


Highlights

Highlights of [GAO-03-606T](#), testimony for the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Floods have been, and continue to be, the most destructive natural hazard in terms of economic loss to the nation. The National Flood Insurance Program is a key component of the federal government's efforts to minimize the damage and financial impact of floods. The program identifies flood-prone areas of the country, makes flood insurance available in the nearly 20,000 communities that participate in the program, and encourages flood-plain management efforts. Since its inception in 1969, the National Flood Insurance has provided \$12 billion in insurance claims to owners of flood-damaged properties, and its building standards are estimated to save \$1 billion annually. The program has been managed by the Federal Emergency Management Agency, but along with other activities of the agency, it was recently placed into the Department of Homeland Security.

GAO has issued a number of reports on the flood insurance program and was asked to discuss the current challenges to the widespread success of the program.

www.gao.gov/cgi-bin/getrpt?GAO-03-606T.

To view the full testimony, click on the link above. For more information, contact JayEtta Z. Hecker, (202) 512-2834, Heckerj@gao.gov.

FLOOD INSURANCE

Challenges Facing the National Flood Insurance Program

What GAO Found

The program faces the following challenges in operating the program effectively and protecting property owners from loss from floods.

- Improving information on the program's financial condition.** Cash-based budgeting, which focuses on the amount of funds that go in and out of a program in a fiscal year, obscures the program's costs and does not provide information necessary to signal emerging problems, such as shortfalls in funds to cover the program's risk exposure. Accrual-based budgeting better matches revenues and expenses, recognizes the risk assumed by the government, and has the potential to overcome the deficiencies of cash-based budgeting.
- Reducing losses to the program resulting from policy subsidies and repetitive loss properties.** The program has lost money and is not actuarially sound because about 29 percent of the policies in force are subsidized but appropriations are not provided to cover the subsidies. Owners of structures built before the flood zone was included in the program pay reduced premiums that represent only about 35-40 percent of the true risk premium. Further, repetitive loss properties—properties with two or more losses in a 10-year period—add to program losses as they represent 38 percent of claims losses but account for 2 percent of insured properties.
- Increasing property owner participation in the program.** The administration has estimated that less than 50 percent of eligible properties in flood plains participate in the program. Additionally, even when the purchase of insurance is mandatory, the extent of noncompliance with the mandatory purchase requirement is unknown and remains a concern.

Actions have been initiated or proposed by the administration or in the Congress to address some of the challenges. However, the affect of some actions on the program is not clear. For example, reducing subsidies may cause some policyholders to cancel their policies, reducing program participation and leaving them vulnerable to financial loss from floods. Further, placement of the program within the Department of Homeland Security has the potential to decrease the attention, visibility, and support the program receives.



Source: FEMA Photo Library.