

November 17, 2004

Mr. J. Robert Hunter  
Director of Insurance  
Consumer Federation of America  
1424 16<sup>th</sup> Street N.W., Suite 604  
Washington, DC 20036

Re: Flood Insurance Claims Practices

Dear Mr. Hunter:

As we discussed, I have spent more than 3,500 hours investigating issues related to the National Flood Insurance Program and related entities. I am hopeful you can share your thoughts on my findings regarding low-balling, your knowledge of the Congressional intent of the program and your experience regarding past flood claims practices.

### **Low-Balling**

Industry and federal officials and employees have leaked to me what they believe is the industry's rationale for systematically underpaying claims. They explain if they pay a fair price for settling a flood loss it in effect sets a precedent for using a fair basis for settling non-flood property claims. In the example of the single adjuster program, the same adjuster will adjust both the flood and non-flood loss. They further explain if they pay the proper rate on the flood loss line item it will be obvious if they paid anything less on the identical non-flood loss line item. Instead, the carriers push to pay a much reduced rate on both.

For example, say the going rate for sheetrock is two dollars per square foot. Both the first and second floors suffered sheet rock damage – the first floor due to flood, and second floor due to wind driven rains.

If the adjuster paid the fair price of \$2 per sq. foot on the first floor where the carrier bears no risk, and attempts to pay \$1.46 per sq. foot on the second floor where a tree fell through the roof, it would be a red flag to the claimant. Instead, the adjuster pays \$1.46 for both. In that way the adjusting firm keeps its loss ratio to a minimum for its carrier and is thus assured of much future work.

When the claimant learns, in many cases months later, they have been low-balled, the insurance company instead suggests they have been gouged by their contractor.

### **Congressional Intent**

I have worked with FEMA officials and one appointee who believed the program is intended to restore an RCV loss to its pre-flood condition, notwithstanding the deductible. Prior to August 2004, I have also been involved with claims paid accordingly – including my own. However, without the involvement of senior FEMA officials, and since August 2004, a different view has emerged. Government officials, WYO's and their third party vendors routinely say no such intent ever existed nor have any such claims been paid.

## **Training Disparity**

I have found the private contractor Computer Sciences Corporation who handles the day to day affairs of the NFIP trains sales agents to tell clients and prospective customers they will be restored to their pre-flood condition. Yet adjuster reports, training materials and video shows the same company trains adjusters no such coverage exists and claimants are entitled to only narrowly defined coverage. An excerpt of the agent training I attended with an industry executive can be viewed here

[www.femainfo.us/Links/Griffin,%20B%20-%20Agent\\_Training.pdf](http://www.femainfo.us/Links/Griffin,%20B%20-%20Agent_Training.pdf) .

FEMA marketing materials lead the consumer to the same conclusion. See <http://www.floodsmart.gov/floodsmart/pages/benefits.jsp> bullet 1 “Flood insurance compensates you for all covered losses”. Many other FEMA references also state flood insurance will “make you whole”.

Several examples of adjuster training according to numerous accounts:

“The program does not replace like for like – if you have Pella windows, we will replace with a window”

“We only pay if water physically touches an item”

“We never pay for upper cabinets – refer to pairs and sets”

“We have a set price for items – it’s a federal program”

With a tremendous effort from Congressional staff and senior FEMA management support I have been involved with claims where the payment was sufficient to restore the loss to its pre-flood condition. In hundreds of other cases, without such effort, the loss was paid pennies on the dollar. In the end the adjuster, WYO or FEMA suggested the victims file suit. It would seem this is an FTC issue in addition to fraud.

The bottom line is the average claim paid for 2003 was \$16,736

<http://www.fema.gov/nfip/fy03losspd.shtm> yet widespread press reports indicates an average increase after FEMA’s review of nearly fifty percent.

## **Result**

At this time thousands of flood victims remain dreadfully impacted and in many cases utterly destroyed as a result of receiving pennies on the dollar for their flood claims. In many cases families have been living in FEMA campers for fourteen months. Children whose parents played by all the rules have been left living below the poverty line. Two minutes of hot water, no working indoor plumbing in winter, the children are cold in the winter and hot in the summer. Others unwilling to brave camper life have been living in mold and fuel oil contaminated homes. Heart attacks and strokes have skyrocketed and many families have now split under the stress thereby leaving children in single parent households.

Thank you in advance for any help you can provide to the victims. They desperately need it.

Sincerely,



Steven J. Kanstoroom