

Savannah Morning News article on multiple peril insurance

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Katrina wrangle spawns flood insurance battle

By Brandon Larrabee, Savannah Morning News

ATLANTA - A battle between Katrina victims and insurance companies has moved to the halls of Congress, setting off a tussle over the future of the nation's flood insurance program.

The roots lie in disputes between those who returned to devastated homes in the Gulf Coast region and the private companies that offered them insurance against storm damage. In many cases, according to critics, those companies said there was no way to decide which damage was caused by flooding and which was caused by wind.

As a result, the companies allegedly tried to pawn off the damages onto the government-run flood insurance program unless homeowners could prove the damage was caused by wind.

"If your house is destroyed and spread all over town, it's pretty damn hard to prove what the wind did and what flooding did," said Brian Martin, policy director for U.S. Rep. Gene Taylor, D-Miss.

Taylor has sponsored a bill that would allow the federal program to also offer "multiple peril" insurance, providing for both wind and flood damage.

But industry spokesmen and some advocacy groups say that change would be a disaster of its own.

"Our concern is essentially that it's an unnecessary and unprecedented expansion of a federal program," said Clifton Brown, a spokesman for the Property Casualty Insurers Association of America.

Both sides say the outcome of the battle over the legislation could affect coastal property owners from New England to Texas.

Roots in Katrina

There are a few parts of the broader flood insurance regulation that are largely noncontroversial.

The measure would call for modernizing the sometimes decades-old flood maps used to determine who is required to have coverage and what their premiums will be.

Many on both sides of the issue also want to provide a bailout for the insurance program, which was \$17.5 billion in debt as of May 2007, according to a report by the Congressional Budget Office.

There's also broad support, according to a lobbyist for the insurance industry, for looking at doing away with or limiting premium subsidies for property like second homes or vacation houses.

The question of whether wind insurance should be added to the federal flood program grew out of claims by Gulf Coast residents who argued that wind insurance should cover some of the damage caused by Hurricane Katrina, the massive storm that tore through New Orleans as well as parts of Mississippi and Alabama in August 2005.

Some cases have ended up in court, with a judge in Mississippi rejecting the companies' claims that a clause in their policies protected them. Among other things, the judge ruled that the policy ran afoul of state law.

Martin said the measure would keep insurers from being able to shirk their responsibilities to cover wind damage, essentially passing the buck to the federal government.

"There's just no question that people got badly cheated and the taxpayers got badly cheated by dividing the wind from the water," he said.

No signs of wrongdoing

For their part, insurers point to a report from the Department of Homeland Security's inspector general. That report, issued in July, found no evidence that wind insurers like Allstate and State Farm had improperly shifted the cost of damages onto the federal program.

But the same report said a lack of oversight by the Federal Emergency Management Agency, which oversees the flood insurance program, made it hard to rule out the possibility that there was some shifting.

It also said the inspector general's office has issued subpoenas to some of the companies involved in the allegations.

Paul Kangas, hired by the insurance association to lobby on the flood insurance bill, said there's no disputing that it is sometimes difficult to figure out which hurricane damages are caused by wind and which result from flooding. But he said approving the measure with Taylor's multiple peril language intact would be an overreaction.

"In effect, it seems like he's trying to kill a fly with a cannonball," Kangas said.

FEMA also opposed

Critics say the measure could undermine the already financially shaky program by putting it on the line for billions of dollars in additional risk.

"As it is right now, there are concerns about the actuarial soundness of the flood insurance plan," Kangas said.

They also point out that, unlike flood insurance in high-risk areas, the industry is still offering wind coverage for many properties.

"You've got the government competing for business with the private market," Kangas said.

Martin said that while insurance companies are still offering the wind policies, many are increasing premiums and abandoning at least some of their markets.

He also pointed out that the federal government is still paying massive costs for the fallout from Katrina. For example, he said, some families are still living in FEMA trailers. Some of them have to, Martin said, because they haven't received insurance payments

that could help them rebuild.

"That's not an investment in the community," he said. "That's not an investment in anything."