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NATIONAL FLOOD INSURANCE PROGRAM

Oversight of Policy Issuance and Claims

Statement of William O. Jenkins, Jr., Director,
Homeland Security and Justice Issues

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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

April 2005

NATIONAL FLOOD INSURANCE PROGRAM

Oversight of Policy Issuance and Claims

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.

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..

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.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to participate in today's hearing to discuss the National Flood Insurance Program (NFIP) and the Federal Emergency Management Agency's (FEMA) role in overseeing processes for issuing policies and adjusting claims after floods occur.[1] My testimony is based on preliminary results to date of our ongoing review of the NFIP, as mandated by the Flood Insurance Reform Act of 2004.[2]

According to NFIP statistics, 90 percent of all natural disasters in the United States involve flooding. However, flooding is generally excluded from homeowner policies that typically cover damage from losses including wind, fire, and theft. Because of the catastrophic nature of flooding and the inability to adequately predict flood risks, private insurance companies are largely unwilling to underwrite and bear the risk of flood insurance.

Under the National Flood Insurance Act of 1968,[3] Congress established the NFIP to provide an insurance alternative to disaster assistance in response to the escalating costs of repairing flood damage. In creating the NFIP, Congress found that "a program of flood insurance with large-scale participation of the federal government and carried out to the maximum extent practicable by the private insurance industry is feasible and can be initiated."[4] Under the NFIP, homeowners with mortgages insured by federal lenders on property in communities identified to be in special high-risk flood hazard areas are required to purchase flood insurance on their dwellings, up to a maximum of $250,000 in coverage for single-family homes. Optional, lower-cost coverage is also available under the NFIP to protect homes in areas of low to moderate risk. To insure furniture and

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[1]FEMA, the agency responsible for coordinating the federal response to disasters, manages and oversees the NFIP. In March 2003, FEMA and its approximately 2,500 staff became part of the Department of Homeland Security (DHS). Most of FEMA—including its Federal Insurance and Mitigation Administration, which is responsible for administering the NFIP—is now part of the department's Emergency Preparedness and Response Directorate. However, FEMA has retained its name and individual identity within the department.

[2]P.L. 108-264 (June 30, 2004).

[3]42 U.S.C. 4001, et seq.

[4]42 U.S.C. 4001(b).

other contents against flood, property owners must purchase separate NFIP personal property coverage for up to $100,000.

FEMA, the agency responsible for coordinating the federal response to disasters, administers the NFIP. FEMA has been generally successful in keeping the NFIP on sound financial footing. FEMA reports that the NFIP is self-supporting for the average historical loss year, which means that operating expenses and flood insurance claims are not paid for by the taxpayer, but through premiums collected on flood insurance policies. FEMA has exercised its authority to borrow from the Treasury three times in the last decade when losses were heavy. However, it has repaid all borrowed funds with interest.

By 2005, the NFIP is projected to have approximately 4.7 million policyholders in the nearly 19,000 participating communities, with $699 billion of insurance in force. Since its inception, the program has paid about $12 billion in insurance claims, primarily from policyholder premiums that otherwise would have been paid through taxpayer-funded disaster relief or been borne by the home and business owners themselves.

During congressional hearings held last year on the Flood Insurance Reform Act of 2004, several legislators testified on NFIP concerns as reported by constituents whose properties had been flooded by Hurricane Isabel in September 2003. Problems they reported included inadequate payments and unclear policies and procedures for filing and adjusting damage claims. According to NFIP statistical data, NFIP policyholders filed about 23,770 claims for $454.2 million for flood damage as a result of this storm, primarily in Maryland, Virginia, and North Carolina.

Several months later, the hurricane season that began in August 2004 struck hard in Florida and other East and Gulf Coast states. In Florida alone, more than one in five homes suffered wind, rain, flood, or other damage from the hurricanes, according to FEMA. According to NFIP data, the combined impact of Hurricanes Charley, Frances, Ivan, and Jeanne in August and September 2004 made them the most costly catastrophes in U.S. history, surpassing the costs of Hurricane Andrew in 1992 and the World Trade Center and Pentagon terrorist attacks in 2001. FEMA reported that these storms resulted in 59,125 NFIP claims for more than $1.3 billion in payments as of March 2005 on claims that have been closed.

