder's behavior—for example, intentional loss, neglect, deterioration, and lack of maintenance. According to some industry participants, if these risks were covered, homeowners could, for example, neglect their roofs or not address mold problems and then file claims for replacement and remediation. Further they noted that these types of risks also fall outside

the realm of insurance because they are not sudden or accidental and are generally unpredictable.

Some industry participants also said that homeowners policies list defective products as exclusions for a couple of reasons. First, they said that defective products are listed as exclusions because insurers would find it difficult and impractical to evaluate the wide range of manufactured products to determine the likelihood and extent of defects and price this risk for policies accordingly. Second, they suggested that manufacturers are responsible for defects in their products, and product warranties and commercial general liability insurance can help affected homeowners.¹⁸ For example, some homeowners affected by defective drywall may receive compensation from settlements partly funded by commercial general liability insurance policies held by companies responsible for the distribution or installation of defective drywall.¹⁹ Additionally, some homeowners impacted by defective drywall have filed insurance claims through their homeowners' insurance policies, and litigation in multiple states will determine the extent to which coverage for this drywall is covered by homeowners insurance.

Coverage Depends on Several Factors, Including Policy Provisions and Location

Certain provisions found in homeowners policies can also affect coverage. Some industry participants cited as an example anticoncurrent causation clauses. For example, under these clauses, if damage is simultaneously caused by both an excluded peril (such as flood) and a covered peril (wind), coverage is excluded for that loss. They noted that these clauses presented a particular challenge for owners of coastal properties when hurricanes occurred. Cases challenging the enforceability of the anticoncurrent clause arose after the 2005 hurricane season because damage to properties may have resulted from a combination of high winds and flooding. According to reports, this clause may similarly become an issue for homeowners in the aftermath of Superstorm Sandy. In addition to the anticoncurrent causation clause,

¹⁸Commercial general liability insurance is a standard insurance policy issued to business organizations to protect them against liability claims for bodily injury and property damage arising out of premises, operations, products, and completed operations, as well as advertising and personal injury liability.

¹⁹For more information on defective drywall and alternative methods of providing relief from damage associated with it, see GAO, *Information on Defective Drywall*, [GAO-13-735R](#) (Washington, D.C.: July 31, 2013).

policies may also contain conditions that policyholders are required to comply with in order to maintain coverage. Under the HO-3 policy, for example, homeowners must provide prompt notice to their insurance company or agent following a loss and are also required to protect property from further damage once a loss has occurred. Failure to comply with these types of requirements may result in a loss of coverage.

In addition, the facts and conditions surrounding the loss event—including the cause of the damages and court decisions—may also impact coverage. For example, according to some industry participants, an HO-3 policy typically excludes mold damage. However, mold damage that is hidden within walls or ceilings, or beneath the floors of a structure, that results from the accidental discharge or overflow of water or steam from within a plumbing or heating system may be covered, among other things. Further, the HO-3 policy typically covers theft of personal property from a home. However, theft in a home that is under construction, for example, may not be covered. Court decisions may also impact coverage when disputes between policyholders and insurers end up in litigation, something that can take time to resolve. Ultimately, whether a loss is covered in these cases may depend on how the court interprets the policy. Following Hurricane Katrina, for example, some coverage disputes raised the question of whether a policy's flood exclusion language clearly excluded a water-related event, such as storm surge, that caused the damage at issue.²⁰

Coverage may also depend on where homeowners live and whether they have purchased endorsements—optional coverage that alters a policy's terms and conditions that can be added at an additional cost—or have other insurance policies.²¹ For example, homeowners policies typically do not cover flood damage, but flood insurance may be available through NFIP, depending on where a home is located.²² Additionally, private

²⁰For more information on wind and flood damage determinations following Hurricane Katrina, see GAO, *National Flood Insurance Program: Greater Transparency and Oversight of Wind and Flood Damage Determinations Are Needed*, [GAO-08-28](#) (Washington, D.C.: Dec. 28, 2007).

²¹An endorsement is sometimes called a rider. In addition to buying back coverage for certain risks, endorsements can also be used by insurers to limit coverage in a policy.

²²Some property owners may also purchase excess flood insurance from private insurers if the value of their home exceeds the coverage limits offered by NFIP.

insurers sometimes exclude coverage for wind-related damage to properties in coastal areas, requiring policyholders to either pay an additional premium for wind-related risks or purchase a supplemental policy for wind-related damages. In such cases, this supplemental coverage is typically provided by a state-sponsored wind insurance pool that has been created to address shortages in the availability of private insurance for wind-related risks. In Florida, for example, coverage is provided through its state insurance entity, the Citizens Property Insurance Corporation (Citizens).²³

Earthquakes and sinkholes are two other perils that are also typically excluded from homeowners policies but that may be covered by a separate policy or an endorsement in some states. In California, for example, state law requires all residential property insurance companies to offer earthquake coverage to homeowners. In offering earthquake coverage, insurance companies can manage the risk themselves, contract with an affiliated or non-affiliated insurer, or become members of the California Earthquake Authority (CEA), a publicly-managed but privately funded entity that offers residential earthquake policies.²⁴ Similarly, sinkhole coverage is typically excluded under the earth movement exclusion found in standard homeowners policies, but in Florida, the state requires insurers to offer catastrophic ground cover collapse, which is a narrow form of coverage that protects against the total loss of a home due to sinkholes. Florida does not require any other sinkhole coverage to be included in homeowners policies, but insurers are required to offer additional sinkhole coverage. Homeowners in some states may also be able to purchase coverage through endorsements for other perils typically excluded from homeowners policies, including ordinance and law, sewer or drain backup, and mold.

²³Citizens is a not-for-profit, tax-exempt government corporation that provides insurance protection to Florida property owners throughout the state. The corporation insures hundreds of thousands of homes, businesses, and condominiums whose owners otherwise might not be able to find coverage. For more information on Citizens, see appendix III.

