



Highlights of [GAO-08-28](#), a report to Ranking Member, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Disputes between policyholders and insurers after the 2005 hurricane season highlight the challenges in understanding the cause and extent of damages when properties are subjected to both high winds and flooding. Questions remain over the adequacy of steps taken by the Federal Emergency Management Agency (FEMA) to ensure that claims paid by the National Flood Insurance Program (NFIP) cover only those damages caused by flooding. GAO was asked to evaluate (1) issues that arise when multiple insurance policies provide coverage for losses from a single event, (2) state regulators' oversight of loss adjusters, and (3) information that NFIP collects to assess the accuracy of damage determinations and payments. GAO collected data from FEMA, reviewed reinspection reports and relevant policies and procedures, and interviewed state regulatory officials and others about adjuster oversight and NFIP.

What GAO Recommends

GAO recommends granting FEMA authority to obtain available WYO insurer wind damage claims data for properties subjected to both high winds and flooding and WYO insurers' guidance to adjusters for making such damage determinations. Further, GAO recommends that states enhance the quality and consistency of adjuster oversight. FEMA agreed with GAO's recommendation to enhance adjuster oversight but did not agree that Congress should grant it enhanced authority to access WYO insurers' wind claims data and adjuster guidance.

To view the full product, including the scope and methodology, click on [GAO-08-28](#). For more information, contact Orice M. Williams at (202) 512-8678 or williamso@gao.gov.

NATIONAL FLOOD INSURANCE PROGRAM

Greater Transparency and Oversight of Wind and Flood Damage Determinations Are Needed

What GAO Found

Insurance coverage gaps and claims uncertainties can arise when coverage for hurricane damage is divided among multiple insurance policies. Coverage for hurricanes generally requires more than one policy because private homeowners policies generally exclude flood damage. But the extent of coverage under each policy depends on the cause of the damages, as determined through the claims adjustment process and the policy terms that cover a particular type of damage. This process is further complicated when the damaged property is subjected to a combination of high winds and flooding and evidence at the damage scene is limited. Other claims concerns can arise on such properties when the same insurer serves as both NFIP's write-your-own (WYO) insurer and the property-casualty (wind) insurer. In such cases, the same company is responsible for determining damages and losses to itself and to NFIP, creating an inherent conflict of interest.

Differences in licensing and training requirements for insurance claims adjusters among states also create uncertainties about adjusters' qualifications. Prior to the 2005 hurricane season, some coastal states had few or no requirements, while others had requirements for most types of adjusters. Further, states can waive their normal oversight requirements after a catastrophic event to help address demand, as they did after Hurricane Katrina. As a result, significant variations can exist in the qualifications of claims adjusters available after a catastrophic event. Strengthened and more uniform state requirements for adjusters could enhance the qualifications of the adjuster force in future catastrophes and improve the quality and consistency of claims adjustments.

NFIP does not systematically collect and analyze both wind and flood damage claims data, limiting FEMA's ability to assess the accuracy of flood payments on hurricane-damaged properties. The claims data collected by NFIP through the WYO insurers—including those that sell and service both wind and flood policies on a property—do not include information on whether wind contributed to total damages or the extent of wind damage as determined by the WYO insurer. The lack of this data also limits the usefulness of FEMA's quality assurance reinspection program to reevaluate the accuracy of payments. In addition, the aggregate claims data that state insurance regulators collectively gathered after Hurricanes Katrina and Rita were not intended to be used to assess wind and flood damage claims together on a property- or community-level basis. Further, FEMA program contractors do not have access to WYO insurers' policies, procedures, and instructions that describe to adjusters how wind and flood damages are to be determined when properties are subjected to both perils. FEMA officials stated that they did not have the authority to collect wind damage claims data from insurers. But without the ability to examine claims adjustment information for both the wind and flood damages, NFIP cannot always determine the extent to which each peril contributed to total property damages and the accuracy of the claims paid for losses caused by flooding.