

Evidence of Fraud by Insurance Companies against the NFIP

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There are

thousands of ongoing Hurricane Katrina wind-or-water disputes in Mississippi, Louisiana, and Alabama, but there also are Hurricane Rita wind-or-water cases in Louisiana and Texas; Hurricane Ivan wind-or-water cases in Florida and Alabama, and other Florida cases from 2004 and 2005 hurricanes.

In recent

hurricanes, insurers took advantage of NFIP's lack of oversight to assume that flooding is the cause of all the damage in the surge area, and then denied its own policyholders unless homeowners could prove that damage was caused by wind alone. Every legal precedent in every state and federal court places the burden on insurers to prove that damage is excluded before they can deny coverage. By shifting the burden of proof, insurers have been able to bill the federal government for all damage where flooding was at all possible, while paying wind claims only where wind is the only possible cause. After a major hurricane such as Katrina, there are hundreds of thousands of properties where it is not possible to clearly distinguish the wind damage from the flood damage. In every case, the benefit of the doubt favored the insurance company at the expense of taxpayers and homeowners, while NFIP did nothing to protect either.

The most recent

evidence of fraud has been uncovered by New Orleans Times Picayune reporter Rebecca Mowbray. Here are links to Mowbray's recent series of articles and Sunday's Times Picayune editorial questioning the indifference shown by federal officials:

Insurers bilked flood program, suit says - Adjusters say wind claims underpaid

Judge prods feds in flood insurance case -Justice Department urged to play active role in whistle-blower suit

EDITORIAL: Where's the outrage? (Good question)

Same house. Same repairs. Same insurer. Why different prices? - Evidence suggests Allstate pays far more for flood repair than for wind damage. The reason? The government picks up the flood tab, and the company minimizes its own payout.

Inflated flood claim turns up at trial Allstate contents list is news to owners

Congressman Taylor has posted 23 documents on his website related to wind-or-water disputes in Mississippi. The most important of these is the State Farm Wind-Water Claims Handling Protocol. This document shows how boldly State Farm believed that it could instruct its adjusters to violate its contract with the federal government with no fear of any repercussion from NFIP or FEMA. The other documents include examples of duplicate engineering reports where the original on-site assessment concluded that some of the damage was caused by wind, but the insurance company demanded a second report or the engineering firm rewrote the report to blame all the damage on flooding.

Summary and section-by-section recap of H.R. 920, Rep. Taylor's legislation to enable NFIP to sell one policy that would cover both wind and flood damage, thereby eliminating the need to hire lawyers, engineers, and public adjusters to try to distinguish the wind damage from the flood damage. The bill requires that premiums be set at actuarially sound rates so that the program would comply with PAYGO rules.

Summary of H.R. 920, the Multiple Peril Insurance Act, introduced by Rep. Gene Taylor

Cosponsors: Maxine Waters, D-CA; Bobby Jindal, R-LA; Charlie Melancon, D-LA; Walter Jones, Jr. R-NC; William Jefferson, D-LA; Jo Bonner, R-AL; Carolyn Maloney, D-NY; Emanuel Cleaver, D-MO; Al Green, D-TX; Wm. Lacy Clay, D-MO; Edward Markey, D-MA; Lincoln Davis, D-TN; Rodney Alexander, R-LA; Donna Christensen, D-VI; Bennie Thompson, D-MS; Henry Cuellar, D-TX; Danny Davis, D-IL; Neil Abercrombie, D-HI; Jeff Miller, R-FL; Timothy Bishop, D-NY; Sheila Jackson-Lee, D-TX; Alcee Hastings, D-FL; Carolyn C. Kilpatrick, D-MI; Donald Payne, D-NJ; Corrine Brown, D-FL.

H.R. 920, the Multiple Peril Insurance Act, would create a new program in the National Flood Insurance Program to enable the purchase of wind and flood risk in one policy.

Multiple peril policies would be available where local governments agree to adopt and enforce building codes and standards designed to minimize wind damage, in addition to the existing flood program requirements for flood plain management.

The bill requires premiums for the new optional coverage to be based on risk, so that the program would be required to collect enough in premiums to pay claims. Otherwise, it would operate much like the flood insurance program.

Any community participating in the flood insurance program could opt into the multiple peril option, but the greatest demand for the product will be in coastal areas that face both flood and wind risk from hurricanes and tropical storms. Insurance companies are withdrawing from coastal areas and forcing state-sponsored insurers of last resort to take on much more disaster risk.

The Multiple Peril Insurance Act would allow homeowners to buy insurance and know that their damage from both wind and water will be covered. This is primarily a concern after a hurricane where the worst destruction is caused by a combination of wind and flooding. Homeowners would not have to hire lawyers, engineers, and adjusters to determine what damage was caused by wind and what was caused by flooding.

This bill would set residential policy limits at \$500,000 for the structure and \$150,000 for contents and loss of use. Nonresidential properties could be covered to \$1,000,000 for structure and \$750,000 for contents and business interruption.

Once the program is enacted, a private insurance market should develop to offer coverage above the limits. This would allow insurance companies to design policies that would have the equivalent of a \$500,000 deductible for residential properties or a \$1 million deductible for nonresidential properties.

Section 1. Short Title

"Multiple Peril Insurance Act of 2007"

Section 2. Flood and Windstorm Multi-peril Coverage

- Adds a new program to the National Flood Insurance Program to enable the purchase of insurance covering losses resulting from flood and/or windstorm;

- Multi-peril coverage is available only where the local government has adopted standards designed to reduce windstorm damages; (Flood standards already required by NFIP)

- No duplicate coverage with multi-peril coverage and NFIP flood coverage;

- Multi-peril policy covers damage from flooding and/or windstorm without requirement to distinguish flood damage from wind damage;

- Premiums must be based on risks according to accepted actuarial principles;

- The Director shall issue regulations setting the terms and conditions of coverage;

- Aggregate policy limits are as follows:

- Residential Structures - \$500,000 for single-family dwelling; \$500,000 per dwelling unit for structures with more than one unit; \$150,000 per unit for combination of contents and increased living expenses for loss of use;

- Nonresidential Structures - \$1,000,000 for structure; \$750,000 for combination of contents and business interruption coverage.

Section 3. Prohibition Against Duplicate Coverage

Adds the prohibition against duplicate coverage to the existing flood program.

Section 4. Compliance with State and Local Law

No new coverage for any property that is in violation of local building and zoning requirements designed to reduce windstorm damages.

Section 5. Criteria for Land Management and Use

The Director shall carry out studies to determine the appropriate standards for windstorm damage prevention, and establish criteria based on those standards.

Section 6. Definitions

Windstorm is defined as any hurricane, tornado, cyclone, typhoon, or other wind event.