²⁴The base CEA policy, known as a “mini-policy,” is a reduced-coverage, catastrophic earthquake insurance policy intended to protect a dwelling, while excluding coverage for costly nonessential items, such as swimming pools, patios, and detached structures. For more information about CEA and other state insurance entities, see appendix IV and GAO, *Natural Disasters: Public Policy Options for Changing the Federal Role in Natural Catastrophe Insurance*, [GAO-08-7](#) (Washington, D.C.: Nov. 26, 2007).

Policy Exclusion Impacts Could Be Reduced by Expanding Homeowner Coverage, but Premiums Would Likely Increase

Losses due to policy exclusions can financially impact homeowners by causing significant out-of-pocket expenses. Communities can also be impacted by perils excluded from homeowners policies, particularly if unrepaired homes result in blight and affect whether others in a neighborhood rebuild. Expanded coverage could offer homeowners more protection, potentially reducing the cost of repairs that homeowners would have to cover with their own resources. However, policies that offered expanded coverage would likely be much more expensive than current policies.

Policy Exclusions Can Impact Homeowners and Communities

According to industry participants, the biggest and most significant impact on homeowners from policy exclusions is out-of-pocket costs to cover losses. If a loss occurs that is excluded by insurers, and coverage is not available through an endorsement or federal or state program, homeowners will have to use their own resources to rebuild and replace what they had. Some industry participants said that excluded losses can cause significant damage to homes and possessions. In some cases, homeowners may not have the means to rebuild after a disaster. Figures 1 and 2 illustrate the damage caused by two perils, floods and sinkholes, which are typically excluded from homeowners policies.

Figure 1: Damage Due to Floods



Residential flooding examples.

Above: Waynesville, MO.
Right: Greenville, NC.



Source: FEMA.

Figure 2: Damage Due to Sinkholes



Sinkholes may range widely in terms of size and impact. The sinkhole in Winter Park, FL (above left) was eventually stabilized and turned into an urban lake by the city. In Bulan, KY (above right), a residential property is in danger of collapsing due to a sinkhole.

Source: National Oceanic and Atmospheric Administration (NOAA)/National Geophysical Data Center (NGDC), A.S. Navory (left photo); FEMA (right photo).

In addition to paying for excluded losses on their own, one industry organization said that homeowners may have to pay additional out-of-pocket expenses for temporary housing or a car rental that may not be covered by a homeowners policy.²⁵ When impacted by a disaster, homeowners may need these types of rentals for many months, and they can be costly.

Further, industry participants said that rebuilding after a disaster can present additional challenges for homeowners. One industry organization said that catastrophes can cause shortages of building contractors and building supplies that can delay reconstruction. This phenomenon is known as “demand surge.” In these circumstances, the short-term costs of repairing and rebuilding homes can escalate substantially. Another industry participant noted that homeowners can also have their policies cancelled if home repairs are not adequate.

²⁵Some industry participants have emphasized that data to quantify out-of-pocket losses due to excluded perils are currently unavailable because insurers generally track the amounts they pay out in claims but not uninsured loss amounts.

Disasters and excluded perils also sometimes highlight differences between consumers' expectations for insurance and actual policy coverage, resulting in added frustrations for homeowners. According to some industry participants with whom we spoke, some consumers may not learn what their policy actually covers until losses occur. For example, one industry association recalled that some consumers who had recent problems with drywall sourced from China filed insurance claims through their homeowners policies. As noted earlier, litigation in multiple states may determine the extent to which homeowners insurance applies to losses associated with this drywall.

Others may not understand their coverage well enough to know what is covered, what is excluded, and what loss events and circumstances might result in paid, partially paid, or denied claims. For example, according to a 2013 survey conducted by one industry organization, many homeowners mistakenly believe that their homeowners policies cover flooding from a hurricane.²⁶ According to some industry participants, homeowners policies can be difficult to understand because they often are long, technical, legal documents. One consumer advocate we spoke with suggested that few tools exist to help consumers understand their coverage, and noted that even though some states have policy readability requirements and disclosure rules about coverage and exclusions, these measures do not help consumers understand their policies. Other participants said that many homeowners do not read their policies or study them closely. Additional analysis would be needed to determine to what extent readability requirements, disclosure rules, or other factors impact homeowners' ability to understand their policies.

In addition to the devastation disasters may cause homeowners, neighborhoods and communities can also be impacted if some homeowners are unable to rebuild because they do not have coverage for a loss. Damaged homes that are not rebuilt can result in blight and affect the willingness of others to rebuild. A neighborhood where property is vacant or deteriorated will also likely impact the property value of surrounding homes. In addition, when some homeowners do not rebuild, communities may experience a diminution of the tax base. Collecting less

²⁶According to the Insurance Information Institute's 2013 *Annual Pulse Survey*, about 21 percent of the public believes flooding from a hurricane is covered. This proportion rises by 8 percentage points in the south, an area of the United States typically impacted by hurricanes.

in property taxes can impact the ability of communities to fund schools, libraries, parks, and roads, among other uses.

Government Coverage of Excluded Losses Can Involve Costs and Risks to Taxpayers

Both the federal and some state governments offer disaster assistance and other programs to help homeowners with some of the perils that private insurers do not cover, and this support can rely on taxpayer as well as policyholder resources. At the federal level, the government provides a range of assistance to individuals after major disasters. This assistance is generally made available after the President issues a disaster declaration under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Stafford Act), and is administered by various federal agencies through various programs.²⁷ FEMA, for example, provides disaster relief and recovery assistance to individual citizens through its Individuals and Households Program (IHP), which is intended to provide money and services, including assistance in repairing and replacing damaged homes, to people in a disaster area when losses are not generally covered by insurance.²⁸ The growing number of major disaster declarations has contributed to an increase in federal expenditures for disaster assistance, however. For example, through January 31, 2012, FEMA obligated \$80.3 billion in disaster relief, including \$23.5 billion in individual assistance, for 539 disasters declared during fiscal years 2004 through 2011.²⁹ More recently, Superstorm Sandy has also involved significant federal disaster assistance. In January 2013, Congress passed and the President signed the Disaster Relief Appropriations Act of 2013 and the Sandy Recovery Improvement

²⁷The Stafford Act is codified as amended at 42 U.S.C. § 5121 et seq. Federal disaster assistance is also provided to state, territorial, and local governments as well as nongovernmental entities.

