

Appeals process for flood insurance claims needs work: Senate probe

Reuters

The U.S. government's appeals process for reviewing flood insurance claim disputes is riddled with flaws, but there is no evidence of systematic underpayments by insurers to flood victims, an investigation by U.S. Senate staffers has found. "Despite widespread concerns, it does not appear that systematic incentives exist for any participant in the program to underpay on claims," according to a copy of a draft overview of the Senate Banking Committee's investigation reviewed by Reuters. The panel's investigators presented the overview of their findings to committee member staffers on Friday afternoon. A copy of the final report will be released on Tuesday, followed by a public hearing on Wednesday. The Senate Banking Committee's investigation was fueled by allegations of widespread underpayment of claims to the victims of Hurricane Sandy, a 2012 Atlantic storm that generated 144,484 flood insurance claims and caused more than \$68 billion in damage. Last year, numerous flood victims filed lawsuits alleging that insurers and engineering firms had doctored reports about the causes of damage to their homes in an effort to reduce insurance payouts. In response, the Federal Emergency Management Agency (FEMA), which oversees the flood insurance program, created a task force to review the victims' claims, settle pending litigation and reform the flood insurance program. New York and New Jersey's state attorneys general, along with the Department of Homeland Security's inspector general, are conducting criminal investigations into the matter. Tuesday's report will be the first by a group of new investigators hired recently by Senate Banking Committee Chairman Richard Shelby, an Alabama Republican. The probe did not examine specific allegations of fraud by victims. It focused on the structure and management of FEMA's flood insurance program. Using FEMA audit data, investigators did not detect any evidence that the system creates incentives for write-your-own insurance carriers or other vendors to reduce payouts to victims. In addition, data on Sandy flood claims that were re-inspected by a second adjuster showed "low overall error rates." Investigators believe underpayments that did occur can likely be attributed to the "scale of Sandy," which overwhelmed the program and outstripped the number of engineers and adjusters available to handle claims, the overview says. The report will call on FEMA to improve how it

plans for similar future catastrophes to help reduce problems with the claims process. The report will also take aim at the appeals process, because FEMA does not force write-your-own insurance carriers to increase payments to policyholders, even when the agency believes it is appropriate, or track the outcomes of appeals. In the case of Sandy, FEMA is now requiring that people who were underpaid be made whole. The report will say this is unfair to victims in other disasters, such as the recent Texas and Oklahoma floods, because they do not have the same recourse. A FEMA spokesman, Rafael Lemaitre, said the agency looks forward to seeing the Senate report. "We share the same concerns Congress has about underpayments or claims of fraud, regardless of whether they are systematic or not," he said. The panel's investigators will call for a better appeals process that will permit "mandatory payments" when FEMA officials side with policyholders, stronger internal record-keeping and better processes for correcting errors. Since the recent floods in Texas and Oklahoma, FEMA has taken some steps to cut red tape, including a new telephone hotline for victims to report problems. Victims of those recent floods also have more time to file proof-of-loss claims, and insurance companies were instructed to make certain advance payments for claims of \$5,000 or less.