

**Statement of David Treutel**  
**Subcommittee on Housing and Community Opportunity**  
**Committee on Financial Services**  
**U.S. House of Representatives**

**June 28, 2006**

---

Good afternoon, and thank you Subcommittee Chairman Ney and Ranking Member Waters for the opportunity to testify before the subcommittee on my personal experience during Hurricane Katrina so we all may better prepare for the next natural catastrophe.

My name is David Treutel, and I am president of Treutel Insurance Agency, Inc., a third generation independent insurance agency located in Bay St. Louis, Hancock County, Mississippi. I also currently serve on the Board of Directors of the Mississippi Windstorm Underwriting Association and on the agents' advisory boards of several insurance companies. I am also an active member of the Independent Insurance Agents of Mississippi (IIAM) and the Independent Insurance Agents & Brokers of America (IIABA), and served as President of the IIAM in 1998. However, I am speaking here today, on my own in my capacity as a private citizen, as an independent insurance agent who has seen first-hand the destruction of hurricanes, most recently Hurricane Katrina.

**Our Experience with Hurricane Katrina**

On August 29<sup>th</sup>, 2005, Hurricane Katrina made its way into my hometown, making an indelible imprint on the lives of my family, my insureds, my business, my small town, our Mississippi coast, our state, our central Gulf region and ultimately our country.

Category III level hurricane winds damaged much in Katrina's path and its tidal surge sent water inland over 10 miles into my county. Katrina's flood waters hit heights in excess of 34 feet with wave action as the storm made its way through Mississippi, Louisiana and Alabama. Before Katrina, my town of Bay St. Louis had a population of about 10,000 – one of a string of 11 coast towns that cover the Gulf Coast in Mississippi with a regional population of about 400,000.

My home, which is approximately 3 miles from the Mississippi Gulf, was not in a designated flood plain and had survived several previous storms and had not

experienced flood waters for twenty-five years. Of course that all changed with Katrina: this time it was devastated by wind and water in excess of 10 feet. Although all that remained of my home was a shell, and my extended family counted losses that included 15 autos, 8 homes and 3 businesses, we consider ourselves fortunate that we survived, unlike the five neighbors who drowned within a block of my home.

My independent insurance agency is located on a high bluff with an elevation of about 30 feet and situated a block back from the bay in old town Bay St. Louis. Katrina severely damaged our two-story office building with car-sized holes on the roof and flood water that reached 7 feet. In the three hundred years since the French explorers D'Iberville and Beinville landed at the Bay of St. Louis in 1699 and founded this part of the Gulf Coast, tidal water had never covered this old town bluff.

Within a week of the hurricane, we set up operations in a makeshift tent in the parking lot of my town's Chamber of Commerce, where we worked in a 110-degree heat index as literally hundreds of my insureds made their way each day to file their claims. Homes were destroyed, land phone service was gone, electricity was out over much of the region, generators had washed away, gasoline was scarce, and cell phones were out because of downed towers. It was days before even water or ice were made available. Yet, by word of mouth our insureds came to file claims at our tent. At the same time, we commuted back and forth over 110 miles each way. We made this round trip back and forth to an office apartment we had set up outside Mobile, Alabama with computers, cell phones and an internet presence with answering service to report and manage claims, returning to our Bay St. Louis tent each morning. This process of round trips to Mobile began immediately after the storm and continued through February, logging over 38,000 miles to our vehicle (this was our only remaining car).

Over the ensuing weeks, our makeshift office tent was blown down by the outer bands of Hurricane Rita. We then moved down the road into an office trailer where we continued to meet with insureds each day. My entire office staff of eight people had returned in the weeks after the storm, but two of these individuals were not able to stay, as they dealt with storm-related personal tragedies. My office staff was tremendous. Six of the eight had suffered severe damage or total loss of homes during the storm, yet they still returned to work each day. Our agency had over 10,000 policyholders, and we ultimately handled close to 8,000 claims in the ensuing months.

## **Post-Katrina Issues and Concerns**

Let me preface my further remarks by saying that, as with most natural disasters, we saw the best and the worst when it comes to insurance companies, governmental

flood and wind pools personnel, claims adjusters, federal and state assistance providers, and other relief workers. Some insurance companies were well prepared and had planned in advance for the claims process. They employed well trained adjusters, and they appeared to truly want to make the whole process as painless, efficient and fair as they could. Unfortunately, other companies, including some flood providers, fell somewhere short of these goals. To paint all insurance carriers and insurance adjusters into one category would not be accurate or fair to those that were effective or those that were not.

In the aftermath of Katrina, my insurance agency noted a number of issues that occurred in the claims process. I believe that they are important to consider as we try to prepare for the next natural catastrophe.