²⁸For more information on federal disaster assistance for individuals and households, see [GAO-08-7](#). The Stafford Act specifies that federal agencies providing financial assistance after a major disaster cannot provide assistance to an individual for the same loss for which another federal program or private insurance company has provided compensation.

²⁹GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, [GAO-12-838](#) (Washington, D.C.: Sept. 12, 2012).

Act of 2013, which provided about \$50 billion in federal assistance to support rebuilding efforts.³⁰






















In addition to providing disaster assistance, the federal government also offers flood insurance to homeowners through NFIP, a program that involves significant costs for the government and ultimately for taxpayers. According to FEMA information, as of September 2013, there were 5.6 million flood insurance policies in force in almost 22,000 communities across the United States. In years when losses were high, NFIP has used statutory authority to borrow funds from the Department of the Treasury (Treasury) to pay claims and keep the program solvent. For example, NFIP borrowed \$16.8 billion from Treasury to cover claims for the 2005 hurricanes—primarily Hurricane Katrina—and received additional borrowing authority in the amount of \$9.7 billion following Superstorm Sandy in 2012. As of October 2013, NFIP owed Treasury \$24 billion. NFIP is generally expected to cover its claim payments and operating expenses with the premiums it collects. However, NFIP has sold some flood insurance policies at subsidized rates to help keep flood insurance affordable, and these subsidized policies have been a financial burden on the program because of their relatively high losses and premium rates that are not actuarially based. As a result, the annual amount that NFIP collects in both full-risk and subsidized premiums is generally not enough to cover its operating costs, claim payments, and principal and interest payments for the debt owed to Treasury, especially in years of catastrophic flooding, such as 2005.³¹ This arrangement results in much of the financial risk of flooding being transferred to the federal government and ultimately the taxpayer. As shown in figure 3 below, NFIP has

³⁰For more information on these rebuilding efforts, see Hurricane Sandy Rebuilding Task Force, *Hurricane Sandy Rebuilding Strategy: Stronger Communities, A Resilient Region* (Washington, D.C.: Aug. 2013).

³¹The Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act) reauthorized NFIP through 2017 and made some significant changes to the program, such as eliminating premium subsidies for certain properties, creating a reserve fund, and eliminating the grandfathering of properties to old rates after remapping. However, implementation of certain changes was delayed by provisions in the Consolidated Appropriations Act, 2014. While these Biggert-Waters Act changes may help increase NFIP's long-term financial stability when they are implemented, the program still faces challenges in implementing the changes and their ultimate effect is not yet known. Biggert-Waters Flood Insurance Reform Act of 2012, Pub. L. No. 112-141, 126 Stat. 405, 916 (2012). See also [GAO-13-568](#) and GAO, *National Flood Insurance Program: Continued Attention Needed to Address Challenges*, [GAO-13-858T](#) (Washington, D.C.: Sept. 18, 2013).

handled a significant number of claims and paid losses for flood events caused by hurricanes and a superstorm since 2005.³²

Figure 3: Selected NFIP Flood Loss and Payment Information, 2005 to 2012

Event	Year	Number of losses	Total claims paid	Average paid loss
Katrina	2005	 167,730	 \$16,278,367,593	 \$97,051
Rita	2005	 9,510	 472,816,662	 49,718
Paul	2006	 1,507	 37,261,864	 24,726
Gustav	2008	 4,541	 112,501,771	 24,775
Ike	2008	 46,464	 2,670,428,882	 57,473
Irene	2011	 44,057	 1,320,880,851	 29,981
Sandy	2012	 127,579	 7,360,969,215	 57,697
		401,388	\$28,253,226,838	

Source: FEMA.

Some states, such as Florida, have created residual insurance pools to cover what the private market will not, sometimes at a cost to policyholders and taxpayers across the state.³³ In Florida, Citizens provides homeowners coverage, including for wind damage, for those who cannot find coverage from private insurers. If Citizens' funds are depleted by paying claims after a catastrophic event, Florida law requires that Citizens charge assessments until any deficits are eliminated. Citizens' policyholders are the first to be assessed, and if necessary, additional assessments can be levied against certain private insurance companies, who can then pass the cost of these assessments on to their

³²Data are current as of September 30, 2013.

³³Residual insurance pools serve as a coverage source of last resort for firms and individuals unable to find insurance offered by private market insurers. Residual markets require insurers writing specific coverage lines in a given state to assume the profits or losses accruing from insuring that state's residual risks in proportion to their share of the total voluntary market premiums written in that state.

policyholders.³⁴ This ability to levy assessments provides Citizens with resources to pay claims to policyholders.

Storms in 2004 and 2005, for example, resulted in more than \$30 billion in insured damage in Florida. Citizens sustained deficits of \$515 million and \$1.8 billion, respectively, in those years. To fund its 2004 deficit, Citizens assessed insurance companies and surplus lines policyholders over \$515 million in regular assessments.³⁵ To fund the 2005 deficit, the Florida legislature appropriated \$715 million from the Florida general revenue fund, reducing the size of the regular assessment from \$878 million to \$163 million. In 2005, the Florida legislature also directed Citizens to amortize the collection of the emergency assessment for the remaining \$888 million deficit over a 10-year period, resulting in an emergency assessment levied beginning in June 2007. According to two industry organizations, Florida's property/casualty policyholders generally bear the cost of having Citizens provide coverage to participating Florida residents, regardless of whether they live inland or on the coast.

