Articles on Flood Insurance Hearings; Federal and State Insurance Reforms

Articles on the Tuesday afternoon oversight hearing from the Times Picayune, Mobile Press Register, and National Underwriter News;

Plus - Financial Services Committee Chairman Frank supports federal catastrophe insurance reform;

Washington Times column worried about the state by state trend toward "windstorm socialism";

Louisiana suit alleges that State Farm and Xactimate software intentionally underestimated repair costs;

Texas wind pool has another big increase in reinsurance costs;

Florida will soon have its own hurricane model to compare with the industry models;

State mitigation assistance now available in coastal South Carolina;

Witt & Loy try to build support for a state catastrophe fund is New Jersey;

Steve
Myers of the Mobile Press-Register produces an excellent series about
problems with flood maps and flood insurance on the Alabama Coast;

Dean Starkman in Columbia Journalism Review says the media is missing the point of the great risk shift.

Data lacking for insurance review: Feds can't coordinate flood, wind benefits - Bruce Alpert, New Orleans Times Picayune

WASHINGTON --

The federal flood insurance program lacks a system to coordinate benefits with private policies, and too often relies on insurance companies to determine the breakdown of damages between wind and water, leading to potential conflicts of interest, two federal officials testified Tuesday. But neither Matt Jadacki, deputy inspector general for the Department of Homeland Security, or Orice Williams, director of financial markets and community investment for the U.S. Government Accountability Office, could say whether insurance companies improperly shifted Katrina claims to the federal flood insurance program, in part, because they said federal administrators don't keep wind damage data in their files. Jadacki said his agency has had trouble getting information from the Federal Emergency Management Agency, which oversees the flood insurance program, and from private insurers, and is now subpoenaing the documents.

Early probe not ruling out improper cost-shifting - Sean Reilly, Mobile Press-Register

Although a government probe has so far found no evidence that insurance companies improperly dumped hurricane-related claims onto the National Flood Insurance Program, that possibility cannot be ruled out, a top investigator testified at a congressional hearing Tuesday. In addition, the Federal Emergency Management Agency, which oversees the government-subsidized flood insurance program, "needs to increase oversight over damage claims that involve both wind and water in the same structure," Matt Jadacki, deputy inspector general at the U.S. Department of Homeland Security, told members of two House panels.

FEMA, Insurers Blistered At House Hearing - Matt Brady, National Underwriter Online News Service

Two government agencies investigating the handling of flood damage claims in the aftermath of the 2005 storm season offered stern criticism of both the insurance industry and the Federal Emergency Management Agency at a hearing on Capitol Hill yesterday. The negative comments came at a joint hearing of the Oversight and Investigations Subcommittees of the House Financial Services and Homeland Security Committees. A main concern was that insurers operating under the Write-Your-Own aspect of the National Flood Insurance Program could have pressured adjusters to determine claims were the result of flooding, ignoring wind damage for which insurers could be held responsible.

Frank proposes federally backed insurance for storms - Sarah Shemkus, Cape Cod Times

With the East Coast poised for a season of predicted above-average hurricane activity, a growing chorus of legislators is advocating for federal

involvement in funding catastrophe recovery. "It's a high priority for us," said U.S. Rep. Barney Frank, D-Mass. In January, shortly after taking over the chairmanship of the House Financial Services Committee, Frank said he would make it a priority to address the steep increases in homeowners insurance rates that many coastal areas have experienced over the past several years. Since 2004, insurance companies have been reducing or eliminating their Cape and Islands coverage. Approximately 43,000 homeowners have been forced to seek new insurance, and many report premiums that have doubled and even tripled in recent years, according to Massachusetts insurance regulators.

Hurricane eye on insurers - Eli Lehrer, Washington Times

Throughout the hurricane zone that follows America's Atlantic coastline from Texas to North Carolina, a populist furor has gripped politicians intent on punishing private property insurance companies. Although the particulars differ from state-to-state, it appears clear ongoing bipartisan efforts have transferred so much hurricane risk to the government that taxpayers will end up footing an ever-larger percentage of the bill when a storm hits. As hurricane season begins, it seems ending this trend toward "windstorm socialism" and protecting taxpayers may ultimately require a massive federal overhaul of how America deals with insurance.

State Farm suit hits federal court: It alleges conspiracy to lowball payouts - Rebecca Mowbray, New Orleans Times Picayune

A case alleging that State Farm Fire & Casualty Co. and the company that provides its claims estimating software engaged in a conspiracy to depress construction unit prices and underpay homeowners insurance wind claims from Hurricanes Katrina and Rita comes up for its first hearing in federal court today. The case, Kathleen and Gordon Schafer v. State Farm Fire & Casualty Co. and Xactware Inc., tackles the corollary to recent allegations that insurance companies have inflated flood damages to take advantage of the National Flood Insurance Program. The suit claims that Louisiana's largest insurance provider, aided by the insurance industry's main supplier of construction pricing data, manipulated unit prices for construction materials to systematically lowball homeowners insurance payouts.

Reinsurance may cost pool $150M - Laura Elder, Galveston Daily News

The state windstorm pool could pay more than $150 million for reinsurance as it struggles to bolster funding during hurricane season.

The Texas
Windstorm Insurance Association's governing board voted 6-3 Tuesday to authorize spending $150 million for $1 billion in reinsurance coverage.

The
cash-strapped insurer of last resort for more than 173,000 coastal policyholders could spend still more if it is able to secure another $500 million in coverage. Reinsurance is scarce in an increasingly reticent and storm-shy market, however. The association last year paid $69 million for about the same amount of reinsurance coverage.

