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April 11, 2005

Diane Koken, Commissioner  
Pennsylvania Insurance Department  
1326 Strawberry Square, 13th Floor  
Harrisburg, PA 17120

Dear Commissioner Koken: *Diane*

I am writing today to share my concerns regarding the National Flood Insurance Program (NFIP). My hope is that this information will be used to help protect your citizens from problems that Maryland flood victims have endured for nearly eighteen months.

Immediately following Hurricane Isabel, my office received complaints from citizens of low-balling and other problems with NFIP claims. Although the Maryland Insurance Administration lacks jurisdiction over the program, we nevertheless conducted an exhaustive investigation. I share the concerns of Congresswoman Jo Ann Davis detailed in the attached letter to President Bush. I also share her view that congressional intervention is required and have urged Congressman Michael Oxley, Chairman of the House Financial Services Committee, to investigate the policy sales, use of premiums, and claims handling practices carried out by the NFIP, its contractors and business partners.

Particularly troubling is a training disparity found by pattern recognition and fraud detection expert, Mr. Steven Kanstoroom. Mr. Kanstoroom has been investigating FEMA related issues for the past year. He received significant materials from government and industry whistleblowers after being recognized by the Federal Insurance Administrator as an expert on the NFIP. He discovered the NFIP's private contractor trains sales agents to tell victims they will be restored to their pre-flood condition while simultaneously training claims adjusters to allow only narrowly defined coverage in limited amounts. Recently the sales agent training, as reported, was attested to by a Maryland insurance broker.

Equally troubling is an alleged conflict of interest involving the flood insurance industry lawyer. His attached congressional testimony makes clear he represents every private insurance carrier writing flood insurance, yet simultaneously he also trains the NFIP sales agents, general adjusters and Department of Homeland Security Office of the Inspector General agents.

We have heard of many cases where Maryland victims received incorrect policy information from people they believed to be federal officials, yet who were actually government contractors often wearing blue FEMA jackets. This apparent misinformation in many cases concerned key policy rights and ultimately led to the detriment of the victims by way of low-balling or otherwise wrongfully denied coverage. Since many victims had no reason to doubt apparent government officials, they never complained. In addition, we have heard reports that these same contractors led victims to believe that contested claims could result in reduced payments, thereby also leaving victims fearful of filing official complaints.

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**National Flood Insurance Program**

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We have also had allegations where victims were told: a) their RCV policies are subject to depreciation; b) they are not entitled to sales tax; c) the policy only pays for items directly contacted by flood waters, and d) the NFIP is free to use new construction prices in lieu of more costly repair and renovation prices. As a result, Maryland has been left with many families unable to rebuild their homes and lives after receiving pennies on the dollar for their flood claims. Many remain trapped in FEMA campers seventeen months after their catastrophic loss.

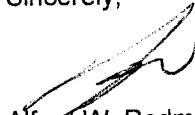
Last month I sent a letter to Maryland victims who had filed NFIP complaints with us. The letter included avenues available for relief, including a class action lawsuit and a potential multi-plaintiff action.

A website for victims has been developed by Mr. Kanstoroom that contains details regarding all of the information contained in this letter. He informed me that the site is receiving identical complaints from victims in numerous states. Copies of congressional calls for investigations and other materials can be viewed on his site at [www.femainfo.us](http://www.femainfo.us). The Maryland Insurance Administration is not affiliated in any way with Mr. Kanstoroom. However, I have met with him on many occasions on these issues and I encourage you to contact him if you have questions as well regarding the NFIP. Mr. Kanstoroom may be contacted at 301 503-6078 or [sjk@femainfo.us](mailto:sjk@femainfo.us).

At the Spring Conference of the National Association of Insurance Commissioners in Salt Lake City, the Government Affairs Task Force approved the formation of a work group to review matters related to the NFIP. As I am co-chairman of the task force, please contact me if you are interested in participating on this work group.

Thank you for your time and attention to this matter. I hope you will join these efforts to remedy the serious issues brought to our attention. If you have any questions or comments, please feel free to contact me directly at 410 468-2090 or [aredmer@mdinsurance.state.md.us](mailto:aredmer@mdinsurance.state.md.us).

Sincerely,



Alfred W. Redmer, Jr.  
Commissioner, MD Insurance Administration

Enclosures