

GAO Highlights

Highlights of [GAO-16-766](#), a report to congressional committees.

Why GAO Did This Study

Floods are the most common and destructive natural disaster in the United States. The National Flood Insurance Program, which FEMA administers, has struggled financially to both pay for flood losses and keep rates affordable. To address these and other challenges, Congress has passed legislation including the Homeowners Flood Insurance Affordability Act of 2014 (HFIAA). HFIAA included provisions for FEMA to conduct a study and submit a report that assesses and recommends options, methods, and strategies for making CBFi available through NFIP. FEMA presented the study and related report to Congress in March 2016.

HFIAA also includes a provision for GAO to review the FEMA report, which is to include the study and submit a related report to Congress. To review the study and report FEMA submitted to Congress, GAO analyzed the FEMA study's objectives, methodology, and findings, and evaluated the FEMA report's conclusions.

GAO analyzed the appropriateness of the objectives, the reasonableness of the methodology, and the extent to which the conclusions were supported by the findings. GAO also evaluated relevant study findings against public policy goals for federal involvement in catastrophe insurance previously identified by GAO, and interviewed FEMA and NAS officials.

GAO is not making recommendations in this report.

View [GAO-16-766](#) for more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov

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FLOOD INSURANCE

Review of FEMA Study and Report on Community-Based Options

What GAO Found

The Federal Emergency Management Agency (FEMA) used reasonable objectives and methodology for its study on community-based flood insurance (CBFI)—flood insurance that a community would purchase to cover all properties located within it. FEMA contracted with the National Academy of Sciences (NAS) to conduct the study, and worked with NAS to design a study that would provide a high-level, independent discussion of issues related to CBFi. According to FEMA officials, such a study would help FEMA decide whether CBFi should be implemented, an important step before developing any plans to implement CBFi. Once the study was designed, NAS conducted the study independently, using input obtained from an expert committee that met twice in early 2015. The members of the committee represented academia, the private sector, and state and federal government. GAO determined that the study objectives were designed to meet FEMA's needs, the methodology supported the objectives, and alternative methodologies that were considered would have faced various limitations.

In its report submitted to Congress, which contained the study, FEMA concluded that it should not conduct further related research or implement CBFi. Specifically, it concluded that the challenges outlined in the study outweigh any potential benefit when considered against limited community interest. FEMA officials further cited the need to dedicate FEMA's resources to effective National Flood Insurance Program (NFIP) reform. Based on the factors cited by FEMA officials, and the consistency of these factors with findings in prior GAO reports on NFIP, GAO determined that FEMA's conclusion was reasonable. For example, prior GAO work has highlighted challenges FEMA faces in balancing reform efforts with limited resources.

In prior work, GAO identified four public policy goals for federal involvement in natural catastrophe insurance and used them to evaluate changes to NFIP. While the FEMA study did not use these goals, as part of its assessment GAO evaluated relevant elements of the study against them. For example, one of these goals is charging premium rates that fully reflect actual risk, and the study discussed innovative uses of CBFi that could help NFIP charge such rates. Another goal is encouraging private markets to provide natural catastrophe insurance, and the study discusses ways in which CBFi could encourage private market participation in flood insurance markets, as well as challenges that CBFi would pose to private insurers.