

Insurance Limbo Delays Gulf Rebuilding

By RUKMINI CALLIMACHI AP

NEW ORLEANS - The owners of the sagging, flood-stained home aren't in. Above the front door, a banner explains their absence, and the lack of progress: "Allstate paid \$10,113.34 on this house for storm damage."

Like the home next to it and the one after that, the house was disemboweled nine months ago by Hurricane Katrina. The force of the gushing water punched the refrigerator into the kitchen wall, and it still sits leaning through the house's broken ribcage. Inside, mud has hardened into a crusty carpet, covering a designer sofa and a leather swivel chair.

"I want people to drive by my home and decide for themselves: Could I repair this for \$10,000?" asks Eric Moskau, the home's exiled owner who had over \$1.2 million in coverage on his 3,000-square-foot home.

Behind the sign he hung from his porch is a story all-too-common in this once-posh neighborhood of pummeled homes: Even New Orleans' affluent homeowners, who thought they had done the right thing by properly insuring their investment, are finding that technicalities are keeping them from securing enough from their insurers to rebuild.

The insurance industry says it has settled over 90 percent of its Hurricane Katrina claims, proving it's meeting its obligations to policyholders. But consumer advocates say insurers settled numerous claims for only a fraction of the actual damages, using numerous exclusions to reduce payouts. Insurance modeling firm ISO estimates Louisiana had \$24.3 billion in insured losses, but the

state department of insurance says only \$12.5 billion had been paid out as of the end of April, the last month for which figures were available.

Without enough money from their insurers to rebuild, homeowners are left with two choices: Give up and leave, or else rebuild by hand, using their savings to pay for labor and materials.

"It's basically self-insurance," said Moskau, who had what he thought was plenty of coverage on his \$600,000 two-story house and now counts himself among those who has abandoned his home on once-stylish Bellaire Avenue.

Exactly 63 buckled, warped and mud-filled homes separate Moskau from the nearest neighbor who is now repairing his home. "With this," says 79-year-old Pascal Warner, holding up his large, lined hands, as the light streams in through the ribs of his still unfinished walls.

He and his 71-year-old wife, Irma, have dragged their sopping furniture to the curb, ripped the wet wallboard off the walls and stripped the house to the studs. With only a pittance from their homeowner's insurance, they had just enough money for supplies, not labor.

After last year's floodwaters receded, politicians initially blamed the residents of this below-sea-level city, claiming too few had purchased federal flood insurance on top of their homeowners policies, which cover only wind damage.

Yet an analysis by the office of Donald Powell, the Bush administration's Gulf Coast recovery

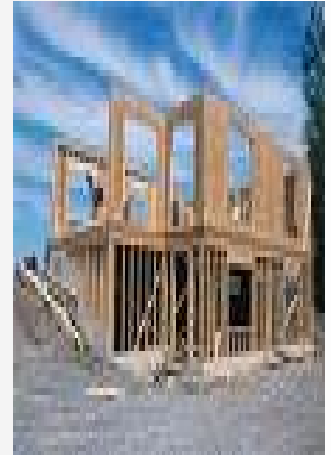
czar, found few communities were better insured against flooding than New Orleans: Two out of three homes had flood insurance, 13 times more than the national average of 5 percent. It's also far more than in many other communities historically prone to flooding. For example, Harris County, Texas, has one of the highest rates of repetitive flooding in the nation and yet only a quarter of homeowners have flood coverage.

Moskau, a well-to-do real estate appraiser, thought he had taken every precaution: He had the maximum federal flood insurance of \$250,000. But when the government issued that check, it was issued in two names: Moskau's and his bank's. His bank applied the check to his \$600,000 mortgage, leaving him with an outstanding note of \$350,000 and no money for repairs.

According to a spokesman at Freddie Mac, which over the last five years has bought over \$7.5 billion in mortgages in Louisiana, banks are required to put insurance checks into an escrow account, disbursing the funds as repairs are completed. An exception is allowed if the home is in an area where rebuilding has been prohibited. In that case, the insurance check can be applied to the outstanding mortgage, said spokesman Brad German.

Flanking one of the city's buckled levees, portions of Bellaire Avenue are still in rebuilding limbo.