To meet our legislative mandate, as modified and expanded to include information on the 2004 hurricane season, and as discussed with your committee and the Senate Committee on Banking, Housing, and Urban

Affairs, we are reviewing several issues related to NFIP claims and FEMA's oversight role. Today, we are prepared to provide preliminary information on (1) the types of limits, restrictions, and exclusions to coverage that exist under the NFIP; (2) how FEMA, in partnership with private insurers, manages and oversees the NFIP, and the views of selected private sector NFIP program managers on how the program is working; and (3) the current status of FEMA's efforts to comply with provisions of the Flood Insurance Reform Act that mandate it establish insurance agent education and training requirements, new processes for explaining coverage to policyholders when they purchase and renew policies, and an appeals process for claimants.[5] In addition, appendix I presents data on policies in force and payments claimants received under the NFIP for flood events over the life of the program through 2004.

To address these issues, we collected data from the NFIP management information system, examined program documentation, and interviewed officials of FEMA and its program contractor. We also interviewed four private sector NFIP program managers for insurance companies and managers at one vendor—a company that subcontracts with insurance companies to handle all or part of their flood business. Using a semistructured interview instrument, we asked these managers how their operations are managed and reviewed, how they believe the program is working, and what suggestions they have for improvements. In consultation with FEMA officials, we selected the interviewees because they are among the largest private sector partners for the NFIP. We observed FEMA-sponsored training of insurance agents and adjusters and a FEMA oversight review of the management of a private insurance company's NFIP business.

Our work that forms the basis of the preliminary observations presented in our testimony today is still in progress. For example, we have not yet completed our review of the NFIP program and the claims made after Hurricane Isabel and the 2004 hurricane season. Among the ongoing work to be completed prior to issuing our report later this year are (1) an assessment of the reliability of FEMA's management information system, (2) interviews with the general adjusters who supervised claims adjustments in Maryland after Hurricane Isabel and in Florida during the 2004 hurricane season, (3) observations of FEMA's monitoring and oversight activities, and (4) a review of the operational reviews FEMA has

[5] See P.L. 108-264, Sections 202-205, 207.

done over the last several years. Our work is being done in accordance with generally accepted government auditing standards.[6]

In summary, we found:

- The NFIP is not designed to cover all flood losses. Some limitations are embedded in statute and others have been promulgated by FEMA pursuant to its statutory authority to keep the program self-supporting and actuarially sound. For example, the limited coverage allowed for basements does not include payment to repair or replace finished walls, floors, furniture, and other personal property.

- The work of selling, servicing, and adjusting claims on NFIP policies is carried out by thousands of private sector insurance agents, adjusters, and other employees. The private sector effort is regulated, managed, and overseen by about 40 FEMA employees with the assistance of about 170 contractor employees. The private sector program managers we interviewed said that the NFIP has many positive aspects, but its implementation is complex for policyholders, agents, and adjusters. Each of the four interviewees, when asked how the NFIP could be improved, said that FEMA should look for ways to make the program less complex and more similar to other property insurance programs.

- Although its 6-month deadline elapsed in December 2004, FEMA continues its efforts to comply with mandates of the Flood Insurance Reform Act that it establish (1) insurance agent education and training requirements, (2) new processes for explaining coverage to policyholders when they purchase and renew policies, and (3) an appeals process for claimants who are dissatisfied with the settlement of their claims. FEMA officials said that the rule-making process required for two of the initiatives takes more than 6 months to complete. On the third initiative, FEMA is awaiting DHS approval of materials it has prepared to explain coverage to policyholders. A FEMA official estimated that it would be after October 2005 before it has fully complied with the mandates.

[6] We plan to issue a final report in September 2005 on the issues we discuss today and the results of our examination of actions taken by FEMA on a representative sample of Hurricane Isabel claims for which claimants requested reviews of initial determinations.

NFIP Is Not Designed to Cover All Flood Losses

As a result of coverage limits, restrictions, and exclusions in NFIP policies, insurance payments for flood damage may not pay all of the costs of repairing or replacing flood-damaged property. Certain NFIP limitations are embedded in statute; 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.

