

# GAO Highlights

Highlights of [GAO-13-858T](#), a testimony before the Subcommittee on Economic Policy, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

## Why GAO Did This Study

NFIP, established in 1968, provides policyholders with insurance coverage for flood damage. FEMA, within the Department of Homeland Security, is responsible for managing the program. NFIP offers two types of flood insurance premiums to property owners: subsidized and full-risk. The subsidized rates are not based on flood risk and, according to FEMA, represent only about 40-45 percent of the full flood risk. GAO placed NFIP on its high-risk list in 2006 because of concerns about its long-term solvency and related operational issues.

GAO was asked to testify about NFIP issues and its recent work on NFIP. This statement discusses (1) the reasons that NFIP is considered high-risk, (2) changes to subsidized policies and implications of potential additional program changes, and (3) additional challenges for FEMA to address. In preparing this statement, GAO relied on its past work on NFIP, including [GAO-13-607](#), [GAO-13-568](#), and [GAO-13-283](#).

## What GAO Recommends

GAO continues to support its previous recommendations made to FEMA that focus on the need to address management and operational challenges, ensure that the methods and data used to set NFIP rates accurately reflect the risk of losses from flooding, and that oversight of NFIP and insurance companies responsible for selling and servicing flood policies is strengthened. FEMA agreed with these recommendations and is taking steps to address them.

View [GAO-13-858T](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or [cackleya@gao.gov](mailto:cackleya@gao.gov).

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## NATIONAL FLOOD INSURANCE PROGRAM

### Continued Attention Needed to Address Challenges

## What GAO Found

The National Flood Insurance Program (NFIP) was added to GAO's high-risk list in 2006 and remains high risk due to losses incurred from the 2005 hurricanes and subsequent losses, the financial exposure the program represents for the federal government, and ongoing management and operational challenges. As of July 31, 2013, the program owed approximately \$24 billion to the U.S. Treasury (Treasury). NFIP's financial condition highlights structural weaknesses in how the program has been funded—primarily its rate structure. The annual amount that NFIP collects in both full-risk and subsidized premiums is generally not enough to cover its operating costs, claim payments, and principal and interest payments for the debt owed to Treasury, especially in years of catastrophic flooding, such as 2005. This arrangement results in much of the financial risk of flooding being transferred to the federal government and ultimately the taxpayer. Furthermore, weaknesses in NFIP management and operations, including financial reporting processes and internal controls, strategic and human capital planning, and oversight of contractors have placed the program at risk.

The Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act) mandated that GAO conduct a number of studies related to actual and potential changes to NFIP, including analyses of remaining subsidies and the effect of increasing coverage limits or adding coverage options. In a study of remaining subsidies, GAO estimated that with the changes in the Biggert-Waters Act approximately 438,000 policies no longer are eligible for subsidies, including about 345,000 policies for nonprimary residences, about 87,000 business policies, and about 9,000 policies for single-family properties that had severe-repetitive losses. Subsidies on most of the approximately 715,000 remaining subsidized policies are expected to be eliminated over time as properties are sold or coverage lapses, as are previous exemptions from rate increases after flood zone map revisions. Reducing the financial impact of remaining subsidized policies on NFIP generally could involve accelerating elimination of subsidies, targeting assistance for subsidies, or expanding mitigation efforts, or some combination. Each approach has advantages and disadvantages. In GAO's 2008 study about rate-setting, GAO noted that the losses generated by NFIP have created substantial financial exposure for the federal government and U.S. taxpayers—due in part to its rate-setting process. Partly because of these rate-setting issues, GAO concluded in a July 2013 report that the advantages and disadvantages to additional changes to the program, such as raising coverage limits or adding optional coverage types, would need to be carefully weighed.

The Federal Emergency Management Agency (FEMA) will require several years to fully implement the Biggert-Waters Act. FEMA officials acknowledged that they have challenges to resolve. These include updating and correcting information on whether a policy is for a primary or secondary residence, determining the fair market value of insured properties, and developing a definition of severe repetitive loss for multifamily properties. Further, FEMA must establish full-risk rates that reflect flood risk for active policies that no longer are eligible for subsidies; but it does not have a plan to do so. In an effort to update payment formulas to insurance companies, as GAO recommended, FEMA has begun receiving actual flood-related information from some insurance companies but all companies are not reporting the information consistently.