NATIONAL FLOOD INSURANCE PROGRAM

Oversight of Policy Issuance and Claims

What GAO Found

As a result of policy limits, restrictions, and exclusions, insurance payments to claimants for flood damage may not cover all of the costs of repairing or replacing damaged property. Some limitations are embedded in statute and others have been promulgated by FEMA pursuant to its statutory authority. FEMA officials said that the coverage limitations are necessary to keep the NFIP self-supporting and actuarially sound. Thus, the program is designed to strike a balance between premium prices and coverage. For example, homeowners may choose not to insure personal property under the program. If they do elect to have this coverage, the value of personal property is depreciated. Basement coverage does not include payment to repair or replace finished walls and floors.

The work of selling, servicing, and adjusting claims on NFIP policies is carried out by thousands of private sector insurance agents and adjusters under the regulation, management, and oversight of about 40 FEMA employees assisted by about 170 contractor employees. Agents are the main point of contact for policyholders. Four private sector NFIP managers we interviewed said that the agents have varying levels of NFIP knowledge. While training and support are available, historically neither FEMA nor the insurance companies have required completion of training or demonstration of basic program knowledge. Flood-certified adjusters are responsible for assessing damage and estimating losses when flooding occurs. Unlike agents, adjusters have mandatory training requirements. FEMA has oversight mechanisms in place to review the operations of the insurance companies and the work of adjusters. The private sector NFIP managers GAO interviewed were generally supportive of the program. However, they said that FEMA should find ways to make it less complex than and more similar to other property insurance programs.

FEMA has taken steps to address its mandates in the Flood Insurance Reform Act, but it did not meet the 6-month timeframe specified. For example, to establish an insurance agent training requirement, an official said FEMA is discussing options but has not developed an action plan. To meet the requirement to provide “simple and complete information” to NFIP policyholders, FEMA has drafted materials explaining coverage, deductibles, and claim- and appeals-related procedures that it expects to have finalized by October 2005.


To view the full product, including the scope and methodology, click on the link above. For more information, contact William O. Jenkins Jr. at (202) 512-8757 or jenkinswo@gao.gov.