³⁴Citizens has three types of internal accounts: Personal lines account (for personal residential policies); Commercial lines account (for commercial residential and nonresidential policies); and Coastal account (for personal residential policies and commercial residential and commercial nonresidential policies issued by Citizens, which provide coverage for the peril of wind in certain designated areas. Citizens can levy three types of assessments: policyholder surcharge, regular, and emergency. Citizens' policyholders are the first to be assessed if a deficit occurs. It is a one-time surcharge of up to 45 percent of the policyholder's premium depending on the deficit size. For the Coastal account, if a deficit remains after the policyholder assessment, Citizens can levy regular assessments that include a broad base of licensed Florida property/casualty insurance companies. The insurers may recoup this assessment amount by passing it on to policyholders. Finally if deficits still remain for the coastal account or if any deficit remains after the policyholder assessment for the personal and commercial lines accounts, a broad range of property/casualty policyholders, including Citizens policyholders, are assessed directly by their insurance companies. For each account, this assessment can be up to 10 percent of the amount needed to cover the deficit or 10 percent of the aggregate statewide direct written premium for the subject lines of business and all accounts of the corporation for the prior year—plus for both interest, fees, commissions, required reserves, and other costs.

³⁵The term "surplus lines" refers to any type of insurance for which there is no available market within a state and which the state allows nonadmitted insurers to offer. A nonadmitted insurer is not licensed to do standard business in the state.

Expanding Private Coverage Could Offer Benefits, but Homeowner Premiums Would Likely Rise

If private insurers offered expanded homeowners coverage, homeowners could see a number of benefits. First, according to some industry participants homeowners would have more protection because more perils would be covered under their policy. Second, some industry participants noted that more comprehensive coverage could lead to less ambiguity for consumers seeking to understand their policies. Policies with fewer exclusions and conditions for coverage would be simpler and more efficient for insurers to write and consumers to understand than having separate policies for homeowners, flood, and in some states, wind coverage. Third, some industry participants said that enhanced coverage could reduce litigation and disputes between policyholders and insurers over coverage. For example, a policy that offered more comprehensive coverage could reduce disputes over the anticoncurrent causation clause, often over whether wind or water caused residential damage, something some industry participants noted is a particular challenge for homeowners when hurricanes occur.

Assuming homeowners purchased expanded private coverage without government subsidies, these policies could also reduce reliance on federal and state programs.³⁶ According to some industry participants, if homeowners policies covered flooding, for example, fewer taxpayer resources may be needed for paying NFIP's claims and subsidized premiums. In addition to having benefits at the federal level, greater private coverage could also reduce or eliminate the need for state-based insurance mechanisms, such as state wind pool coverage, and the insurer and policyholder assessments they can involve. Moreover, expanded coverage could encourage more informed decisions by homeowners. For instance, expanded coverage with more accurate pricing for risk could provide beneficial information to consumers on the risk associated with their housing location decisions and could encourage more consumers to mitigate risks to their property or to not locate to high-risk areas.

³⁶ Although one industry participant we spoke with suggested that expanding private coverage for perils such as mold and nuclear hazard may be possible, most participants discussed the possibility of expanding private coverage for natural catastrophes, such as flood and earthquakes. According to one participant, industry discussions about expanding homeowners coverage tend to center on natural catastrophes because these are the perils that most affect homeowners.

Notwithstanding these potential benefits, expanded coverage would likely increase insurance premiums for homeowners. According to some industry participants with whom we spoke, the increase could amount to several times what some homeowners currently pay. For example, one industry organization said that a policy that covered flood, earthquake, sinkholes, and some other perils could cost homeowners anywhere from three to five times what homeowners pay now, while another estimated that the cost of a policy that covered nearly all the currently excluded perils could exceed \$15,000 annually. Other industry participants said the cost for this coverage would be so high that many homeowners would be unable to afford it. Additionally, FEMA information on the changes to the cost of flood insurance following the Biggert-Waters Act and the elimination of some subsidized rates may further illustrate how costly expanded coverage could potentially be for some homeowners. According to FEMA information, the cost of a NFIP policy for a home located in a very high-risk area without a subsidy could exceed \$20,000 in annual premiums for certain policyholders.³⁷

Multiple Challenges Make Expanding Private Coverage Difficult

Several factors make it challenging for private insurers to offer all-perils homeowners insurance, or even more comprehensive policies. These include consumer demand for greater coverage and the higher premiums such coverage would involve, the ability of insurers to adequately price policies that covered more perils, and the regulatory challenges associated with getting approval for risk-based rates. A few industry participants with whom we spoke said that insurers and others are discussing possibilities for expanding private homeowners insurance, but cautioned that policy premium rate, affordability, and other conditions would need to be addressed.

Insurance Cost and Risk Pricing Are Issues for Consumers and Insurers

Consumer Demand and Incentives

Higher premiums for more comprehensive homeowners insurance are not only an affordability challenge for homeowners, they also represent a key challenge for insurers. Some industry participants said that the higher

³⁷Information is as of October 2013.

premiums required for more comprehensive coverage raises questions about whether sufficient demand would make expanded coverage impractical in the private market. Some said that many homeowners try to keep expenses for insurance as low as possible, citing as evidence low participation in NFIP, despite federal subsidies. They also questioned whether consumers would buy much more expensive expanded coverage even if it were offered by insurers.