The following are several examples of NFIP coverage limitations, restrictions, and exclusions that affect the premium and amount a claimant could expect to receive for flood damage:

- Homeowners are required to insure their homes for the amount of their federally backed mortgages. If a home is insured for less than 80 percent of its full replacement cost or the maximum coverage amount of $250,000, or it is not a primary residence, NFIP will pay the actual cash value for the damage. The actual cash value represents the original cost of the structure less depreciation and, in most cases, will not cover the full cost to repair damage to or replace the dwelling. The value of physical depreciation is based on the age and condition of the item.
- If a home is insured for 80 percent or more of its full replacement cost or the maximum coverage amount of $250,000 and is a primary residence, NFIP will pay replacement costs for damage to the dwelling. The policy defines replacement cost as coverage to replace the damaged part of the dwelling with materials of like kind and quality to what was damaged. The policy will pay the amount actually spent for this repair or replacement up to its limit.
- A homeowner may choose not to insure personal property under the program.
- A deductible amount is applied against claims for dwellings and personal property.
- Basements, which are defined as building areas below grade level on all sides, have limited coverage that does not include payment to repair or replace finished walls, floors, furniture, and other personal property.
- The personal property limit paid for jewelry, artwork, and home business equipment is $2,500 for all items combined. No coverage is provided on these items if they are located in a basement.

- Actual cash value, not replacement value, is paid on all covered furniture and other personal property. Thus, personal property is also depreciated.
- A detached garage is covered by the dwelling policy only if it is used solely for vehicles and storage. If the garage is improved (e.g., a sink is installed), flood damage to the structure is not covered under the NFIP.

In a hypothetical property adjustment we developed with the assistance of FEMA's director of claims, a poorly maintained 30-year-old home located in a designated flood zone had flood damage when a nearby river overflowed. The property was valued at $60,000. It was insured under the NFIP for $30,000. Although a contractor estimated it would cost $40,000 to repair damages to the structure and personal property losses totaled another $10,000, a NFIP adjuster determined that payment on the claim was $8,000.

The following circumstances reduced the amount of coverage:

- The homeowner had chosen not to insure his personal property.
- Because the homeowner did not insure the structure for at least 80 percent of its value, actual cash value will be paid for repairs or replacement of damage to the dwelling. Since the condition is poor, the actual cash value will be low.
- A $1,000 deductible will be applied.
- The adjuster determined that some problems that needed to be addressed had not been caused by the flood (e.g., leaking pipes in the bathroom and preexisting mold in the basement).
- Only limited coverage is allowed in the basement of the home, where the largest amount of damage occurred.

Private Insurers Sell, Service, and Adjust Claims under FEMA Management and Oversight

The work of selling, servicing, and adjusting claims on NFIP policies is carried out by thousands of private sector insurance agents and adjusters who work independently or are employed by insurance companies or vendors under subcontract to insurance companies to handle their flood business. In contrast, according to a FEMA official, about 40 FEMA employees are responsible for regulating, managing, and overseeing the program, which is expected to grow to about 4.7 million policies in 2005. FEMA is assisted in this effort by about 170 contractor employees.

According to FEMA, about 95 percent of the NFIP policies in force are written by agents who work for or represent 94 private insurance companies that issue policies and adjust flood claims in their own names. The companies, called write-your-own companies, receive an expense allowance from FEMA of about one-third of the premium amounts for their services and are required to remit premium income in excess of this allowance to the National Flood Insurance Fund.[7] The insurance companies share the FEMA expense allowance with the agent selling and servicing the policy and a vendor, if the company has subcontracted with one to handle all or part of its flood insurance business.

Independent Agents Are the Main Point of Contact for Policyholders

Flood program managers for each of the four write-your-own companies we visited said that insurance agents were the main point of contact for policyholders and those seeking to purchase flood insurance. The managers we interviewed noted that agents had varying levels of knowledge about the NFIP. For example, one flood manager noted:

> It is clear that some agents do not understand the program. It is very complex and different from the other lines of insurance. Flood insurance is much more complex than automobile and homeowners insurance. Some items of specific concern are definitions of elevated buildings and basements.

Officials at FEMA, the four insurance companies, and the vendor said that they offered support to the insurance agents who sell and service NFIP policies. Reported support included training, help from telephone hotline customer service representatives, development of rate quotes, and Web sites with NFIP information. However, other than requiring that agents meet basic state insurance licensing requirements, neither FEMA nor the four insurance companies have historically required that agents complete training or demonstrate a basic level of knowledge of the NFIP to sell flood policies.

