



Highlights of [GAO-06-119](#), a report to congressional committees

## FEDERAL EMERGENCY MANAGEMENT AGENCY

### Improvements Needed to Enhance Oversight and Management of the National Flood Insurance Program

#### Why GAO Did This Study

In the wake of Hurricane Isabel in 2003, GAO was mandated by the Flood Insurance Reform Act of 2004 to report on issues related to the National Flood Insurance Program (NFIP) and its oversight and management by the Federal Emergency Management Agency (FEMA). Private insurance companies sell NFIP policies and adjust claims, while a private program contractor helps FEMA administer the NFIP.

To address this mandate, this report assesses (1) the statutory and regulatory limitations on coverage for homeowners under the NFIP; (2) FEMA's role in monitoring and overseeing the NFIP; (3) FEMA's response to concerns regarding NFIP payments for Hurricane Isabel claims; and (4) the status of FEMA's implementation of provisions of the Flood Insurance Reform Act of 2004.

Although impacts from Hurricane Katrina were not part of the report's scope, GAO recognizes that this disaster presents the NFIP with unprecedented challenges.

#### What GAO Recommends

GAO is recommending that FEMA use a statistically valid method to select claims for review and establish milestones for meeting provisions of the Flood Insurance Reform Act. FEMA reviewed a draft of this report and expressed concerns about our findings related to NFIP program management.

[www.gao.gov/cgi-bin/getrpt?GAO-06-119](http://www.gao.gov/cgi-bin/getrpt?GAO-06-119).

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 [jenkinswo@gao.gov](mailto:jenkinswo@gao.gov).

#### What GAO Found

The amount of insurance coverage available to homeowners under the NFIP is limited by requirements set forth in statute and FEMA's regulations, which include FEMA's standard flood insurance policy. As a result of these limitations, insurance payments to claimants for flood damage may not cover all of the costs of repairing or replacing flood-damaged property. For example, homes that could sustain more than \$250,000 in damage cannot be insured to their full replacement cost, thus limiting claims to this statutory ceiling. In addition, NFIP policies cover only direct physical loss by or from flood. Therefore, losses resulting primarily from a preexisting structural weakness in a home or losses resulting from events other than flood, such as windstorms, are not covered by NFIP policies.

To meet its monitoring and oversight responsibilities, FEMA is to conduct periodic operational reviews of the 95 private insurance companies that participate in the NFIP, and FEMA's program contractor is to check the accuracy of claims settlements by doing quality assurance reinspections of a sample of claims adjustments for every flood event. FEMA did not use a statistically valid method for sampling files to be reviewed in these monitoring and oversight activities. As a result, FEMA cannot project the results of these reviews to determine the overall accuracy of claims settled for specific flood events or assess the overall performance of insurance companies and their adjusters in fulfilling responsibilities for the NFIP—actions necessary for FEMA to have reasonable assurance that program objectives are being achieved.

In the months after Hurricane Isabel, FEMA took steps intended to address concerns that arose from that flood event. In April 2004, FEMA established a task force to review claims settlements from Hurricane Isabel claimants. As a result of task force reviews, almost half of the 2,294 policyholders who sought a review received additional payments. The additional payment amount averaged \$3,300 more than the original settlement—for a total average settlement of about \$32,400 per claimant. In most cases, the additional funds were for repairing or replacing buildings or property not included in the initial adjuster's loss determination, or to cover additional material or labor costs.

FEMA has not yet fully implemented provisions of the Flood Insurance Reform Act of 2004 requiring the agency to provide policyholders with a flood insurance claims handbook that meets statutory requirements, to establish a regulatory appeals process, and to ensure that insurance agents meet minimum NFIP education and training requirements. The statutory deadline for implementing these changes was December 30, 2004. Efforts to implement the provisions are under way, but have not yet been completed. FEMA has not developed plans with milestones for assigning accountability and projecting when program improvements will be made, so that improvements are in place to assist victims of future flood events.