Rep. Gene Taylor Asks AIA to Retract Report

Dear Governor Racicot:

I am writing to request that you retract and disavow the fraudulent Towers Perrin report that you released to Congress and the media on Wednesday.

July 13, 2007

Gov. Marc Racicot

President

American Insurance Association

1130 Connecticut Ave. NW, Suite 1000

Washington, DC 20036

Dear Governor Racicot:

I am writing to request that you retract and disavow the fraudulent Towers Perrin report that you released to Congress and the media on Wednesday. The report claims to analyze my legislation, H.R. 920, the Multiple Peril Insurance Act. However, the assumptions, scenarios, and conclusions in the report are impossible under the bill.

This report is yet another bad faith action by the insurance industry. It focuses on a hypothetical federal program that would sell wind-only insurance policies all over America, would set premiums 20 percent lower than the predicted risks, and would charge the same windstorm premiums for beachfront property in Florida as for low-risk properties 500 miles inland. Each of those circumstances is expressly forbidden in H.R. 920.

Had they read the bill, Towers Perrin would have known that wind coverage would be available only in a package with flood insurance coverage. The program would be available

only in communities that participate in the flood insurance program, agree to flood plain management standards, and comply with the new windstorm building standards that would be created by the bill.

Therefore, it is impossible for the NFIP to cover 100 percent of the wind market, the basis of Towers Perrin's absurd Scenario 1. Many communities do not participate in the flood program and have no incentive to join it. In many inland communities that do participate in the flood program, the private windstorm market has not yet failed, so there is no incentive for local governments to opt into the multiple peril program.

The bill requires the premiums to be risk-based and actuarially sound, so that the program would be required to collect enough in premiums to pay claims. The bill anticipates that FEMA would contract for risk models, hire actuaries, and set premiums in precisely the same manner as insurance companies and state-sponsored insurers of last resort. As you know, the risk data is readily available.

Towers Perrin mysteriously assumes that the premiums would be set 20 percent less than the risk. Frankly, I am surprised that you have so little confidence in the Bush Administration that you believe it could run up a $200 billion deficit despite a Congressional mandate to implement the program on an actuarially sound basis.

Your wild estimates of federal encroachment into private markets also are unfounded. The bill does not create a sales force of federal agents to market the new product. Almost all multiple peril insurance policies will be sold by private insurance companies and insurance agents. Local agents whose companies refuse to cover coastal wind risk will place their customers in the federal program, just as they currently enroll abandoned policyholders in state-sponsored wind pools and FAIR plans.

If the new multiple peril program does attract properties that are not currently covered by the National Flood Insurance Program, it will add premium income to the flood program. Because Towers Perrin did not understand the bill, it did not include any additional flood premium income in its analysis.

The bill requires that the multiple peril insurance program be actuarially sound, and the rules of the House require that it pay for itself. The new program also should result in savings in future federal disaster assistance. Since Hurricane Katrina, the federal government has paid at least $20 billion

dollars in housing assistance grants, rental assistance, temporary trailer housing, subsidized disaster loans, casualty loss tax deductions, and other assistance for property losses that were underinsured or were uncovered because insurance companies denied claims. The new insurance program will collect premiums to cover many of those expenses legitimately, without needing lawyers, engineers, and public adjusters to try to distinguish wind damage from water damage. The improved insurance coverage will speed up the economic recovery of disaster areas, thereby reducing the dependence on federal assistance.

Your report also expressed special concern about the deficit in the National Flood Insurance Program. In a recent article in the New Orleans Times-Picayune, AIA took credit for writing the NFIP expedited procedures policy for Katrina claims that allowed insurance companies to pay policy limits on flood insurance claims in some areas without proving that the damage was caused by flooding. On these same properties, several insurers denied windstorm claims, insisting that homeowners had to prove that damage was caused by wind, when all case law and precedent required the insurers to prove that the damage was excluded in order to deny coverage.

Obviously, the NFIP policy to which AIA proudly claims authorship helped these insurance companies avoid their obligation to prove that damage was caused by flooding. Some of my Congressional colleagues and I are very interested in a detailed accounting about how AIA came to write NFIP policy. I would also like to know which insurance company representatives colluded with AIA to draft the procedures by which companies could hand out $250,000 checks from the federal government while avoiding the burden of proving how much damage was caused by flooding.

You must know that State Farm instructed its adjusters in Mississippi that "Where wind acts concurrently with flooding to cause damage to the insured property, coverage for the loss exists only under flood coverage." Other companies issued similar guidance around the same time. Given your emphatic interest in protecting taxpayers, I trust we can count on your support for continued investigation to ensure that these adjusting procedures did not cause the National Flood Insurance Program to pay for damages that should have been covered by private insurers' windstorm policies.

Sincerely,

/s/

GENE TAYLOR

Member of Congress