Adjusters Are the Eyes and Ears of the NFIP

When losses occur, flood adjusters employed by insurance companies or independent contractors become the eyes and ears of the NFIP. Claims adjusters are assigned to policyholders by their insurance companies after the policyholders have notified their agents of a flood loss and the agents

[7]The other 5 percent of policies are sold and serviced by state-licensed insurance agents and brokers who deal directly with FEMA.

have written loss reports. Adjusters are responsible for assessing damage; estimating losses; and submitting required reports, work sheets, and photographs to the claimants' insurance company, where the claim is reviewed and, if approved, processed for payment. They work under the coordination of a general adjuster assigned to manage claims adjustments for the flood event.

Unlike agents who sell flood insurance policies, adjusters must be certified by FEMA to work on NFIP claims. To be approved to adjust residential flood losses, an adjuster must have at least 4 consecutive years of full-time property loss adjusting experience and have attended an adjuster workshop, among other requirements. To keep their certifications current, adjusters are required to take a 1-day refresher workshop each year and pass a written examination testing their knowledge each year.

FEMA's program contractor maintains a database of independent adjusters who are qualified to adjust flood claims. A FEMA official said that 4,844 flood-certified adjusters are registered in the database, as of April 2005. A NFIP official noted that the adjuster community is stretched thin when a major flood event occurs.

Adjusters and insurance companies are paid for claims settlements from the National Flood Insurance Fund based on the size of the losses they settle. The write-your-own company receives about 3.3 percent of the incurred loss, according to FEMA's NFIP claims director. Adjusters are to be paid at the time claims are settled based on a standard fee schedule. For example, an adjuster receives $1,000 for a claim of between $25,000 and $35,000.

FEMA Oversees Work of Insurance Companies and Adjusters

FEMA's primary method of overseeing the work of write-your-own companies is to conduct an operational review of every participating company at least every 3 years. In addition, FEMA relies on about 10 general adjusters[8] employed by its program contractor to check the

[8]According to the FEMA director of NFIP claims, general adjusters are experienced property adjusters who operate in the manner of supervisory adjusters. Resident general adjusters are responsible for surveying an area that has flooded either immediately before or after a flood event to estimate the number of claims that will be made. General adjusters coordinate claims adjustment activities at disaster locations, do adjuster training, and respond to questions from adjusters in addition to their oversight roles.

work of claims adjusters[9] in reinspections of a sample of adjustments done after every flood event.

According to the FEMA director of NFIP claims, one or two employees from FEMA's NFIP Claims and Underwriting sections go on-site to review the operations of write-your-own companies at least every 3 years. They do reviews more frequently, if necessary, to follow up on any findings from a previous visit.[10] The auditors are to request that a random sample of 100 files be pulled for them to review. Files that are closed without payment and those with particularly large settlements are to be included in the sample of files reviewed. Auditors are to check the files for completeness and accuracy. For example, they must make sure that there are photographs to document damage. Auditors are also to look at internal controls in place at the company.

If a write-your-own company does not pass an operational review, FEMA requires that it develop an action plan to correct the problems and schedules a follow-up review in 6 months to determine whether progress has been made, according to the NFIP director of claims. If the company continues to have problems and fails to implement an action plan, it can ultimately be withdrawn from the NFIP. According to FEMA officials, a company has been asked to withdraw from the NFIP once in the program's history. About 3 years ago, a write-your-own company was withdrawn from the NFIP in part because of issues raised in operational reviews and in part to other financial problems.

Three of the four flood program managers for write-your-own companies whom we interviewed thought operational reviews were an effective way for FEMA to ensure that the NFIP is run according to established legislation and regulation. The fourth manager said that he had no opinion one way or the other. Interviewees noted that the reviews caught problems, and while FEMA had a small audit staff, the auditors were knowledgeable and provided about the right level of review. Two of the four flood program managers said that recent operational reviews had identified problems on policies they had recently purchased from other

[9]In addition, financial reviews of the write-your-own companies are done and data submitted for payment and statistical reporting are edited.

