

Highlights of [GAO-11-429T](#), a testimony before the Subcommittee on Insurance, Housing, and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The National Flood Insurance Program (NFIP) has been on GAO's high-risk list since 2006, when the program had to borrow from the U.S. Treasury to cover losses from the 2005 hurricanes. The outstanding debt is \$17.8 billion as of March 2011. This sizeable debt, plus operational and management challenges that GAO has identified at the Federal Emergency Management Agency (FEMA), which administers NFIP, have combined to keep the program on the high-risk list. NFIP's need to borrow to cover claims in years of catastrophic flooding has raised concerns about the program's long-term financial solvency. This testimony 1) discusses ways to place NFIP on a sounder financial footing in light of public policy goals for federal involvement in natural catastrophe insurance and 2) highlights operational and management challenges at FEMA that affect the program.

In preparing this statement, GAO relied on its past work on NFIP and on its ongoing review of FEMA's management of NFIP, which focuses on its planning, policies, processes, and systems. The management review includes areas such as strategic and human capital planning, acquisition management, and intra-agency collaboration.

GAO has made numerous recommendations aimed at improving financial controls and oversight of private insurers and contractors, among others.

View [GAO-11-429T](#) or key components. For more information, contact Orice Williams Brown at (202) 512-8678 or williamso@gao.gov.

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FLOOD INSURANCE

Public Policy Goals Provide a Framework for Reform

What GAO Found

Congressional action is needed to increase the financial stability of NFIP and limit taxpayer exposure. GAO previously identified four public policy goals that can provide a framework for crafting or evaluating proposals to reform NFIP. These goals are:

- charging premium rates that fully reflect risks,
- limiting costs to taxpayers before and after a disaster,
- encouraging broad participation in the program, and
- encouraging private markets to provide flood insurance.

Successfully reforming NFIP would require trade-offs among these often competing goals. For example, currently nearly one in four policyholders does not pay full-risk rates, and many pay a lower subsidized or "grandfathered" rate. Reducing or eliminating less than full-risk rates would decrease costs to taxpayers but substantially increase costs for many policyholders, some of whom might leave the program, potentially increasing postdisaster federal assistance. However, these trade-offs could be mitigated by providing assistance only to those who needed it, limiting postdisaster assistance for flooding, and phasing in premium rates that fully reflected risks. Increasing mitigation efforts to reduce the probability and severity of flood damage would also reduce flood claims in the long term but would have significant up-front costs that might require federal assistance. One way to address this trade-off would be to better ensure that current mitigation programs were effective and efficient. Encouraging broad participation in the program could be achieved by expanding mandatory purchase requirements or increasing targeted outreach to help diversify the risk pool. Such efforts could help keep rates relatively low and reduce NFIP's exposure but would have to be effectively managed to help ensure that outreach efforts were broadly based. Encouraging private markets is the most difficult challenge because virtually no private market for flood insurance exists for most residential and commercial properties. FEMA's ongoing efforts to explore alternative structures may provide ideas that could be evaluated and considered.

Several operational and management issues also limit FEMA's progress in addressing NFIP's challenges, and continued action by FEMA will be needed to help ensure the stability of the program. For example, in previous reports GAO has identified weaknesses in areas that include financial controls and oversight of private insurers and contractors, and has made many recommendations to address them. While FEMA has made progress in addressing some areas, preliminary findings from GAO's ongoing work indicate that these issues persist and need to be addressed as Congress works to more broadly reform NFIP.