N.Y. opens criminal probe into rejected Sandy claims

Property Casualty 360

New York's attorney general has opened a criminal probe into accusations by Hurricane Sandy victims that insurance companies rejected claims for flood damage to their properties based on falsified engineering reports, a person familiar with the matter said.New York homeowners have filed at least three lawsuits in federal court accusing the insurers which contract with the government's National Flood Insurance Program of scheming with engineering firms, and others involved in handling claims to deny or reduce damage payouts based on fraudulently manipulated reports. The state's attorney general, Eric Schneiderman, has begun an investigation into whether any crimes were committed, said the person, who declined to be named because the information isn't public.Sandy, the largest Atlantic hurricane on record, caused about $60 billion in damage in New Jersey, New York and Connecticut when it struck in October 2012. It killed more than 100 people in the U.S. and triggered the worst flooding in the more than 100-year history of the New York City subway system. A federal magistrate judge in Central Islip, New York, told insurance companies, including Wright National Flood Insurance Co., and units of Travelers Cos. and Hartford Financial Services Group Inc., to disclose draft reports to hundreds of policyholders litigating over their claims related to the storm.U.S. Magistrate Judge Gary R. Brown said in his November ruling he found signs of "unprincipled practices" in the handling of engineering reports for a Long Beach, New York, homeowner. He said he feared the practice was "widespread."Flood InsuranceThe insurers participated in a program through which they provided flood insurance underwritten by the federal government. Homeowners said the insurers took part in the scheme to avoid federal audits and possible financial penalties for making payouts that were overly generous. The companies also sought to inflate claims-handling expenses that would be borne by the government, according to the complaints.In response to pressure from New York and New Jersey lawmakers, Federal Emergency Management Agency Administrator W. Craig Fugate on Dec. 5 urged private companies participating in the flood insurance program to turn over the draft reports for Sandy claims in litigation in New York and other states. FEMA oversees the government's flood insurance program.Thomas Hambrick,

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a spokesman for Connecticut-based Hartford, and Patrick Linehan, a Travelers spokesman, didn't immediately respond to e-mails seeking comment on the probe. Kelly Nugent, a spokeswoman for Wright, also didn't immediately respond to an e-mail seeking comment.—BY CHRISTIE SMYTHE

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