



Consumer Federation of America

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NATIONAL FLOOD INSURANCE PROGRAM FACES \$8 BILLION IN PAYOUTS WITH ONLY \$4 BILLION IN FUNDS TODAY – CONGRESS WILL HAVE TO ACT

What Consumers Should Do To Get Fair Claims Payments in the Wake of Hurricane Sandy

Washington, D.C. -- The Consumer Federation of America (CFA) estimates that Hurricane Sandy could result in 200,000 thousand claims for wind damage and another 200,000 claims for flood damage. Claims of this volume will likely exhaust the National Flood Insurance Program and require Congress to move quickly and pass a supplemental authorization for the program to meet its obligations. Given the large number of claims that will likely result from this severe weather event, the CFA urges consumers to be vigilant during the claims process to ensure they receive the entire amount owed in a timely fashion.

FLOOD CLAIMS WILL LIKELY EXCEED EXISTING PAYMENT AUTHORITY

Modeling companies estimate overall damage at approximately \$50 billion, with insurance funding well under half of that, about 40 percent. Payments by private insurers for wind damage to homes and business properties from Hurricane Sandy will likely exceed \$10 billion dollars. Flood claims paid by the National Flood Insurance Program (NFIP) will be at least \$8 billion dollars and will likely exceed \$10 billion, exhausting the NFIP's existing \$4 billion in payment authority. To make up this shortage, FEMA is authorized to borrow up to \$500,000 with an additional \$1 billion available with Presidential approval.

“Even combined, these borrowings will be insufficient to pay all flood claims related to Hurricane Sandy,” said J. Robert Hunter, Director of Insurance for CFA and former Federal Insurance Administrator and Texas Insurance Commissioner. “A Congressional supplemental authorization for additional borrowing will be necessary for the program to meet its obligations.”

HOW CONSUMERS CAN MAKE SURE THEY GET A FAIR CLAIM PAYMENT

- Report your claim as promptly as possible as insurance companies generally handle them first come, first serve.
- Once your claim is reported, be sure to get your claim number and write it down. Insurance company claims departments can locate your file easiest by your claim number.
- When the insurance company sends out an adjuster to survey your damage, ask if he/she is an employee of the insurance company or an independent adjuster (I.A.) hired by them. If an independent adjuster, try to secure the name of the actual company adjuster that the I.A. is sending your information to or are they authorized to make claim decisions and payments on behalf of your insurance company.

KEEP GOOD RECORDS

When you file a claim, you should immediately start a notebook documenting contacts with your insurance company. List the date, time and a brief description of the exchange. If you need to complain later, this information will be vital (see below). If an adjuster says he or she will come and does not, write it down. If an adjuster is rude, write it down.

Get out your inventory of possessions or try, at once, to list your possessions. Take pictures of your possessions before the storm and keep them in a safe place. If you later realize you have no pictures when you file a claim, don't forget that your family likely has pictures of rooms in your house (for example, from holiday or other celebrations) that can be helpful in recreating a list of your belongings.

Obtain a repair estimate from a trusted local contractor to use as a guide in talking with the adjuster. Keep receipts from emergency repairs and any costs you incur in temporary housing. This may be reimbursable under the "Additional Living Expense" portion of your homeowners' policy.

You may be entitled to money up-front for living expenses, such as hotel costs, if your home becomes uninhabitable. Insurers are usually very good about these initial payments, while the media is focused on the hurricane aftermath. Most claims problems, if they arise, come later, when bigger payments are sought.

DECIDING WHETHER TO FILE A CLAIM

You have paid your premium and are entitled to coverage. If you have a legitimate claim, do not hesitate to file it. Insurers treated many people poorly who filed claims for damages caused by Hurricane Katrina. For example, after Hurricane Katrina, insurers pulled back from offering coverage along the coasts, dumping people into higher priced, state run insurance pools. They also cut coverage and raised rates substantially. However, this should not deter you from seeking fair compensation for losses caused by Hurricane Sandy. Indeed, insurers should face greater scrutiny by regulators because of the serious claims problems that occurred after Hurricane Katrina. CFA is calling on state regulators not only to closely monitor insurers to prevent claims abuses but to stop insurers from moving unjustifiably after claims are paid to increase rates and cut back on the coverage they offer. There is no reason, actuarially, for insurers to raise rates or cut back coverage due to Hurricane Sandy, which is a storm well within the projections of insurers' current rate schedules. Insurers have already raised prices and cut back coverage along the East Coast of America and no further price or coverage action is called for.

Consumers must also act to protect themselves. To do this, consumers must stand together and agree not to buy auto insurance and other coverage from any insurance company that refuses to renew policies with consumers who make claims related to Hurricane Sandy. Consumers stood together after Hurricane Andrew, persuading Florida to pass a moratorium on the non-renewal of policies and to look carefully at rate increase applications. Consumers should fight any attempt to use hurricane claims as an excuse not to renew homeowners' policies and should complain to state regulators to assure that insurers do not take such actions.