Additionally, many industry participants with whom we spoke said that adverse selection—or the tendency for those who live in places most prone to risk to be most likely to purchase insurance—could challenge insurers’ ability to expand policy coverage. Insurers manage risk by charging appropriate rates and diversifying their risk pool. Industry participants with whom we spoke said that if only riskier households—for example, those located near the coasts or rivers—were the primary purchasers of expanded coverage, insurers might end up with an insurance pool with concentrated risk and policies that could cause losses that may jeopardize insurers’ profitability and solvency.

A requirement that insurers offer and homeowners purchase more comprehensive coverage may reduce this problem but raises questions about how such a requirement would be implemented.³⁸ Further, some questioned whether it would be fair to require those living in low-risk areas to purchase expanded coverage they may not need, in effect subsidizing those living in high-risk areas. One industry organization said that legislative or regulatory attempts to mandate all-perils coverage could destabilize the insurance marketplace in certain high-risk areas such as coastal regions and floodplains. It could also cause private insurers to further limit their exposures in disaster-prone areas, and some insurers may withdraw from the market altogether. Industry participants suggested that offering policies that covered all losses could also raise issues of moral hazard, or incentivize risky behavior by homeowners. For example, comprehensive policies may encourage people to locate their homes in

³⁸As we previously reported, requiring insurers to offer an all-perils policy could be challenging. It is unclear how private insurers would be encouraged to underwrite all risks and it might not be cost effective for the federal government if low-income residents require government subsidies to address affordability issues. If expanded coverage did not sufficiently reduce post event disaster relief, these subsidies could cause significant costs for taxpayers. Furthermore, such a requirement could be challenging for the federal government to enforce, as has been seen with mandatory flood insurance in communities in designated floodplains. See [GAO-08-7](#).

Risk Pricing and Claims Processing

high-risk areas. Others said that higher premiums associated with more comprehensive policies would send a better signal to homeowners about the risk associated with their housing location, something that could prompt homeowners to properly insure their homes or take steps to mitigate their risk.

Industry participants said that another important challenge is the difficulty of pricing catastrophic risks and handling the claims that they cause. Some industry participants said that accurately modeling the broader range of risks that more comprehensive policies would cover was critically important. Having loss data and accurately modeling risk is necessary for appropriately pricing insurance policies and for ensuring insurer solvency. Some industry participants said that because expanded coverage would be new to the private domestic market, modeling experience would need to be developed over time and could be challenging, particularly for multiple catastrophic losses. Others said that insurers might also lack the expertise to handle claims for perils that were typically excluded, and that it could take time for insurers and adjusters to develop the expertise to handle some disaster situations and subsequent claims.

Approval for Risk-based Rates and Insurer Capital Pose Additional Concerns

Regulatory Rate Approval

Industry participants said that insurers could also face critical regulatory challenges in offering more comprehensive coverage. One important challenge is that state regulatory approval for the higher premiums more comprehensive coverage would likely demand is uncertain. Insurers need to charge risk-based rates that are determined on an actuarial basis in order to stay solvent and meet their policy obligations to homeowners. However, some industry participants with whom we spoke said that getting regulators to approve rates that insurers determined would be appropriate for certain risks has been difficult and that getting approval for rates that could be several times more expensive than those currently in force would be an important challenge. One regulator, however, said that inability to charge higher risk-based rates might not be an issue because loss experience is a critical factor that drives rates. If insurers faced greater losses by covering more perils, they would likely be able to justify and gain approval for higher premiums. Industry participants also said that different state insurance laws and regulations and different rate-setting and approval processes could make it difficult for insurers to sell more comprehensive policies with risk-based rates across states.

Insurer Capital

Offering coverage for a broader set of perils would also require insurers to have the capital necessary to pay claims without risking insolvency. The greater the risk, the more capital insurers need to hold. Insurers may not be willing to maintain the higher capital levels needed for insuring against higher risk events if that capital could be used for other insurance or investment purposes. In addition, disasters such as floods and earthquakes are relatively infrequent but often severe events, so that insurers cannot always know how much they will need in reserves. Industry participants said that the unpredictability of catastrophes could prevent insurers from accurately calculating and setting aside the sums necessary to cover losses. One insurance regulator suggested that even if insurers could charge rates that reflected the full risk of disasters, they still may not be able to offer coverage for additional perils.

Several Conditions Would Be Needed for Insurers to Expand Private Coverage

For additional coverage to be possible, insurers would need the ability to conduct actuarial analyses and accurately model risks involved with greater homeowners coverage. Some industry participants thought this capability may already exist or could be developed for floods and earthquakes, the two perils they said hold some promise for greater private insurer involvement. In order to offer coverage for flood or other perils, insurers would have to be able to charge risk-based rates, a critical part of meeting their policy obligations to consumers and staying solvent, but something that would also raise concerns about higher premium costs, policy affordability, and consumer demand.

Two industry organizations said that mitigation efforts, effective building codes, and sound land-use policies could also help reduce risks from natural catastrophes. Another highlighted how building codes set by states can differ, which can lead to inconsistencies that make it difficult to ensure properties can withstand loss events. Others said that it is important for the insurance industry to encourage consumers to become better informed about their risks and insurance so that they could take available steps depending on where they live to mitigate losses.