Hurricane Model Sized Up - Kevin Begos, Tampa Tribune

A public
software model used to help estimate and set hurricane insurance rates is in the final stages of a state review process, but the end result may not provide much relief to Florida consumers. Creation of the public model was authorized by the Legislature in 2001 as a check and balance against private models that regulators did not have full access to.

Insurance rate relief becomes law in Myrtle Beach: Homeowners can apply for grants to refurbish houses - Jenny Burns, Myrtle Beach Sun News

Homeowners in
South Carolina, especially the hurricane-prone coast, can now receive grants and tax credits for making their homes more wind resistant, thanks to a bill signed into law Monday.

Hurricane season finds the Shore at risk: One thing the state should do now is establish a private catastrophe fund - Op-Ed by James Lee Witt and James M. Loy in Philadelphia Inquirer

The hurricane
season in the Atlantic Ocean has begun, forecasters are predicting a 75 percent uptick in the frequency and fury of this year's storms, and New Jersey remains vulnerable, exposed and unprepared for the devastation that could come.

Mobile Press Register Series on Inadequacy of Flood Maps on the Alabama Coast - Steve Myers, Mobile Press-Register

A Press-Register
review of 36 years of storm data indicates that federal flood maps may underestimate hurricane storm surge in large areas of the Alabama coast, jeopardizing tens of thousands of residents in new homes and old homes, in beachfront and bayside homes, and along streams well inland.

The series:

In the danger zone
- Federal maps are supposed to predict areas likely to be engulfed by hurricane storm surge. In Alabama's case, those maps are dangerously off the mark, leaving thousands on the coast at risk, according to a Press-Register investigation.

Every few years, another 100-year storm -
Hurricane flooding along Alabama's coast regularly surpasses federal 100-year storm predictions, with frightening implications for the future.

Who's at risk
- Homes outside official flood zones are vulnerable to storm surge, but their owners don't know it. Meanwhile, the building continues.

Alabama left behind
- Federal planners are rethinking how Mississippi and Louisiana gird for hurricanes, while providing coastal Alabama with little guidance - other than outdated data and questionable maps - to prepare for the next Katrina

Fending for themselves -
You might have to build your house 1 foot higher than the flood plain. Or perhaps 2 feet or 3. In coastal Alabama, every local government seems to have a different idea about how high will keep you dry.

Thinking Outside the Flood Plain -
By relying on minimum standards for flood safety, coastal homeowners have put themselves in danger and left taxpayers on the hook for billions. Some suggest that we need to rethink how we define high-risk areas.

Daring the surge - Some homeowners try to dodge government flood plain rules. But can they dodge the storms?

Elevating pays off -
According to a new study for the National Flood Insurance Program, it costs just a fraction more to build above the 100-year flood elevation, and the added cost pays off through lower insurance premiums and fewer damages in the event of flooding.

One more, a very
good piece in the Columbia Journalism Review by former Wall Street Journal reporter and current Insurance Transparency Project fellow Dean Starkman, featuring this observation:

What "the system
shifts the risk from" is not coastal dwellers to inlanders, but from insurers to everybody else. And when it comes to paying for things the insurance industry doesn't want to pay for, there are only two other candidates: taxpayers and policyholders. There is no third choice.

What's missing from coverage of the insurance "industry." - By Dean Starkman Wed 13 Jun 2007 11:41 AM

The WSJ did a
story last week on the explosive growth of state-owned insurers of last resort. This is a fine story that makes an important point: the public has quietly been taking on massive liabilities, particularly since the 2004 and 2005 hurricane seasons- more than $600-billion from more than two million policies in 2006, up from $200 billion and less than one million policies in 2001-because private insurers increasingly won't sell policies along the coast.

Fair Access to
Insurance Requirements, or FAIR, plans cover people who can't get homeowners insurance anywhere else, usually because they live in a place deemed risky. FAIR plan policies are usually more limited and-bylaw-more expensive than any competing private carrier in order not to undermine the private market, if there is one.

In insurance-industry paralance FAIR plans are known as the "residual market," i.e., the crap.

These don't
operate like most insurance companies. They don't build up reserves to pay claims. If the money runs out, they assess other policyholders in

the state, either directly or indirectly through insurers, who pass along the costs.

The story quotes the articulate and knowledgeable Robert Hartwig, the executive director of the Insurance Information Institute, the industry's research and public relations arm, who says:

The system "shifts the risk literally from those who are most at risk . . . to individuals who are at less risk or even at no risk."

The problem-and yes, I'm very hard to please on the subject of insurance, particularly hurricane coverage-is that it misses the big picture.

The Journal misses the story, really.

Hartwig frames the story in a way that pits one group of insureds against another. It is the fault, in other words, of irresponsible people who insist on living near water. And while that's his job, he's basically wrong, and the Journal should stop falling for it.

What "the system shifts the risk from" is not coastal dwellers to inlanders, but from insurers to everybody else. And when it comes to paying for things the insurance industry doesn't want to pay for, there are only two other candidates: taxpayers and policyholders. There is no third choice.

Think about it.
If Allstate Insurance Co. and State Farm Insurance Co. are canceling or not writing policies south of Interstate 10 in Louisiana, which cuts through New Orleans, that leaves them with the profitable business-the not-risky homes inland and the incredibly lucrative auto business-and dumps the bad risks in the state's lap.

Meanwhile, the state doesn't get the benefit of the low-risk policies to pay for the risk on the coast.

Is this complicated?