WHAT IF THE CLAIM IS DENIED OR THE OFFER IS TOO LOW?

If the claim is denied or you feel the offer is too low, demand that the company identify the language in your homeowners' policy that served as the basis for denying your claim or offering so little. This approach has a number of benefits:

- The company may be right and you may not know it. Once they pinpoint the appropriate language in the policy, you should be able to make this determination. For example, you may have \$400 in damage, but the company could well point out that you have agreed to a \$500 deductible.

- The company may have slipped new limitations into the policy and not adequately informed you. If you feel that you have been misled in this regard, it might be a good idea to consult an attorney. The introduction of percentage deductibles (up to 10 percent of the value of a home) will greatly shift the cost of Hurricane Sandy from insurance companies to insurance consumers, as compared to earlier storms. The practice of shifting the cost of previously insured events back to consumers is acceptable, as long as consumers are clearly given the option to select the level of coverage they want with fully informed consent.
- Another restriction new to many policies is a limit on replacement cost payments, which might come into play in the event that a home is totally destroyed. A typical cap is 20 percent above the face value of the policy. If costs surge because of the spike in demand in materials or labor from a major storm like Hurricane Sandy (or if the state does not monitor price gouging sufficiently) this limit might apply. For example, if a home would cost \$200,000 to replace and that amount was the limit on the policy, the insurance company would pay no more than 20 percent more, or \$240,000. If the surge in construction costs due to extreme demand caused the price of replacing the home to jump to \$300,000, the homeowner would be short \$60,000.
- Once the insurance company tells you the reasons for its action, it cannot produce new reasons for denying payment or making a low offer at a later time. You have locked them in—a major advantage for the consumer.
- If you review the policy and find that, under a reasonable reading, you think you are entitled to the full amount of your claim as you read the language they relied upon, you will likely win if you go to court. Courts consistently rule that if an insurance policy is ambiguous, the reasonable expectation of the insured party will prevail since the consumer played no part in writing the language of the insurance policy.

HOW/WHERE DO I COMPLAIN?

If you feel that the offer is too low or the claim denial is wrong, the best process for getting your complaint resolved is as follows:

- Complain to more senior staff in the insurance company. Use the records you have kept since the claim process began. The more serious the insurance company sees that you are in documenting how you were treated, the more likely they will make a more reasonable offer.
- Complain to your state insurance department. All states will at least seek a response to your complaint from your company. A few states may actually intervene on your behalf with the insurance company in clear cases of bad claims handling. It is important to dispassionately present your side of the story, using the notes you have been taking.
- See a lawyer. Now the notes you took are vital. In addition to an award covering your claim, if your treatment was particularly bad, the courts in many states will allow additional compensation when the insurance company acted in “bad faith.” Since insurance companies take your money in exchange for their promise to make you whole when disaster strikes, they must act in utmost good faith in performing that obligation.

WHAT ISN'T COVERED IN THE HOMEOWNERS' POLICY?

Homeowners' policies do not cover flood, earthquake, tree removal (except when the tree damages the house) or food spoilage from power failures. Some insurers use an "anti-concurrent-causation" clause in their policies that, insurers allege, removes coverage for wind damage if a flood happens at about the same time. CFA believes that these clauses are ambiguous, so if an insurer uses such a clause to deny your claim, read the provision carefully to see if you think it is ambiguous and, if so, see an attorney right away.

DO I USE THE SAME METHODS FOR A FLOOD INSURANCE CLAIM?

The federal government underwrites flood insurance coverage, although insurance companies often service claims. Follow the same procedures as above, except direct complaints to the Federal Emergency Management Agency, the government agency responsible for running the federal flood insurance program (1-800-427-4219, TDD# 1-800-427-5593). The FEMA flood insurance program tips on handling claims are located at http://www.floodsmart.gov/floodsmart/pdfs/claims_tips.html.

Since the National Flood Insurance Program (NFIP) is paid for by taxpayers, and often the same insurance company will handle the claim for both the wind and the flood damage, it is very important that consumers verify that insurers do not attribute an unjustifiably large portion of the losses they experience to flood damage. Consumers must be the first line of defense against insurers shifting costs for wind losses to the NFIP. If you see such potential abuse by insurers, contact your U.S. Representative and Senators so that they can make sure that taxpayers are protected.

"Not all insurance companies handle claims badly, so go into the claims process with an open mind," said Hunter. "Be vigilant though, or you run the real risk of being shortchanged," he concluded.

The Consumer Federation of America is an association of nearly 300 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.