

REP. TAYLOR COMMENTS ON GAO WIND AND FLOOD REPORT

Findings reinforce importance of multiple peril insurance provision

is needed for determining the extent of wind and flood damage after a storm. "I applaud the GAO for confirming that insurance companies have an inherent conflict of interest when they are allowed to determine whether to assign damages to their own wind insurance policies or to the federal flood insurance policy claims," Rep. Taylor said. "The report reinforces my proposal to give homeowners the option to buy wind and flood coverage in the same policy."

The multiple peril insurance provision in H.R. 3121, passed by the House of Representatives in September, would allow coastal residents to buy insurance and know that hurricane damage would be covered. It would protect taxpayers by ensuring that more hurricane damage is covered by premiums rather than by disaster assistance programs. The volatility and uncertainty of the coastal insurance market are the biggest obstacles to recovery on the Gulf Coast. Insurance companies are withdrawing from almost every coastal market, forcing many homeowners into state insurance pools. "I urge the Senate to pass this legislation in order to stabilize the insurance market in coastal states," Rep. Taylor said. "I strongly support GAO's recommendations that insurance companies be required to turn over their wind claims files so that FEMA can verify that the companies applied the same standards to the flood insurance claims as to their own wind claims. I am disappointed, but not surprised, that FEMA opposes that recommendation. FEMA needs to recognize that its oversight responsibility is to protect federal taxpayers, not insurance companies."

The GAO's findings include these major points: - A conflict of interest exists when insurance companies are responsible for determining both the extent of the flood damage that NFIP must pay and the extent of the wind damage that the insurance company itself must pay; - NFIP cannot determine the accuracy of flood claims paid on properties that were subject to both high winds and flooding, because FEMA does not collect any information on wind claims and does not require companies to explain their procedures for distinguishing between wind and flood losses; - Property owners with separate homeowners, wind and flood insurance policies cannot know in advance whether all their damage from a hurricane will be covered because of differences in the policy limits; the uncertainty is increased because NFIP cedes control of the damage determination to the insurance company despite a vested economic interest in maximizing the flood claim and minimizing the wind claim; - Legal disputes between wind and flood coverage have increased because of insurance companies' anti-concurrent causation clauses that attempt to exclude coverage of wind damage if flooding contributed to the loss. The Flood Insurance Reform and Modernization Act, H.R. 3121, which passed the House in September, already addresses some of the concerns raised by the GAO report: The House approved a Taylor amendment that prohibits insurance companies from using anti-concurrent causation language to exclude coverage of wind damage solely because flooding also contributed to the damage. The House also approved an amendment offered by Rep. Mel Watt that would require insurance companies to report their actual expenses operating the flood program and to undergo an independent audit of their administration of NFIP policies every two years. The complete GAO report can be found at <http://www.gao.gov/new.items/d0828.pdf>.