

## Most of flood insurance revenue is not going to pay claims

by al.com

WASHINGTON — Across the country, federal flood insurance policyholders ponied up more than \$3 billion in premiums to protect their homes and businesses in the last fiscal year. Less than half of that money was set aside to pay claims for actual flood losses, according to government figures.

Instead, the Federal Emergency Management Agency spent almost \$1.5 billion to cover overhead in two areas: interest on the program's debt to the federal treasury, and compensation to the insurance companies that largely run the program day to day. Other costs included taxes and grants.

About \$1.4 billion went for claims, reserves and adjustment expenses, according to figures supplied by FEMA at the Press-Register's request.

Three and a half years after Hurricane Katrina swamped the program with claims, the numbers offer a snapshot of its continuing struggle to recover.

Created in 1968 because private insurers were reluctant to cover water damage, the initiative, formally known as the National Flood Insurance Program (NFIP) was generally self-supporting for much of its history. Now, it is considered effectively bankrupt.

As Hurricane Ike and other recent storms have spawned more losses, the program's borrowing from the treasury has crossed the \$19 billion mark. Last month, President Barack Obama's administration urged Congress to forgive that debt or face the possibility that interest payments will eventually consume every dime in premium revenue.

So far, lawmakers have deadlocked on the specifics of a remedy. The flood program formally expired last fall, and Congress has since approved only a stopgap measure to keep it going through this September.

In Alabama and Mississippi, the NFIP has more than 130,000 policies, the bulk of them in coastal counties. As elsewhere in the country, most are handled by private insurers under what is known as the "Write Your Own" arrangement, begun in 1983.

Those insurers sell policies and adjust claims on FEMA's behalf.

Participants include State Farm, Allstate and other industry giants, as well as smaller players such as Baldwin Mutual Insurance Co., according to FEMA's Web site. In return, FEMA has traditionally paid participating companies under a formula that includes money for agent commissions, operating expenses, bonuses and adjusting claims, according to a 2007 review by the Government Accountability Office, a congressional watchdog agency.

In that review, the GAO found that the partnership had helped to settle an unprecedented number of claims "reasonably quickly" after Katrina and other 2005 storms.

But they also concluded that FEMA's approach to compensating companies had not changed significantly since 1983 and that the agency did not know whether those payments bore any relation to true costs.

They recommended that FEMA ensure that its payment schedule was based on "a reasonable estimate" of costs and that the agency do a better job of following up on audits that the insurers are required to submit every two years.

Since then, FEMA is now tracking those audits and is also working with the National Association of Insurance Commissioners, an association of state regulators, to ensure consistency in the way that companies "compile and report data on expenses related to their federal flood business," spokesman Butch Kinerney said in an e-mail.

Nonetheless, the audit requirement, now a FEMA regulation, should be written into law, said Brian Martin, policy director for Mississippi U.S. Rep. Gene Taylor, D-Bay St. Louis.

Taylor has also charged that the Write Your Own arrangement creates an incentive for insurers to attribute as many claims as possible to flooding. Industry representatives have denied any cost-shifting.

On the compensation issue, Martin said, the flood program is obviously not underpaying "because the insurance companies aren't screaming to change the formula."

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