The catastrophic nature of flood and other natural catastrophe losses, according to industry participants, may require a continuing role for federal and state government in financing coverage. We recently reported on strategies to encourage greater private-sector involvement in flood insurance that included the possibility of insurers charging homeowners full risk rates with the government providing targeted subsidies to help with affordability. Private insurers could play a greater role in coverage with the federal government possibly serving as an insurer for only the

highest risk properties. Yet another option is the combination of greater private-sector involvement and the government acting as a reinsurer by providing a backstop to private insurers for losses over a certain amount.³⁹

The size of the losses and the magnitude of the risk associated with more comprehensive policies underscore the complex challenges of addressing the costs of catastrophes and other perils that place homeowners' properties at risk. A mix of factors—financial risk, large potential losses, political and regulatory issues, policy affordability, and consumer demand—has thus far made it challenging for private-sector insurers in the U.S. to offer flood insurance to homeowners, let alone more comprehensive or all-perils policies. The possibility of improved data, better risk modeling, and emerging private-sector interest, however, suggest that some additional coverage may be possible. For this to happen, private insurers must be able to assess and diversify risk and charge rates adequate for the risk they are assuming. At the same time, consumers will need to better recognize the risk and cost of their housing decisions and the likely higher rates that come with protecting homes and possessions in certain locations. One of the most fundamental challenges is achieving a policy premium rate that allows insurers to stay solvent and meet their obligations to consumers, yet is affordable enough so that consumers are willing and able to buy insurance. Addressing this important challenge and ensuring a collective response to losses caused by disasters and other perils will require the cooperation and resources of government, homeowners, and insurers, as well as balance in the assumption of risk and cost by each of these parties.

Agency Comments

We provided a draft of this report for review and comment to the National Association of Insurance Commissioners (NAIC) and the Federal Insurance Office (FIO) at the Department of the Treasury. Both provided technical comments which we incorporated into the report as appropriate.

We are sending copies of this report to the appropriate congressional committees, NAIC, and FIO. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

³⁹See [GAO-14-127](#).

If you have any questions about this report, please contact me at (202) 512-8678 or cackleya@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

A handwritten signature in black ink that reads "Alicia Puente Cackley". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Alicia Puente Cackley
Director, Financial Markets and Community Investment

List of Addressees

The Honorable Gerry Connolly
Ranking Member
Subcommittee on Government Operations
Committee on Oversight and Government Reform
House of Representatives

The Honorable Corrine Brown
House of Representatives

The Honorable G.K. Butterfield, Jr.
House of Representatives

The Honorable Theodore E. "Ted" Deutch
House of Representatives

The Honorable Luis V. Gutierrez
House of Representatives

The Honorable Jim Moran
House of Representatives

The Honorable Scott Rigell
House of Representatives

The Honorable Dennis A. Ross
House of Representatives

The Honorable Jan Schakowsky
House of Representatives

The Honorable Robert C. "Bobby" Scott
House of Representatives

The Honorable Debbie Wasserman Schultz
House of Representatives

Appendix I: Objectives, Scope, and Methodology

In this report we examined (1) the perils homeowners policies typically cover and exclude; (2) the impacts of exclusions on homeowners and taxpayers and the potential benefits of more comprehensive coverage for homeowners; and (3) the additional perils insurers might be willing to cover and the challenges associated with such coverage.

To determine what perils homeowners policies typically cover and exclude, we analyzed the Insurance Services Office's (ISO) standard homeowners insurance policy (HO-3) and examples of private insurers' homeowners policies. We reviewed documents by insurance industry organizations and professional associations, including the National Association of Insurance Commissioners (NAIC) and the Insurance Information Institute (III). We also interviewed a nongeneralizable, judgmental sample of property/casualty insurance companies and state insurance regulators, insurance and reinsurance associations, an insurance agent and broker association, consumer groups, academic insurance and risk experts, and the Federal Insurance Office (FIO) at the Department of the Treasury. We selected our sample of insurers based on market share by direct premiums underwritten and participation in different geographic markets. We selected our sample of state regulators based on geographic diversity and experience overseeing insurers with portfolios of different perils, including floods, hurricanes, and earthquakes.

To determine the impacts of exclusions on homeowners and taxpayers and the benefits of more comprehensive coverage, we spoke with consumer groups, including the Center for Economic Justice, academic experts, selected state insurance regulators, NAIC and FIO officials, and other insurance association officials. To illustrate some of the financial impacts of policy exclusions on taxpayers, we obtained publicly available data from the Federal Emergency Management Agency (FEMA) on the National Flood Insurance Program's (NFIP) claims costs. For the NFIP data we used, we interviewed officials on usability and reliability. We determined that these data were sufficiently reliable for our intended purposes. In addition, we reviewed our previous work on natural catastrophe insurance, academic and other studies, and results from an annual survey conducted by Insurance Information Institute (III) on homeowners insurance, flood insurance, and disaster preparedness.

To identify the additional perils that insurers might be willing to insure and the challenges associated with such coverage, we spoke with a sample of insurance companies and state insurance regulators, insurance and reinsurance associations, an insurance agent and broker association, NAIC and FIO officials, consumer groups, academia, and others. We also

reviewed our previous work on natural catastrophe insurance, Congressional Research Service (CRS) reviews, and academic and other studies on these issues. We gathered additional perspectives on all perils policies from a round table discussion on privatizing flood insurance that we organized and conducted at GAO headquarters in Washington, D.C. Participants in the round table included insurance industry association representatives, select state regulators, and NAIC and FEMA officials.

We conducted this performance audit from December 2012 to January 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Information on the National Flood Insurance Program

Established in 1968, the National Flood Insurance Program (NFIP) makes federally backed flood insurance available to residential property owners and to owners of nonresidential property such as businesses, churches, governments and nonprofits. Under NFIP, the federal government generally assumes the liability for the insurance coverage and sets rates and coverage limitations, among other responsibilities, while the private insurance industry sells the policies and administers the claims.¹ The Federal Emergency Management Agency (FEMA) is responsible for administering NFIP.

Community participation in NFIP is voluntary. However, communities must join NFIP and adopt FEMA-approved building standards and floodplain management strategies in order for their residents to purchase flood insurance through the program. Additionally, communities with Special Flood Hazard Areas (SFHA)—areas at high risk for flooding—must participate in NFIP to be eligible for any form of assistance for acquisition or construction purposes in connection with a flood.² Participating communities can receive credits on premium rates on flood insurance if they establish floodplain management programs that go beyond the minimum requirements of NFIP. FEMA can suspend communities that do not comply with the program, and communities can withdraw from the program. As of September 2013, almost 22,000 communities voluntarily participated in NFIP.

