

Sandy Flood Claim Payouts

FLOOD INSURANCE Q&A

February 27, 2015

SHARE THIS



DOWNLOAD TO PDF

Q: “Superstorm” Sandy hit the Atlantic Seaboard in 2012. Why is it still in the news?

A: A small number of Sandy related flood insurance claims are still outstanding as of the beginning of 2015. After a disaster, most claims settle very quickly. There are always a few claims that take longer—generally the rare cases in which there are disputes about whether a claim is covered by insurance or how much the claim should settle for.

All of the Sandy claims currently in dispute involve the federal government’s National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA). With few exceptions, private insurers do *not* write flood insurance on homes.

Through December 2014, the NFIP received more than 125,000 Sandy claims. Of these claims, only 1 percent are still outstanding; some of these are currently in dispute. The program has paid out more than \$7.8 billion to date for Sandy claims.

Q: How are private insurance companies involved with flood claims?

A: Although they don’t directly insure homes against flood risks, many homeowners insurers

write flood insurance on behalf of the federal government. There are more than 80 private insurance companies that participate in FEMA's Write-Your-Own (WYO) program. These insurers sell the policy and adjust flood insurance claims for the NFIP. They are essentially working as an intermediary between the consumer and the federal government.

While they do receive a small commission or handling fee, most companies sell the policy as an accommodation to their home insurance policyholders. If there are any claim disputes, the private insurer will naturally be drawn into it because it has been handling the claim.

Q: Why is there controversy over some flood claims?

A: When a WYO insurer settles a flood insurance claim, it must follow very specific guidelines developed and enforced by the NFIP. Among the laws governing the operation of the NFIP is a requirement that insurers obtain documentation for all claims. The documentation requirement cannot be waived under any circumstances because a claim paid through the WYO program represents a draw on U.S. Treasury funds.

If a claim is complex, an insurer may call in an engineering expert to assess and quantify the damage in order to provide the necessary documentation. The expert prepares a report and that report is frequently reviewed by other engineers—a common practice known as “peer review.” The final report becomes part of the claim file and forms the basis for the amount offered to settle the claim. It is important to note that the engineering firms are external vendors who contract with the insurer to provide expert analysis and opinions.

Some homeowners who have filed claims for Sandy related flood damage assert that the original expert's report was altered during the peer review and that the altered report understated the amount of flood damage their property sustained. The result, in their view: an estimated payout that is less than what they are entitled to. Of the 1 percent of claims that still are outstanding, only a small percentage are in litigation and a fraction of those in litigation are due to disagreements about the engineering report.

Q: What incentives do private home insurance companies have to “low ball” a claim?

A: None. Insurers have no incentive to adjust a claim for any amount other than for the actual amount of damage. Money for the claim does not come out of the private insurance company's

pocket. The money comes from the NFIP. In other words, the insurer doesn't save any of its own money if it settles for less than what the claim is worth. Indeed, private insurers must settle flood insurance claims following stringent rules set down by the NFIP. If a company pays out too much, or too little, for a claim, it can be fined or even removed from the program. Furthermore, the insurer's fee for handling the claim for the NFIP increases in proportion to the size of the claim, eliminating any incentive to underestimate the payout.

Finally, the private insurer has often sold a number of other policies to the customer who is filing a claim, such as auto, home, liability and even life or boat insurance. The insurer would not want to alienate the customers on a flood claim, where it has a meager financial stake, and risk losing other business that promises to be more profitable than transacting federal flood insurance policies.

[Back to top](#)

You May Also Like

[HOMEOWNERS + RENTERS
INSURANCE](#)

[OTHER INSURANCE
TOPICS](#)

[Do I need flood insurance for my home?](#)

[CATASTROPHES | HOMEOWNERS](#)

[Facts + Statistics: Flood insurance](#)