[10]Some operational reviews are done at vendor locations rather than at the write-your-own company.

companies and that they were working to rewrite some policies and address other oversight issues.

General adjusters are to do reinspections of open claims. FEMA chooses a random sample of about 4 percent of the claims for every flood event to reinspect, according to the NFIP claims director. If the general adjuster determines that a company paid for an expense that should not have been covered, FEMA is to be reimbursed by the write-your-own company. If a general adjuster finds that an adjuster missed an item in the original inspection, the general adjuster is to add it back into the claims report so that the policyholder will be compensated for it.

The instructors at an adjuster refresher training session we attended noted the following as common errors identified in reinspections of claims:

- improper measurement of room dimensions;
- improper allocation of damage between wind and flood (homeowners' policies cover wind damage, while the NFIP covers flood losses);
- poor communication with homeowners on the process they are following to inspect the property and settle the claim.

Stakeholders Said the NFIP Has Many Positive Aspects but Implementation Is Complex

The flood program managers for the write-your-own companies and the vendor managers we interviewed were generally supportive of the NFIP and found many positive aspects to the program. One write-your-own company program manager said:

> "I am in the flood insurance business because I believe in the program. It does a lot of good. Floods are horrible occurrences. A homeowner sees the water coming but can do nothing to stop it. The smell is horrible. Whole communities are affected, and the emotional toll is tremendous. I have seen the NFIP do great good for many people."

Each of the interviewees, when asked how the NFIP could be improved, said that FEMA should look for ways to make the program less complex and more similar to other property insurance programs. For example, a vendor manager noted, "if the customers, the agents, and the adjusters all have difficulty understanding the program, it is too complicated."

A flood program manager said:

"As FEMA has tried to make the flood program more actuarily sound, it has made it more complex. FEMA has required of us more information, more forms, and more photos to be scanned into files. Those requirements cost money to implement. As an industry, we are looking at how the flood line might be more compatible with other lines of insurance business to be more cost-efficient. Now the flood business is so unique that it requires special handling."

FEMA officials said that some documentation (i.e., elevation certificates) is required because the NFIP is part of FEMA's broader flood plain management strategy that combines insurance protection with hazard mitigation to reduce future flood damage to homes. The officials noted that, while the NFIP has different requirements than homeowners insurance, it is not necessarily more complex and that the more familiar agents become with the requirements of the NFIP, the easier it becomes for them to routinely handle documentation requirements.

FEMA Continues Efforts to Comply with Legislative Mandates

Congress mandated that within 6 months of the enactment of the Flood Insurance Reform Act, FEMA establish (1) insurance agent education and training requirements, (2) new processes for explaining coverage to policyholders when they purchase and renew policies, and (3) an appeals process for claimants who are dissatisfied with the settlement of their claims. The 6-month mandated deadline elapsed on December 30, 2004, but FEMA is still working to complete these mandated efforts. According to FEMA officials, in order to address the requirements to establish insurance agent education and training and for explaining coverage to policyholders, the agency must go through the rule-making process. FEMA officials also said to address the requirement for explaining policy coverage, they are waiting for DHS approval before finalizing the draft materials that will accompany the flood insurance policy. When DHS approves the draft materials, they will be published in the *Federal Register* as part of the rule-making process. Regarding the requirement for an appeals process, the agency must initiate and complete formal rule making. FEMA officials said that this process takes more than 6 months and could not be completed within the mandated time frame.

FEMA Is Coordinating with the States to Establish Training and Education Requirements

To address the requirement in the Flood Insurance Reform Act of 2004 to establish insurance agent education and training requirements, FEMA is working with state insurance commissions. An official said FEMA is still in the planning stages of meeting the requirement and is discussing options with state insurance commissions, but has not yet developed an action plan.

