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Investigations

Kanstoroom Report - Background

Steve Kanstoroom is a Talbot County Maryland resident and Hurricane Isabel victim. In November 2003 his insurance examiner at Omaha Property and Casualty took several positions Mr. Kanstoroom believed to be inconsistent with his policy. These positions effectively denied nearly two hundred thousand dollars in coverage. Next, the examiner suggested Mr. Kanstoroom bring suit in federal court. This raised a red flag to Mr. Kanstoroom - a retired pattern recognition and fraud detection expert. When he saw his elderly neighbors received a pennies on the dollar claim from Selective Insurance, and heard first hand their third party adjuster was wrongly denying them an advance payment, he started to investigate.

Mr. Kanstoroom has used his twenty two years experience in protecting multi-billion dollar bank and corporate portfolios, experience gained from leading experts of the nation's largest banks, credit bureaus, MasterCard International, Visa USA, the U.S. Secret Service, the U.S. Postal Inspectors and others, and focused it on finding the root cause of the problems.

On August 3rd, 2004, the Baltimore County Executive James T. Smith requested [Mr. Kanstoroom produce a report](#) of his findings. Although the investigation is ongoing, this site contains many of the core issues ultimately to be included in the report.

An outline of the history surrounding the report is as follows.

In December 2003 the Baltimore County MD Executive Jim Smith felt strongly he was witnessing questionable practices in the claims handling of Hurricane Isabel flood claims. At that time, he commissioned the former Maryland Insurance Commissioner, Steve Larsen, to perform an independent review. The [Larsen Report](#) released in January 2004 was a wake up call to Maryland and Federal officials and to those insured's struggling to understand why they could not receive adequate insurance company settlements.

Subsequent to the Larsen Report, Mr. Kanstoroom, a 46-year-old retired fraud detection and pattern recognition expert, determined the software used by many adjusters relied upon a database designed for new construction. Using the database resulted in artificially low settlements in the cases where adjusters did not adjust the prices upward in line with more costly repair and renovation prices. He provided that information the US Senate Banking, Housing and Urban Affairs Committee. Within weeks, the [Senate directed all non-policy limits Hurricane Isabel claims be reviewed](#), largely based upon the database issue. This was reported as the largest such event in FEMA's history.

In February 2004, Maryland flood victim advocates Bernice Myer and Steve Kanstoroom teamed with Dare County NC resident and property manager Beth

Midgett in an effort to unravel NFIP related problems. Bernice Myer, a homicide detective, founded the Isabel Victims group – a group with hundreds of people from MD to NC, all with NFIP claims related problems. Kanstoroom has a twenty-two year background in fraud detection and pattern recognition. Kanstoroom has performed work for the U.S. Department of Justice and received specialized instruction from a number of federal agencies. Beth Midgett was and remains actively involved with the processing of more than 50 flood claims.

In March 2004, Kanstoroom was recognized as a leading expert on the NFIP. According to the Baltimore Sun, Federal Insurance Administrator Anthony S. Lowe stated, "The National Flood Insurance Program relies on such a complex interaction of private insurance carriers, adjusting firms and third-party administrators that, despite decades of experience by top NFIP officials, no one in the program fully understood all the nuances of how the system works. But somehow, Lowe said, Kanstoroom has put together the big picture in a way that others haven't."

Published reports indicate Kanstoroom was noticed in the newspapers as someone that perhaps could get the ear of people in a position to remedy the problems. Soon after, industry insiders started calling, and in April, people from inside the NFIP did as well – late at night. They explained wrongdoing and, fearful of reprisals, started leaving documents for him at various locations around the DC area.

Kanstoroom shared those documents and others with US Senate staffers including Michael Baker, aide to U.S. Senator Barbara Mikulski. Kanstoroom reported Baker had a keen desire to help unravel the problems. On April 8, 2004, U.S. Senator Barbara Mikulski asked for the Inspector General to investigate the NFIP and CSC.

On May 9 th, Baltimore County Executive Smith asked the [U.S. Attorney's office to investigate](#) whether CSC, the company hired by the federal government to process flood insurance claims was "thwarting" the efforts of Isabel victims to receive fair settlements. At that time, the Baltimore Sun reported Smith questioned whether CSC was hindering the efforts of NFIP officials to ensure fair settlements to Isabel claims and was ignoring direction from Congress on how settlements should be made.