Consumers can purchase flood insurance to cover both buildings and contents for residential and commercial properties. NFIP's maximum coverage for residential policyholders is \$250,000 for building property and \$100,000 for contents. This coverage includes replacement value of the building and its foundation, electrical and plumbing systems, central air and heating, furnaces and water heater, and equipment considered part of the overall structure of the building. Personal property coverage includes clothing, furniture, and portable electronic equipment. For

¹Some of these same insurers also provide coverage for flood insurance above the limit of NFIP coverage. A number of private insurers that do not sell and administer NFIP policies also offer flood insurance. Flood insurance purchased above current NFIP coverage limits generally is referred to as excess flood insurance.

²The National Flood Insurance Reform Act of 1994 requires individuals, including in SFHAs, who receive disaster assistance for flood disaster losses to real or personal property to purchase and maintain flood insurance coverage for as long as they live in the dwelling.

commercial policyholders, the maximum coverage is \$500,000 per unit for buildings and \$500,000 for contents (for items similar to those covered under residential policies).³ Coverage for personal property and coverage for nonresidential buildings is written on an actual cash value basis.

NFIP offers two types of flood insurance premiums to property owners who live in participating communities: subsidized and full-risk. The National Flood Insurance Act of 1968 authorized NFIP to offer subsidized premiums to owners of certain properties. Congress originally mandated the use of subsidized premiums to encourage communities to join the program and mitigate concerns that charging rates that fully and accurately reflected flood risk would be a burden to some property owners. According to FEMA, Congress made changes to the program over the years to encourage further participation in NFIP through low premiums. FEMA estimated that in 2012 more than 1 million of its residential flood insurance policies—about 20 percent—were sold at subsidized rates; nearly all were located in high-risk flood areas.⁴

Since 2000, NFIP has experienced several years with catastrophic losses—losses exceeding \$1 billion—and has needed to borrow money from the Treasury to cover claims in some years. The losses resulting from Superstorm Sandy, which caused extensive damage in several states on the eastern coast of the United States in October 2012, also are catastrophic, reaching over \$7 billion. As of October 2013, FEMA owed Treasury \$24 billion. As a result of the program's importance, level of indebtedness to Treasury, substantial financial exposure for the federal government and taxpayers, and FEMA's management challenges, NFIP has been on our high-risk list since 2006.⁵

³For information on the implications of changing coverage limits and expanding coverage, see GAO, *Flood Insurance: Implications of Changing Coverage Limits and Expanding Coverage*, [GAO-13-568](#) (Washington, D.C.: July 3, 2013).

⁴The Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act) introduced many changes intended to strengthen the future solvency of NFIP. In particular, the act eliminated subsidized premium rates for several types of properties. However, certain changes were delayed by provisions in the Consolidated Appropriations Act, 2014. For more information on subsidized properties, see GAO, *Flood Insurance: More Information Needed on Subsidized Properties*, [GAO-13-607](#) (Washington, D.C.: July 3, 2013).

⁵GAO regularly reports on government operations that it identifies as high risk. For the most recent high risk report, see GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: Feb. 2013).

Appendix III: Information on the Citizens Property Insurance Corporation

Established in 2002, Florida Citizens Property Insurance Corporation (Citizens) is a not-for-profit and tax-exempt government entity that provides property insurance to homes and businesses that cannot get coverage in the private sector.¹ It consolidated two residual market mechanisms: the Florida Windstorm Underwriting Association (FWUA), created in 1970 to provide high-risk, windstorm, and hail residual market coverage in select areas of Florida, and the Florida Residential Property and Casualty Joint Underwriting Association (JUA), created in December 1992 following Hurricane Andrew to provide residual market residential-property multiperil insurance coverage, excluding wind if the property was within FWUA-eligible areas. A primary driver for the merger was that the combined entity obtained federally tax-exempt status, allowing it to save federal income taxes that otherwise would have been paid by FWUA and JUA.² As an integral part of the state rather than a private insurance company, Citizens is also able to issue tax-exempt post-event bonds and taxable pre-event bonds, which can help finance loss payments in the event of a major disaster.

Florida law determines the standards Citizens uses to establish its premium rates. Citizens' rates are required to be actuarially sound, but at the beginning of 2007, an approved rate increase was rescinded and rate levels were frozen by the Florida legislature at the 2006 rate levels. The rate freeze remained in effect through December 31, 2009. On January 1, 2010, Citizens began implementation of a statutorily required path to achieve actuarially sound rates over time. Except for sinkhole coverage, the path limits annual rate increases to 10 percent for any single policy issued by the corporation, excluding coverage changes and surcharges. According to Citizens officials, Citizens' rates are moving towards actuarial soundness, but are not yet there.

Citizens allocates approximately 18 percent of every premium dollar it collects to pay hurricane and catastrophe claims, but in the event that losses exceed its surplus, it is required by statute to levy assessments to recover the deficit. Assessments can be charged in up to three tiers,

¹State government insurance programs, like Citizens, have typically been created after disasters because homeowners insurance coverage for catastrophic events is often not available from private insurers at prices deemed affordable by state legislators and insurance regulators.

²The merger also resulted in some overhead cost savings by having a single organization.

policyholder surcharge, regular, and emergency. Each additional tier is charged only if the level before is insufficient to eliminate Citizens' deficit. Citizens' policyholder surcharge is the first tier of assessments and can be levied one time for up to 45 percent of the policyholder's premium in a single year. If a deficit remains in one of Citizens' three types of accounts, Citizens can levy regular assessments of up to two percent against certain private insurance companies, who can then pass the cost of these assessments on to their policyholders.³ Finally, if a deficit persists, Citizens can impose an emergency assessment on both Citizens and non-Citizens policyholders.⁴ This ability to levy assessments provides Citizens with resources to pay claims to policyholders. For example, following the 2004 storms, Citizens had to levy over \$515 million in regular assessments to fund its deficit.