FEMA Has Drafted New Materials on Consumer Policy Information

When a customer purchases a flood insurance policy, the main document he or she is to receive from the insurance agent is the policy. A congressional report accompanying the Flood Insurance Reform Act stated that the NFIP did not provide "simple" forms or claims guidelines for flood victims to follow, making access to information about flood insurance policies difficult to obtain.[11] To address this concern, the act requires FEMA to provide simplified forms and a flood insurance claims handbook to policyholders at the time of purchase or renewal and at the time of flood loss.[12] FEMA has drafted new materials that would be provided to the policyholder at the time of purchase or renewal of the flood insurance policy. The draft material includes:

- a supplemental form that would explain the policy, such as the amount of deductibles, the exact coverage being purchased, exclusions from coverage, and an explanation of how lost items and damages will be valued under the policy at the time of loss;

- a flood insurance handbook to describe procedures to be followed to file a claim and provide detailed information on an appeals process that FEMA is to develop; and

- an acknowledgment form that the policyholder has received the flood insurance policy and that the policy only covers building property for the dwelling and does not provide coverage for contents or personal property.

Before the materials are finalized, FEMA must go through rule making and publish them in the *Federal Register*. FEMA expects to have these forms and handbook finalized by October 2005.

FEMA Is Establishing a Formal Appeals Process to Address Consumer Complaints

If a policyholder has a grievance about a flood insurance claim, proof of loss, or loss estimate, he or she may informally appeal to the insurance agent, to the insurance adjustor's supervisor, or to a hotline where a customer representative is to provide assistance. There is currently no official recourse for the policyholder. To provide official recourse to policyholders, section 205 of the Flood Insurance Reform Act requires that FEMA establish a formal appeals process through which policyholders may appeal decisions on their claims. FEMA is developing a formal

[11] Senate Report No. 108-262 (2004).

[12] See P.L. 108-264, Sections 202-204 (June 30, 2004).

appeals process for a policyholder to follow if he or she has a grievance. The proposed new appeals process must go through the rule-making process with publication of a draft and a final set of procedures in the *Federal Register*. A FEMA official was uncertain when the process would be completed, but said that it would be after October 2005.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions you and the Committee members may have.