County Executive Smith, a former circuit court judge, said the request was based on conversations with flood victims, meetings involving Steve Kanstoroom and top NFIP officials that Smith attended, and documents that Kanstoroom gave him, including letters to and from victims, federal regulations, contracts and other materials.

In May, an aide to U.S. Senator Paul Sarbanes reached out to Kanstoroom in an effort to team up on behalf of flood victims. Victims were requested to send an email to Sarbanes and Kanstoroom, requesting their joint help in solving their NFIP problems.

In Early June, Bush appointee Anthony Lowe abruptly left FEMA. Kanstoroom had publicly stated on numerous occasions that Lowe had been instrumental in attempting to unravel the problems inside FEMA. Lowe is a former prosecutor.

FEMA's Deputy Director Trey Reid took over for Lowe. Reid reports directly to DHS Under Secretary Michael Brown. Published reports indicate that Kanstoroom has worked very closely with Reid for months.

On June 30, 2004 President Bush signed a bill into law including a requirement whereby the [GAO shall investigate insurance claims practices](#). The requirement came about from the same claims problems identified in the documents Mr. Kanstoroom provided to the US Senate in February 2004.

In mid July, flood victims and Senate staffers received email indicating Kanstoroom provided materials to Deputy Director Reid regarding the NFIP training program. Included were email chains regarding training disparities. For example, documents revealed *agents* were being trained to describe coverage while at the same time, *adjusters* were being trained such coverage doesn't exist. Other materials indicated the flood victims were unwittingly being subjected to known health risks from fuel oil contamination the policy pays to remediate, yet adjusters were instructed to allow what amounted to an application of perfume.

When FEMA failed to act, Kanstoroom reached out to Computer Sciences Corporation (NYSE:CSC) Deputy General Counsel and met with him. CSC is the private contractor that handles many of the day to day functions of the privatized NFIP. An aide to U.S. Senator Elizabeth Dole, Maryland State Senator Sharon Grosfeld, Assistant Attorney General Kathleen Birrairie, and NC advocate Beth Midgett [also attended the five hour meeting](#).

Deputy Director Reid explained FEMA policies prevented him or other FEMA representatives from attending the meeting.

Next, Ms. Midgett found [Congressional Testimony by insurance industry lawyer Gerald Nielsen](#). Mr. Nielsen testified, "Currently, virtually every major participant "Write-Your-Own Program" (" WYO") insurance company in the NFIP utilizes Nielsen Law Firm, L.L.C. to handle its NFIP-related litigation on a national basis." "In addition, the undersigned teaches the workings of the NFIP to adjusters, insurance agents, and insurance company personnel. He has also given seminars to the general adjusters of the NFIP Bureau and Statistical Agent, and taught the NFIP to newly hired agents of FEMA's *Office of Inspector General*."

In other words, the industry lawyer is training the agents, CSC adjusters and those charged with determining wrongdoing of the same – agents of the Inspector General.

On August 3 rd, Baltimore County Executive James T. Smith issued a press release stating his request for [Kanstoroom to write a report](#) of his then 2,500 hour investigation. Smith said, "In order to move the investigation forward in an expedited manner, I have asked Steve to prepare a report documenting these continuing issues so that I can forward them to the appropriate officials in the federal government".

On August 6 th, the MD Insurance Commissioner wrote in a letter to flood victims, "The Administration is continuing its investigation of what appears to be a pattern of artificially low [NFIP] repair/replacement settlements.

On August 10 th, Mr. Kanstoroom gave a PowerPoint presentation to a group of approximately 60 flood victims. Mr. Kanstoroom showed several documents leaked from inside FEMA. The press described the meeting as "eye popping".

On August 21 st, Mr. Kanstoroom received proof of loss documents from Tropical Storm Alex. The documents revealed the same problems plaguing Hurricane Isabel victims. Despite FEMA's best efforts, Isabel-like problems were being repeated in North Carolina.

Several days later he received information indicating the same issues had surfaced with Hurricane Charley victims. He immediately brought the issue to the [attention of Florida officials](#).