

GAO Highlights

Highlights of [GAO-17-36](#), a report to the Ranking Member, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Private insurers (WYO companies) sell and service flood policies and adjust claims for NFIP under an arrangement with FEMA. In [GAO-09-455](#), GAO made recommendations on FEMA's WYO compensation methodology and data quality. The Biggert-Waters Act built on these recommendations and required FEMA to develop a methodology for determining appropriate amounts WYO companies should be reimbursed. GAO was asked to review the status of FEMA efforts. This report examines, among other issues, (1) the extent to which FEMA revised compensation practices, and (2) trade-offs of potential alternatives to the WYO arrangement. GAO reviewed laws and regulations, analyzed FEMA data and data on expenses reported to NAIC for 2008–2014 (most recent available), and interviewed FEMA and NAIC officials, stakeholders (11 organizations with flood insurance expertise, three vendors), and 10 selected WYO companies with varying NFIP premium bases. To compare FEMA compensation with actual expenses, GAO examined information on accounting and reporting practices from a second selection of 10 WYO companies (in this case, insurers within 10 insurance groups) that received about 60 percent of compensation in 2008–2014.

What GAO Recommends

GAO maintains that its 2009 recommendations remain valid and will help FEMA meet Biggert-Waters Act requirements. In this report, GAO recommends that FEMA take into account company characteristics when developing the new WYO compensation methodology. FEMA agreed with the recommendation.

View [GAO-17-36](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov

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FLOOD INSURANCE

FEMA Needs to Address Data Quality and Consider Company Characteristics When Revising Its Compensation Methodology

What GAO Found

The Federal Emergency Management Agency (FEMA) has yet to revise its compensation practices for Write-Your-Own (WYO) companies to reflect actual expenses as required by the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act), and as GAO recommended in 2009. FEMA continues to rely on insurance industry expense information for other lines of property insurance to set compensation rates for WYO companies. Efforts by FEMA, the National Association of Insurance Commissioners (NAIC)—which collects data by line of insurance from insurance companies—and the WYO companies have resulted in some improvements to financial data on National Flood Insurance Program (NFIP) expenses that WYO companies report to NAIC. But GAO found inconsistencies among how 10 selected WYO companies (which received about 60 percent of the compensation FEMA paid in 2008–2014) reported federal flood data to NAIC that limit the usefulness of these data for determining expenses and setting compensation rates. For example, GAO analysis showed that adjusting for inconsistencies due to unreported expenses significantly reduced WYO company profits. Consequently, without quality data on actual expenses, FEMA continues to lack the information it needs to incorporate actual flood expense data into its compensation methodology as well as determine how much profit WYO companies make and whether its compensation payments are appropriate. FEMA has not clarified what other analyses it will undertake to address GAO 2009 recommendations concerning data quality. GAO also found the ways in which WYO companies operate, including how companies compensate agents and third-party vendors (with which some companies contract to conduct some or all of the management of their NFIP policies) can affect a company's expenses and profits. Considering company characteristics would allow FEMA to more effectively develop its compensation methodology and determine the appropriate amounts to reimburse WYO companies as required by the Biggert-Waters Act.

According to WYO companies and stakeholders, the current WYO arrangement and three potential alternatives GAO identified all involve trade-offs. Private insurers become WYO companies by signing a Financial Assistance/Subsidy Arrangement with FEMA and FEMA annually publishes terms for participation in the WYO program, including amounts companies will be paid for expenses. The current arrangement includes benefits for consumers from competition among approximately 75 WYO companies, but poses oversight challenges for FEMA due to the large number of companies. The three potential alternatives involve FEMA contracting with (1) one or more insurance companies to sell and service flood policies; (2) one vendor that would sell policies through agents and insurance companies would not be involved; or (3) multiple vendors to service policies while maintaining the WYO network to market and sell flood policies. All three potential alternatives would involve FEMA contracting with either WYO companies or vendors as federal contractors, a status that most WYO company representatives cited as creating more regulatory burden because of federal contract requirements. Representatives of most WYO companies and several stakeholders GAO interviewed preferred the current arrangement because of its predictability and noted that this characteristic would continue to encourage WYO company participation.