GAO Highlights

Highlights of GAO-16-59, a report to the Ranking Member, Committee on Financial Services, House of Representatives

Why GAO Did This Study

NFIP, which is administered by FEMA, provided insurance to help protect over 5.1 million policyholders against flood losses in 2015. The program has struggled financially in its attempts to keep rates affordable and pay for losses from catastrophic flooding. GAO has previously identified a number of challenges to FEMA's rate-setting process, including the lack of updated information in the model and the impact of charging rates that do not fully reflect flood risk. GAO was asked to review FEMA's current rate-setting methods.

This report (1) examines FEMA's current methods for setting rates and compares them with practices used by private insurers and (2) identifies steps FEMA has taken to address recommendations from GAO's October 2008 and July 2013 reports. GAO reviewed documentation on the methods FEMA uses to set NFIP rates, and interviewed FEMA officials, risk modeling experts, and insurance industry officials who were selected on the basis of their experience.

What GAO Recommends

GAO makes no new recommendations but maintains that those from its 2008 and 2013 reports still have merit and should be fully addressed. These recommendations included ensuring that FEMA's rate-setting methods accurately reflect flood risks, collecting data to analyze the impact of grandfathered properties, and obtaining the flood risk data needed to determine full-risk rates for subsidized properties. FEMA concurred with our past recommendations and described plans to implement them.

View GAO-16-59. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

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NATIONAL FLOOD INSURANCE PROGRAM

Continued Progress Needed to Fully Address Prior GAO Recommendations on Rate-Setting Methods

What GAO Found

The Federal Emergency Management Agency (FEMA) sets National Flood Insurance Program (NFIP) full-risk rates using a model that includes some characteristics of catastrophe models used by private insurers. In particular, both models assess flood probability and damage to estimate potential flood losses. Like private insurers, NFIP also uses variables specific to each structure in estimating the degree of damage from an event in calculating insurance rates. However, key differences exist between the practices of FEMA and private insurers. For example, FEMA offers subsidized rates to some policyholders that are intended to promote affordability and that do not reflect the full risk of flooding. Private insurers offer discounted rates, but the discounts are based on policyholders' risk reduction practices.

FEMA staff identified a number of actions the agency has taken or has underway to improve its NFIP rate-setting methods and address recommendations from GAO's October 2008 and July 2013 reports. However, FEMA needs to make more progress before these recommendations can be considered fully addressed. For example:

Ensuring rate-setting methods accurately reflect flood risk. FEMA staff said that the agency had begun collecting information to verify flood probability curves and damage estimates used in its rate-setting model. FEMA staff noted that some of these efforts would continue over the next 5 to 10 years. FEMA staff also stated that the agency had established the Technical Mapping Advisory Council (TMAC), as required by the Biggert-Waters Flood Insurance Reform Act of 2012, to review the agency's flood mapping activities and provide recommendations. TMAC's October 2015 interim annual report identified a number of recommendations, including that FEMA develop well-defined and easily quantifiable performance metrics on flood hazards. To fully address our recommendation, FEMA must finish collecting flood probability and damage estimate data and update the rate-setting model as appropriate.

Analyzing the impact of grandfathered properties. FEMA staff said that in 2010 the agency had begun tracking new policies—including property location and losses—with grandfathered rates. These policies allow owners of properties that are remapped into riskier flood zones to keep their previous lower rates. But FEMA staff noted that the agency was unable to collect data on such policies from before 2010 because FEMA did not track when these policies were first grandfathered. To fully address our recommendation, FEMA must collect information on all grandfathered policies and determine the financial impact of these policies on NFIP.

Determining full-risk rates for subsidized properties. FEMA staff said that the agency was currently evaluating approaches, including the use of new technologies, to collect elevation information for these properties without financially burdening policyholders. To fully address our recommendation, FEMA must collect the information needed to determine full-risk rates for subsidized properties.