

POLICYHOLDER ADVOCATE: SPECIAL REPORT ON KATRINA

WITHOUT FLOOD INSURANCE? POA TACKLES THE BLAME GAME AND WHAT'S TO COME.

A POA exclusive:

Three words insurance companies love are: ***It's not covered.***

Policyholders in areas hit hard by Katrina are hearing these three words a lot lately. Many didn't buy flood insurance simply because they did not know they lived in a flood prone area.

Those who live in flood zones are required, by their mortgage companies, to have flood insurance. If you don't live in a flood zone, your mortgage company won't require it just like people living in areas not near faults are not required to carry earthquake insurance.

Not in a "flood zone".

New Orleans is essentially a bowl ringed by levees that protect the city from the Mississippi River to its south and Lake Pontchartrain to the north. The bottom of the bowl is 14 feet below sea level, and efforts to keep it dry only dug it deeper. Much of the devastation in New Orleans was caused by breaches in the levees, which sent water from Lake Pontchartrain pouring into the city.

According to records, experts say that much of New Orleans, believe it or not, is NOT in a flood zone. This gave homeowners there a false sense of security as they believed the levees (built by the Army Corps of Engineers – which is a federal not state entity) would do their job and hold back surges.

What we have now learned is that, years ago, experts were issuing warnings that the levees would break and the city would flood if a strong storm surge hit the area. In EARLY 2001 (before 9-11), the Federal Emergency Management Agency ("FEMA") ranked the potential damage to New Orleans as among the three likeliest, most catastrophic disasters facing this country. The other two? A massive earthquake in San Francisco and a terrorist attack in New York City.



Stealing from Peter to Pay Paul

Despite continuous warnings that a catastrophic hurricane could hit New Orleans, the Bush administration and the Republican-controlled Congress in recent years have repeatedly denied enough funding for hurricane preparation and flood control.

The funding, or lack thereof, delayed construction of levees around the city and stymied an ambitious project to improve drainage in New Orleans' neighborhoods.

For instance, the U.S. Army Corps of Engineers requested

\$27 million for this fiscal year (long before this season's hurricane season began) to pay for hurricane-protection projects around Lake Pontchartrain. The Bush administration countered with \$3.9 million, and Congress eventually provided \$5.7 million. .

Because of the shortfalls, caused in large part by the rising costs of the war in Iraq, the corps delayed seven contracts that included enlarging the levees, according to corps documents.

In yet another request made well before this year's hurricane season, the Army Corps requested \$78 million for projects that would improve draining and prevent flooding in New Orleans. The Bush administration's budget provided \$30 million for the projects, and Congress ultimately approved \$36.5 million.

The redirection of funds away from American citizens to fund the war in Iraq left New Orleans vulnerable to any sort of storm at a time when experts (and POA) promised an active hurricane season.

Perhaps of greater import is the negligence of the Feds who neither warned mortgage companies nor homeowners that properties were vulnerable to flooding (even in previously dry areas) if their doomsday predictions rang true. Had such an alert been issued, homeowners would have known to secure flood insurance rather than be lulled into a false sense of security.

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We put all blame on the Feds for their negligence and silence.

Was it a "race thing"?

While racial undertones are percolating, one thing is clear: the socioeconomic fabric of the area hardest hit did not register on the Bush Administration's radar screen. If Greenwich, CT was about to be underwater, you can bet the levees would have been secured. Of course, Greenwich is a wealthy community, as a rule, New Orleans is not.

Racists on both sides seem intent on making the New Orleans disaster a "black thing". Etched into the minds of ignorant wannabe Klansmen are snapshots of all black looters, propelling predisposed prejudices. On the other side, certain black antagonists want to rally their constituents by claiming the Bush Administration's incompetence was meant to target only blacks. As students of this Administration, we have no doubt that it's a "class thing" not a "black thing". Bush has proven he cares not for anyone under a certain income level, be they white, brown, black, or green.

The "perfect storm"

The problem is that there are a lot of poor people displaced and dispersed in groups all over the country to camps established for displaced victims. When people or animals are herded and caged up in small environments, they tend to rebel. And, a series of rebellions (a.k.a. riots) is not only likely but contagious and will spread to other cities. We give it six months, maybe less.

Adding to the general population's outrage and angst are higher oil and natural gas prices which will impact heating and gasoline prices all over

the country. Southern Louisiana produces one-fifth of the country's oil and one-quarter of its natural gas. If you don't think YOU will be paying higher gas and heating rates this winter, think again.

Who had the shrimp salad? Who had the chicken salad?

Homeowners are just now returning to address the damage to their homes and businesses. They hear those three favorite words ("It's not covered!") and some accept it as gospel. Don't.

If wind and driving rain caused the damage, that damage is nearly always covered under the homeowners policy. Flood insurance only covers rising surface water NOT damage caused by wind and/or driving rain. Vandalism is also covered under the standard homeowners policy. The key is to determine what damage was caused by what aspect of the storm and fight for the coverage that you did purchase if driving wind and rain caused even a portion of the damage.

Know the devil you're dealing with.

Interestingly enough, many times the same adjuster wears two hats. Insurance companies often do what is referred to as "write your own" flood policies. Using Allstate simply as an example, Allstate can sell Allstate homeowners policies as well as write and service flood policies underwritten by FEMA (National Flood Program). Allstate, like any other "write your own" carrier, is paid a fee (usually 30%) to service (sell policies and adjust claims if and when flood claims are filed) and the National Flood Program gets the balance of the premium and is responsible for paying claims made against a flood policy. If a flood claim is filed, in the case where the homeowner purchased an Allstate homeowners policy as well as a flood policy underwritten by the National Flood Program, it is the Allstate adjuster who will come out to adjust both flood and non-flood claims. When flood insurance is in place and if and when a flood claim is made, FEMA (National Flood Program) will

pay the flood claim and damage done by perils covered under the Allstate policy are paid for by Allstate.

Since many staff adjusters bonuses and pay raises are based on claim payments made by their company (in this case, Allstate) it is to the staff adjuster's benefit to dump onto Uncle Sam as much financial liability as possible. It is also common for a staff adjuster to lowball claims paid by FEMA in the same way he or she lowballs claims made under the Allstate policy. After all, you cannot authorize payment of a different amount for the same repair. It would look mighty suspicious if an Allstate adjuster paid out \$10 per linear yard for plywood for a homeowners policy claim and \$40 per linear yard for a flood claim paid by Uncle Sam. So, in our example, the Allstate adjuster pays out \$10 per linear yard for both claims.

The "bottom line"

Katrina may not only be the downfall of Dubbya but may also dash all hope for a 2008 Republican victory. The middle class will feel a lot more than a pinch from higher prices paid at the pumps and to heat their homes, causing an uproar. Racial tensions are flaring and the chances for rioting in cities across the country are high. And, insurers will put the screws to homeowners with or without flood coverage.

While POA cannot do anything about some of these things, we can help guide policyholders to receive legitimate payments for claims made. And, we do so for free for our members.