



Highlights of [GAO-06-335T](#), a testimony to the Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate

## Why GAO Did This Study

The National Flood Insurance Program (NFIP), established in 1968, provides property owners with some insurance coverage for flood damage. The Federal Emergency Management Agency (FEMA) within the Department of Homeland Security is responsible for managing the NFIP.

The unprecedented magnitude and severity of the flood losses from hurricanes in 2005 challenged the NFIP to process a record number of claims. These storms also illustrated the extent to which the federal government has exposure for claims coverage in catastrophic loss years. FEMA estimates that Hurricanes Katrina, Rita, and Wilma will generate claims and payments of about \$23 billion—far surpassing the total claims paid in the entire history of the NFIP.

This testimony provides information from past and ongoing GAO work on issues including: (1) NFIP's financial structure; (2) the impact of properties with repetitive flood losses on NFIP's resources; (3) proposals to increase the number of policies in force; and (4) the status of past GAO recommendations.

## What GAO Recommends

In past work, GAO recommended that FEMA strengthen its oversight of the NFIP and develop plans to implement requirements of the Flood Insurance Reform Act of 2004. FEMA disagreed with those recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-335T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-335T).

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) 512-8777 or [jenkinswoj@gao.gov](mailto:jenkinswoj@gao.gov).

# FEDERAL EMERGENCY MANAGEMENT AGENCY

## Challenges for the National Flood Insurance Program

### What GAO Found

The NFIP, by design, is not actuarially sound. The program does not collect sufficient premium income to build reserves to meet long-term future expected flood losses. In November 2005, FEMA's authority to borrow from the Treasury was increased from \$1.5 billion to \$18.5 billion through fiscal year 2008 to help pay claims from the 2005 hurricane season. It is highly unlikely that the NFIP as presently funded could generate sufficient revenues to repay a debt of this size.

One reason the NFIP is not actuarially sound is because a number of its policies on dwellings that were built before flood plain management regulations were established in their communities are subsidized and pay premiums of 35-40 percent of the true risk premium. In January 2006, FEMA estimated an annual shortfall in premium income of \$750 million because of such policy subsidies. Some subsidized properties, called repetitive loss properties, also suffer repetitive flood losses, which accounted for about \$4.6 billion in claims payments from 1978 to March 2004. We need to analyze the progress made to reduce the inventory of subsidized repetitive-loss properties and determine whether additional regulatory or congressional action is needed.

A challenge for FEMA is to expand the NFIP policyholder base by enforcing mandatory purchase requirements and encouraging voluntary purchase by homeowners who live in areas at lower risk of flooding. The extent of noncompliance with current mandatory purchase requirements for property owners in special flood hazard areas is unknown. There has been some congressional interest in the feasibility of expanding mandatory purchase requirements beyond the current special high-risk areas, however, there are a number of difficulties to assessing the impacts, effectiveness, and feasibility of such a change in the structure of the NFIP, as well as concerns related to enforcing and assessing compliance. For example, more precise flood mapping of areas outside the current high-risk areas would be required to accurately identify affected property owners. FEMA and its private insurance partners also have efforts underway to increase NFIP participation by marketing policies in areas where purchase is not mandatory.

FEMA has not yet fully implemented provisions of the Flood Insurance Reform Act of 2004 requiring the agency to develop new materials to explain coverage and the claims process to policyholders, establish an appeals process for claimants, and provide insurance agent education and training requirements. The statutory deadline for implementing these changes was December 30, 2004, and, as of January 2006, FEMA had not developed documented plans with milestones for meeting the provisions of the act, as recommended by GAO.