



Highlights of [GAO-09-455](#), a report to the Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Why GAO Did This Study

Since 2004, private insurance companies participating in the Federal Emergency Management Agency's (FEMA) Write-Your-Own (WYO) program have collected an average of \$2.3 billion in premiums annually and, of this amount, have been paid or allowed to retain an average of \$1 billion per year. Questions have been raised about FEMA's oversight of the program in light of the debts FEMA has incurred since the 2005 hurricanes. GAO placed NFIP on its high-risk list and issued several reports addressing the challenges the program faces. This report addresses the methods FEMA uses for determining the rates at which WYOs are paid, its marketing bonus system for WYOs, its adherence to financial control requirements for the WYO program, and alternatives to the current system. To do this work, we reviewed and analyzed FEMA's data and policies and procedures and obtained the views of select WYOs and flood insurance experts.

What GAO Recommends

GAO makes recommendations to improve oversight of the WYO program. They include reviewing data on WYO companies' expenses, targeting incentive bonuses in line with NFIP goals, and providing more comprehensive oversight of program requirements and procedures. FEMA agreed with our recommendations regarding NAIC data, the incentive structure, and program oversight, but not the transparency of WYO payments. We continue to believe that FEMA could better leverage actual expense data.

[View GAO-09-455](#) or [key components](#).

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FLOOD INSURANCE

Opportunities Exist to Improve Oversight of the WYO Program

What GAO Found

FEMA does not systematically consider actual flood insurance expense information when it determines the amount it pays the WYO for selling and servicing flood insurance policies and adjusting claims. Rather, since the inception of the WYO program, FEMA has used various proxies for determining the rates at which it pays the WYOs. Consequently, FEMA does not have the information it needs to determine (1) whether its payments are reasonable and (2) the amount of profit to the WYOs that are included in its payments. When GAO compared expense payments FEMA made to six WYOs to the WYOs' actual expenses for calendar years 2005 through 2007, we found that the payments exceeded actual expenses by \$327.1 million, or 16.5 percent of total payments made. Considering actual expense information would provide transparency and accountability over payments to the WYOs.

FEMA has not aligned its bonus structure with its long-term goals for the program. The WYOs generally offered flood insurance when requested but did not strategically market the product as a primary insurance line. FEMA has not set explicit marketing goals beyond a 5 percent goal of increasing policy growth each year, and the WYO program primarily rewards companies that are new to NFIP for sales increases that may result from external factors, including flood events. The Government Performance and Results Act states that when results could be influenced by external factors, agencies can use intermediate goals to measure contributions to specific goals. Paying bonuses based on such intermediate targeted goals could bring the bonus structure more in line with FEMA's goals for the NFIP program.

FEMA has explicit financial control requirements and procedures for the WYO program but has not implemented all aspects of its Control Plan. FEMA provides guidance for WYOs that is intended to ensure compliance with the statutory requirements for the NFIP and contains checks and balances to help ensure that taxpayer funds are spent appropriately. FEMA did most of the required biennial audits and underwriting and claims reviews but did not do most of the required audits for cause; state insurance department audits; and marketing, litigation, and customer service operational reviews. In addition, FEMA did not systematically track the outcomes of the various audits, inspections, and reviews that it performed for the 10 WYOs included in this review of FEMA's oversight of the program. Because FEMA does not implement all aspects of the Control Plan, it cannot ensure that the WYOs are fully complying with program requirements.

Three alternative administrative structures could replace NFIP's payment arrangement with a competitively awarded contract that could lower costs for selling and servicing flood insurance policies and administering claims: (1) contracting with one or more insurance companies, (2) contracting with a single vendor, or (3) contracting with multiple vendors and maintaining the WYO network. Each alternative involves trade-offs in terms of the impact on the program's basic operations that would have to be considered.