



Highlights of [GAO-07-118T](#), a testimony before the Committee on Banking, Housing and Urban Affairs, U.S. Senate

Why GAO Did This Study

The National Flood Insurance Program (NFIP), established in 1968, provides property owners with some insurance coverage for flood damage. The Federal Emergency Management Agency (FEMA) within the Department of Homeland Security is responsible for managing the NFIP.

Given the challenges facing the NFIP and the need for legislative reform to ensure the financial stability and ongoing viability of this program, GAO placed the NFIP on its high-risk list in March 2006. This testimony updates past work and provides information about ongoing GAO work on issues including (1) NFIP's financial structure, (2) the extent of compliance with mandatory requirements, (3) the status of map modernization efforts, and (4) FEMA's oversight of the NFIP.

Building on our previous and ongoing work on the NFIP, GAO collected data from FEMA to update efforts, including information about claims, policies, repetitive loss properties, and mitigation efforts.

What GAO Recommends

In past work, GAO recommended that FEMA strengthen its oversight of the NFIP and insurance companies responsible for selling and servicing flood policies, among other things. FEMA generally agreed with our recommendations.

To view the full product, including the scope and methodology, click on [GAO-07-118T](#). For more information, contact Orice M. Williams at (202) 512-8678 or williamso@gao.gov.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Ongoing Challenges Facing the National Flood Insurance Program

What GAO Found

The most significant challenge facing the NFIP is the actuarial soundness of the program. As of August 2007, FEMA owed over \$17.5 billion to the U.S. Treasury. FEMA is unlikely to be able to pay this debt, primarily because the program's premium rates have been set to cover an average loss year, which until 2005 did not include any catastrophic losses. This challenge is compounded by the fact that some policyholders with structures that were built before floodplain management regulations were established in their communities generally pay premiums that represent about 35 to 40 percent of the true risk premium. Moreover, about 1 percent of NFIP-insured properties that suffer repetitive losses account for between 25 and 30 percent of all flood claims. FEMA is also creating a new generation of "grandfathered" properties—properties that are mapped into higher-risk areas but may be eligible to receive a discounted premium rate equal to the nonsubsidized rate for their old risk designation. Placing the program on a more sound financial footing will involve trade-offs, such as charging more risk-based premiums and expanding participation in the program.

The NFIP also faces challenges expanding its policyholder base by enforcing compliance with mandatory purchase requirements and promoting voluntary purchase by homeowners who live in areas that are at less risk. One recent study estimated that compliance with the mandatory purchase requirement was about 75 to 80 percent but that penetration elsewhere in the market was only 1 percent. Since 2004, FEMA has implemented a massive media campaign called "FloodSmart" to increase awareness of flooding risk nationwide by educating everyone about the risks of flooding and encouraging the purchase of flood insurance. While the numbers of policyholders increased following Hurricane Katrina, it is unclear whether these participants will remain in the program as time goes on.

The impact of the 2005 hurricanes highlighted the importance of up-to-date flood maps that accurately identify areas at greatest risk of flooding. These maps are the foundation of the NFIP. In 2004 FEMA began its map modernization efforts, and according to FEMA, about 34 percent of maps have been remapped. Completing the map modernization effort and keeping these maps current is also going to be an ongoing challenge for FEMA.

Finally, FEMA also faces significant challenges in providing effective oversight over the insurance companies and thousands of insurance agents and claims adjusters who are primarily responsible for the day-to-day process of selling and servicing flood insurance policies. As GAO recommended in an interim report issued in September 2007, FEMA needs to take steps to ensure that it has a reasonable estimate of actual expenses that the insurance companies incur to help determine whether payments for services are appropriate and that required financial audits are performed. GAO, in its ongoing work, plans to further explore FEMA oversight of the private insurance companies and the cost of selling and servicing NFIP flood policies.