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# Highlights

Highlights of [GAO-05-532T](#), a testimony before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

## Why GAO Did This Study

According to the National Flood Insurance Program (NFIP), 90 percent of all natural disasters in the United States involve flooding. Because of the catastrophic and unpredictable nature of floods, private insurance companies do not typically cover flood losses. Congress established the NFIP in 1968 to provide an insurance alternative to disaster assistance in response to the escalating costs of repairing flood damage.

During congressional hearings on provisions of the Flood Insurance Reform Act of 2004, several legislators testified on NFIP shortcomings, as reported by constituents whose properties had been flooded by Hurricane Isabel in September 2003. The act required GAO to study coverage provided under the NFIP. It also required the Federal Emergency Management Agency (FEMA), the administrator of the NFIP, to take steps to address concerns about coverage and claims procedures.

Today's testimony is based on work in progress to address this mandate. It provides preliminary information on (1) the types of coverage limits, restrictions, and exclusions under the NFIP; (2) how FEMA, in partnership with private insurers, manages and oversees the NFIP and the views of selected private sector program managers on how the program is working; and (3) the status of FEMA's efforts to comply with provisions of the Flood Insurance Reform Act.

[www.gao.gov/cgi-bin/getrpt?GAO-05-532T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-532T).

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](mailto:jenkinswo@gao.gov).

# 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.



Source: FEMA.