Citizens' resources also come from its reinsurance arrangement with the Florida Hurricane Catastrophe Fund (FHCF). Established in 1993 by the Florida legislature, FHCF is a state-run reinsurer created to provide additional insurance capacity and help stabilize the property insurance market by reimbursing insurers for a portion of their catastrophic hurricane losses. As a tax-exempt entity, FHCF can accumulate premium payments on a tax-free basis. If the revenue generated from premiums is insufficient following a loss event, FHCF, like Citizens, is required by state law to levy assessments on a broad base of property/casualty insurance lines to fund revenue bonds to pay the losses. For example, FHCF issued bonds in the amount of \$1.35 billion in 2006 and \$625 million in 2008, which are being financed by a 1 percent assessment levied on property/casualty insurers in the state.

As of October 2013, Citizens had more than 1.2 million policies in force, most of which were homeowners policies. According to a Citizens official, Citizens has recently engaged in depopulation efforts by seeking ways to

³Citizens has three types of internal accounts: Personal lines account (for personal residential policies); Commercial lines account (for commercial residential and nonresidential policies); and Coastal account (for personal residential policies and commercial residential and commercial nonresidential policies issued by Citizens which provides coverage for the peril of wind on risk that is located in areas eligible for coverage by the Florida Windstorm Association). The regular assessment is only applicable to the coastal account, and can be levied on private-market policyholders, including but not limited to homeowners, auto, and specialty and surplus lines policies.

⁴This assessment can be charged at a rate of up to 30 percent of premium (up to 10 percent per account with a deficit) per year until any remaining deficit is eliminated.

return policies to the private market, but these efforts have been met with challenges. For example, Citizens has faced challenges with establishing rates higher than those available in the private market. The insurance distribution process is also a challenge. For example, according to a Citizens official, private insurers that decline to sell a homeowner a policy may refer that homeowner to Citizens instead of recommending they shop the market for coverage, which has impeded a freely competitive insurance market.

Appendix IV: Information on the California Earthquake Authority

Established in 1996, the California Earthquake Authority (CEA) is an instrumentality of the state that sells earthquake insurance policies for residential property throughout California. CEA is a publicly managed, privately funded entity. After the Northridge Earthquake that struck the San Fernando Valley in January 1994, insurers in California began to limit their exposure to earthquakes by writing fewer or no new homeowners insurance policies.¹ In 1995, California lawmakers passed a bill that allowed insurers to offer a reduced-coverage earthquake insurance policy. In offering earthquake coverage, insurance companies can manage the risk themselves, contract with an affiliated or non-affiliated insurer, or become a CEA-participating insurance company and offer CEA's residential earthquake policies. CEA is the largest earthquake insurer in California, with approximately 840,000 policies in force as of 2011, which represent approximately 70 percent of the residential earthquake insurance policies in the state.

CEA offers a basic residential earthquake policy to homeowners, which includes coverage for the insured dwelling and limited coverage for contents and loss-of-use if the residence is uninhabitable due to an earthquake. For an additional premium, CEA policyholders can significantly increase insured limits on contents and for loss-of-use, and homeowners can lower their CEA policy deductible from 15 percent to 10 percent.² CEA coverage is available to homeowners only from the insurance company that provides their residential property insurance and only if that company is a CEA-participating insurance company. Participating insurance companies process all CEA policy applications, policy renewals, invoices, and payments and handle all CEA claims.

In determining premium rates, CEA is required by law to use the best science available and is permitted by law to use earthquake computer modeling, to establish actuarially sound rates. CEA will examine rating factors, such as the rating territory (determined by ZIP code), age, and

¹California insurers had collected \$3.4 billion in earthquake premiums in the 25-year period prior to the Northridge Earthquake and paid out more than \$15 billion on Northridge claims alone.

²In July 2011, the "Homeowners Choice" product was approved and became available to consumers beginning July 1, 2012. According to CEA information, this product enhances availability and affordability as it offers more choice in coverage options and allows consumers to manage their residential earthquake insurance premium.

type of construction of a home, in determining the premium rate.³ The CEA governing board establishes premium rates, subject to the prior approval of the Insurance Commissioner. In 2011, for example, a request for a 12.5 percent average statewide rate decrease was approved beginning with new and renewal policies that became effective on and after January 1, 2012. The change was a result of a reduction in the estimated average annual loss, as derived from new scientific information, according to CEA information. Given that the rate decrease is expressed as an average statewide rate impact, individual policyholders may have seen their rates increase or decrease, depending on CEA product, location of the risk, and other rating factors.

CEA is funded principally from policyholder premiums, contributions from and assessments on participating insurers, returns on invested funds, borrowed funds, and reinsurance. Assessments on participating insurers may not be directly passed through to policyholders. CEA is authorized to issue bonds, and may not cease to exist so long as its bonds are outstanding. As of 2012, CEA had approximately \$10.2 billion in claims-paying capacity, but if an earthquake causes insured damage greater than CEA's claims-paying capacity, then policyholders affected will be paid a prorated portion of their covered losses or may be paid in installments.

³CEA applies a 5 percent premium discount to dwellings that meet the following requirements: the dwelling was built before 1979, the frame is tied to the foundation, it has cripple walls braced with plywood or its equivalent, and the water heater is secured to the building frame.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Alicia Puente Cackley, (202) 512-8678 or cackleya@gao.gov

Staff Acknowledgments

In addition to the contact named above, Paul Schmidt (Assistant Director); Emily Chalmers; Alma Laris; Marc Molino; Erika Navarro; Steve Ruszczyk; Jessica Sandler; and Andrew Stavisky made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#). Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#). Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548



Please Print on Recycled Paper.