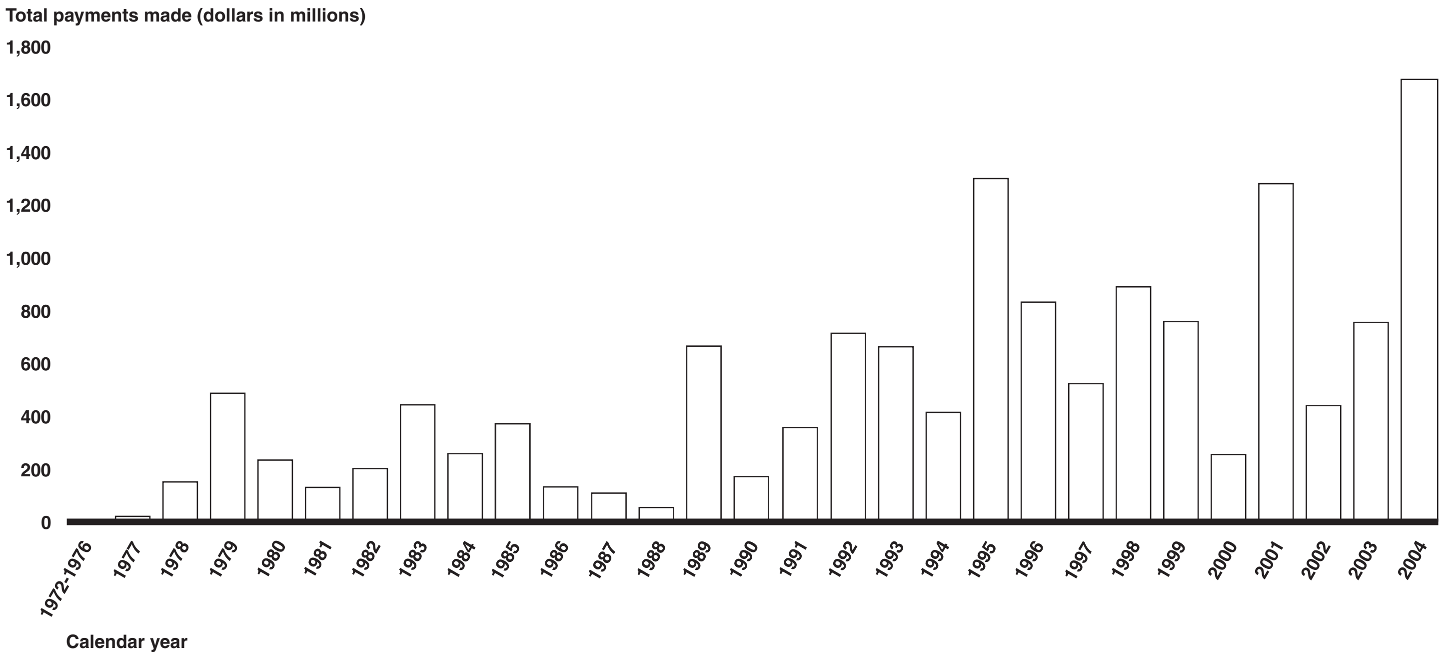
Contacts and Staff Acknowledgments

For further information about this statement, please contact William O. Jenkins, Jr. Director, Homeland Security and Justice Issues, on (202) 512-8777 or jenkinswo@gao.gov or Christopher Keisling, Assistant Director, Homeland Security and Justice, on (404) 679-1917 or at keislingc@gao.gov.

Major contributors to this testimony included Christine Davis, Pawnee Davis, and Deborah Knorr.

Appendix I: NFIP Payments Made to Claimants and Policies in Force, 1972-2004

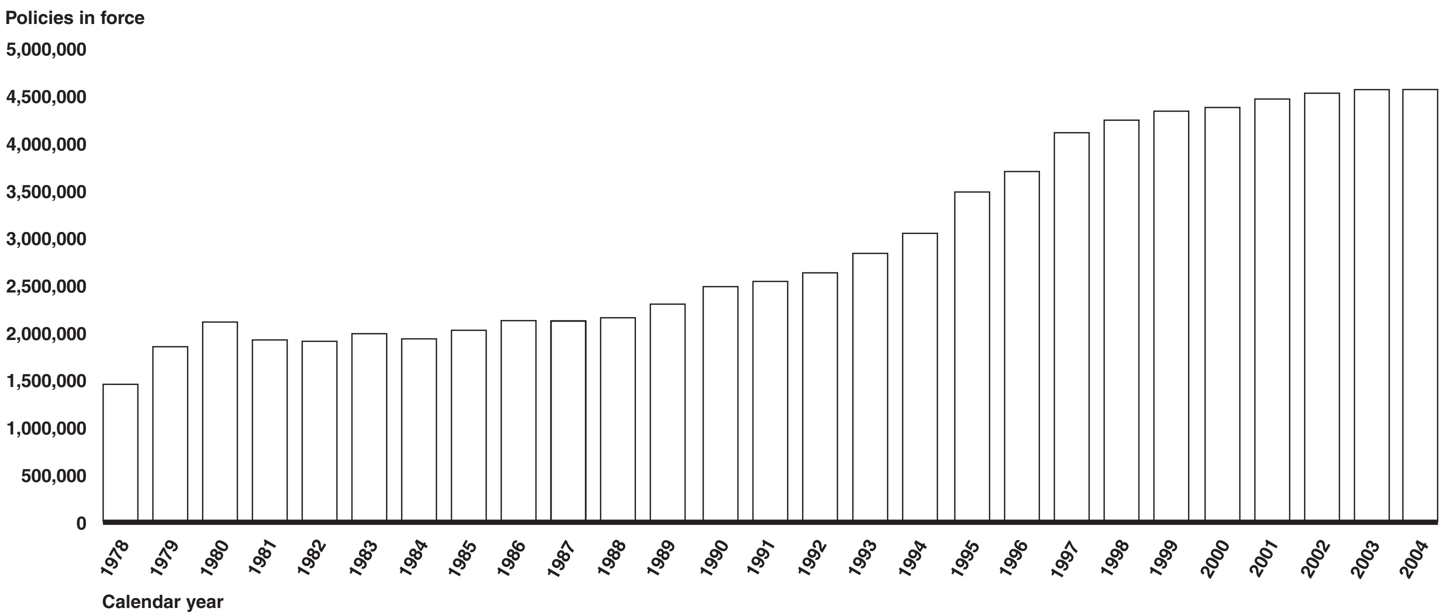
Figure 1: Total NFIP Payments to Claimants, 1972-2004



Source: NFIP.

Note: Data compiled and available as of February 28, 2005.

Figure 2: Policies In Force, 1978-2004



Source: NFIP.

Note: Data compiled and available as of December 31, 2004.

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