Warner, who has lived in the same ranch-style house for 40 years, had just \$3,000 after his flood insurance settlement was



Continued on page 17

Insurance Limbo continued from page 10

used to pay off his remaining mortgage. He also received around \$18,000 from his homeowners for wind damage, enough for construction materials but not labor.

Moskau's house, like most on Bellaire, swallowed less than 6 feet of water. It was enough to destroy the first floor, but not the second. The second floor, however, got wet, too. Water seeped in through the vents, pushed in by the hurricane's 140 mile-per-hour winds, he said. The roof was damaged and windows were punched out - damage, says Moskau, which should be covered under the wind-only policy. Allstate told him it was all due to flooding.

"I agree that the first floor flooded. I used to be an insurance adjuster and I know the rules, so I didn't expect Allstate to pay me for that. But the second floor clearly didn't. So shouldn't I at least get 50 percent of my policy?" asked Moskau. He said that would be enough to pay off the mortgage and cover much of the rebuilding cost.

The CEOs of the State Farm Insurance Co. and Allstate Corp., the nation's No. 1 and No. 2 insurers, declined to discuss specific claims. Together, they control half the insurance market in Louisiana.

"When you track our claim satisfaction, it is very high in those areas. Ninety-three to 94 percent of our Katrina claims have been settled," said Allstate CEO Edward M. Liddy.

That hasn't stopped critical reviews by insurance regulators and lawsuits by policyholders.

Louisiana's top insurance regulator recently ordered reviews of consumer complaints regarding Allstate and St. Paul Travelers Cos. In District Court in New Orleans, a class action lawsuit was filed last month against 15 insurers, claiming they capriciously denied claims.

In Mississippi, U.S. Sen. Trent Lott, whose Pascagoula home was torn off its foundation, is joining hundreds of his constituents in suing State Farm for unpaid wind damage.

Part of what really rankles consumers is the record profits property-and-casualty insurers are posting despite the unprecedented losses inflicted by Katrina.

The industry cleared a \$43 billion profit in 2005, an 11.7 percent increase over the previous year and a 15-year high, according to the trade group, the Insurance Information Institute.

"I would say it's definitely good times in the property-and-casualty insurance industry," said Donald Light, a senior analyst at Celent LLC, a research and consulting firm.

But insurers say the profit numbers are only half the story: Nearly half the \$58 billion in insured losses along the Gulf Coast resulting from last year's hurricanes were absorbed by reinsurers, companies that insure insurance companies.

Those same reinsurers are now jacking the rates they charge insurance companies by an average 80 percent in coastal regions, according to an analysis by Guy Carpenter & Co., a division of insurance-brokerage firm Marsh & McLennan Cos.

For some companies, the price has tripled: Allstate will spend \$600 million on reinsurance this year, compared to under \$200 million in 2005. To offset that cost, Allstate announced plans to seek premium increases in a majority of the 49 states in which it operates. It also canceled 30,000 policies in coastal counties of New York, including Brooklyn, even though a major hurricane has not hit there since 1938.

In the past year in Florida, insurers have left the state by the dozen, while those that are staying are seeking steep rate increases. State Farm is seeking a 70 percent hike in premiums.

"We're paying the price for hurricanes that hit thousands of miles away from New England," said George A. Cole III, Senior Vice President of Massachusetts-based Hingham Mutual. Cole explained that the company had no choice but to cancel 6,500 of their customers, most on Cape Cod, after being hit with a 50 percent rate increase from their own reinsurer.

Back in New Orleans, homeowners fight over money and the fret over deep financial losses is taking an emotional toll.

Moskau, who is living in Idaho with his wife and two boys, literally hasn't been able to sit still since Allstate cut him the check for \$10,113.34 several months ago. He still does not know what to do with his buckled home, for which he is still paying a \$3,500-a-month mortgage, and is instead making plans to build a new house an hour's drive outside New Orleans.

"My wife is always telling me, 'Will you please stop moving your foot?' We'll be sitting at the lunch table and the whole thing is moving," he said. "All from the anxiety."



When your insurance claim is unresolved, you are totally trapped in limbo. Most people cannot even begin to put their lives back until they are compensated for their loss. It's not limbo. It's hell.