



Consumer Federation of America

November 18, 2004

Mr. Steven J. Kanstoroom
[REDACTED]

Re: Flood Insurance Claims Practices

Dear Mr. Kanstoroom:

Thank you for your recent letter.

I served in the Federal Insurance Administration from 1971 to 1980. I held several jobs, including being Chief Actuary, Deputy Administrator and Federal Insurance Administrator under Presidents Ford and Carter. I also served as the Texas Insurance Commissioner during 1993 and 1994.

Low-Ball Claims

History seems to be repeating itself. Similar to your findings, in the early 1970s I found private insurance carriers refusing to pay legitimate claims out of concern for setting precedent related to similar language in their homeowners insurance policies. In fact, they told me so point blank. At the time the private carriers were members of the National Flood Insurers Association ("NFIA"). NFIA members were refusing to pay claims related to evacuations. I asked the General Counsel of HUD (the agency in which the FIA was located prior to being sent into FEMA) to review the matter to determine if our interpretation of coverage was correct. He agreed and issued orders for NFIA to pay the claims. NFIA refused and we began a process to have them kicked out of the program, which was accomplished in the late 1970s. Upon receipt of bids from contractors NFIP's costs dropped by about fifty percent and the Chair of our oversight committee, the Senate Banking Committee, Senator Proxmire, the creator of the "Golden Fleece Award" awarded me with the one and only (as far as I recall) "Golden Taxpayer Savings Award."

Congressional Intent

During my tenure the NFIP operated according to the Golden Rule. Our claims adjusters were told to treat the insureds as they would want to be treated had they had a claim and were not insurance experts. Our role was to help the insured in any way we could. We believed inasmuch as the NFIP policy was drafted by FEMA we had to rely upon the usual legal approach when there is a contract of adhesion situation. Accordingly, any ambiguity in the agreement was ruled in favor of the party that did not participate in

drafting the policy – the insured. Under my tenure the policyholders were always restored to their pre-flood condition, less their deductible. We had very little litigation.

Training Disparity

I understand Senators Mikulski, Sarbanes and Dole have recently called for a DOJ investigation. If the training disparity exists as your information indicates, I believe fraud may have occurred on a large scale. I agree with you if such practices are occurring the FTC should also be made aware inasmuch as the private carriers are advertising insurance replacement coverage they later indicate never existed.

I commend your efforts to fight this battle on behalf what may be many wronged Americans who trust their government to run this insurance program in an exemplary way. You and Beth Midgitt have made a real difference for thousands of victims. Please let me know if I can help you in any way.

Sincerely,

A handwritten signature in cursive script that reads "J. Robert Hunter".

J. Robert Hunter
Director of Insurance

cc: Beth Midgett