



Consumer Federation of America

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**CONSUMER ORGANIZATIONS CALL ON INSURANCE COMMISSIONERS TO  
PROTECT HOMEOWNERS DEVASTATED BY HURRICANE KATRINA**

*-- Urge Fair Claims Handling, Rate Freeze, Ban on Use of Credit Scoring--*

The nation's leading consumer organizations have called on the insurance commissioners of Alabama, Louisiana, Mississippi and Texas to act immediately to protect insurance consumers in the wake of Hurricane Katrina. In their letter dated September 16, 2005, the Consumer Federation of America and Consumers Union urged insurance commissioners to be prepared to take steps that are even more important as Hurricane Rita approaches the Gulf Coast. The letter is available at [http://www.consumerfed.org/pdfs/Hurricane\\_Katrina\\_Commissioners\\_letter091605.pdf](http://www.consumerfed.org/pdfs/Hurricane_Katrina_Commissioners_letter091605.pdf) and <http://www.consumersunion.org/pdf/katrina-insurance.pdf>.

Among their key requests, the groups called on the commissioners to closely monitor insurance companies to ensure that they are fairly allocating claims between wind losses, which insurers must pay, and flood damage, which is either not insured or is covered by the federal flood insurance program. CFA has also asked the Federal Emergency Management Agency (FEMA) to examine the fairness of allocations made by insurance companies adjusting both wind claims and flood claims.

"Insurers have a clear financial incentive to avoid paying legitimate claims by contending that the losses are flood related," said J. Robert Hunter, Director of Insurance for CFA, former Texas Insurance Commissioner and former Administrator of the National Flood Insurance Program. "Unless insurance commissioners carefully monitor the way that insurance companies are adjusting claims, this conflict-of-interest could leave homeowners high and dry in addition to forcing taxpayers to pay too much," said Hunter. He added that CFA will be asking the General Accountability Office to audit the claims process.

The consumer groups also encouraged commissioners to put systems in place to assure prompt and fair claims handling. Given the scale of the losses from the storm, if insurance companies devote insufficient resources to claims handling, delays or unfair denials of claims may result and carry harsh consequences for families, rebuilding efforts and economic recovery in general.

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“Insurance commissioners should require insurers to report progress every 30 days and, once a claim goes unresolved for a certain period of time, executives should be ordered to explain delays in public hearings,” said Norma Garcia, a Senior Attorney at Consumers Union.

Citing the conduct of Allstate Insurance Company after Hurricane Andrew as an example, the groups called on the commissioners to urge their legislatures to be prepared to enact moratoria to prevent insurers from threatening non-renewal of homeowners’ policies.

They also recommended a freeze on rate increases during any short-term non-competitive phase of the insurance business cycle that may follow the hurricane.

“Insurers moved to the use of scientific models projecting thousands of years of weather ‘experience’ in the aftermath of Hurricane Andrew,” said Hunter. “This means that homeowners should not see a major increase in insurance premiums simply because of one particular hurricane or one season of storms.”

As many residents relocate, insurance commissioners in states housing Katrina evacuees should take steps now to require that insurance scoring models exclude economic impacts from the hurricane, so victims can buy the kinds of essential insurance products necessary to get on with their lives, the groups noted.

The organizations also urged commissioners to closely monitor the claims process for those consumers with no flood insurance. Commissioners should require insurers to resolve ambiguous policy language regarding the extent of flood coverage in favor of homeowners.

“There is strong evidence that high winds played a role in the breaching of levees in New Orleans and in aggravating the storm surge throughout the Gulf Coast,” said Garcia. “Insurers must be required to carefully consider the degree to which wind was the proximate cause of the damage and to adjust the payments they make to policyholders accordingly,” she maintained.

*CFA is a non-profit association of more than 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.*

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