**1. The lack of available sufficiently trained adjusters was an early problem** especially considering the magnitude of this storm and its large path of destruction. Some companies were prepared and did better than others. Many that relied on hiring independent adjusters found that they were not available in sufficient quantities and training. In fact, once on the ground many of the adjusters were not able to locate the damaged property. GPS was a handy tool but only few had them. Homes were destroyed for miles inland with little remaining but a slab, and quite often roads were washed out and blocked with debris that eventually took months to clear. Accommodations were few and far between and the sheer destruction of infrastructure made it difficult for adjusters to get around. As such, the shortages in available adjusters slowed the payment of claims, especially for those handling flood and wind claims. Very little money was advanced to insureds in the early months, even when it was acknowledged that flood or wind damage existed. Documentation of millions of dollars in claim money was coming across my desk as late as February and March of 2006, some 6 months or more after the claims had been reported. One of my insureds with a flood policy was extremely upset, and rightly so, that his neighbor who carried no insurance received a FEMA payment within 6 weeks of the storm. This individual actually had a flood insurance contract and had paid for coverage, but he did not receive payment until over 6 months after the claim was reported.

**2. Communication was a serious problem.** Land lines were out and would be out for many months to come. Cell towers were down and the load put on the few functioning towers by emergency relief personnel, adjusters, and individuals who lived in the area made them undependable at best and often quite useless. While many insureds remained in the area in the weeks after storm, many more were displaced throughout the region and the country. The simple process of having an adjuster and an insured make contact was not an easy task.

**3. Multiple policies meant dealing with multiple adjusters** in most cases. One of my insureds was a 78-year old widow, named Betty. She made it safely through

the storm, but the confusion and frustration of dealing with four different adjusters on her personal auto policy, her homeowners policy, her flood policy and a separate wind policy had her angry at times and in tears of frustration. She was a strong person and had made it through the storm, but I was concerned for her and many, many other people in the same situation. In addition to the difficulty making contact with any adjuster, the home, flood and wind adjusters were unable to make contact. As a result, claims processing dragged on for months. Many times no contact was made between flood, home or wind adjusters, which meant that insureds did not receive settlements as timely or adequately as they should.

**4. Multiple policies also meant dealing with extremely different insurance contracts that did not complement each other.** This situation often left an insured without proper coverage even when they have purchased all that was available in the marketplace. For example, in Mississippi a policy written through the Mississippi Windstorm Association will provide coverage for only scheduled structures, and no provisions exist to add additional living expenses or loss of income to a wind policy. Flood insurance through the National Flood Insurance Program (NFIP) also does not provide replacement cost coverage on contents and will provide replacement cost coverage only in specific circumstances for owner-occupied homes. A separate flood policy is needed for each structure to be covered and no coverage is provided for any additional living expense or loss of use. Homeowners policies vary and often provide the most comprehensive coverage, including coverage not provided in the wind and flood policies mentioned above.

**5. Wind versus Flood.** Multiple policies create a difficult situation when two or more perils cause or contribute to the same loss. Even though only one loss occurs, insureds must deal with two and sometimes three different companies or policies for settlements. Insurance companies for years have excluded flood as a covered peril, and as a result the NFIP and its Write-Your-Own servicing companies have filled this void. However, in an attempt to not pay flood claims that should not have to be paid, some insurance companies have devised forms that they will not pay claims if losses were caused by not just flood waters but also will not pay when both flood waters and wind perils combined occur. Claims resulting in part from wind loss which should be paid are not being paid because of this concurrent cause form. As a result, many insureds may find themselves in circumstances where they have not been made whole, even when they have purchased a separate flood policy and all the policies that were available to them.

Millions of dollars are spent by companies through engineering firms to support the eternal question – which came first: the water or the wind? During a hurricane if the wind came first and the insurance company has not included a concurrent cause form, then the homeowner's policy including wind is responsible to pay the complete loss. However, if one can prove that the rising flood waters damaged the home before it was damaged by wind, then under the homeowner's insurance contract, no

payments should be paid. In reality, damage by water or wind may be proven to have occurred, but the sequence is often very difficult to prove. If an insured has purchased a policy that was intended to pay wind damage and does not, and the insured is not made whole, then the contract is often litigated and no claim could be paid for years. While most of the companies that I work with did not have or invoke the concurrent cause form, some other companies did. As a result millions of dollars that could have gone to consumers will be spent on litigation and additional engineering studies.

We have seen many of these issues go unresolved. For example, a good friend of mine had his insurance with a direct insurance agent. It has been 10 months and he has not been paid anything on his home by his insurance company. He did have 6 feet of water in his 2-story home which still stands, yet he had roof damage caused by wind, where the flood water did not rise. Although he did not have flood insurance and was not in the flood plain, his homeowner's policy, which includes wind as a covered peril, has not paid the wind damage.

**6. Multiple policy confusion.** Multiple policies led many insureds to believe that they would be paid fully for each policy they had purchased. To them, it was compelling that they had paid for two or sometimes three policies (wind, flood and homeowners) to cover their homes, especially when nothing remained of their home. Unfortunately, the reality that one loss that is contributed to by two perils is only paid as one loss has been hard for consumers to comprehend when they paid for separate policies.

**7. Major inconsistencies in the adjustment process.** Insureds who were neighbors and had insurance policies written with different insurance agents and companies quite often had vastly different outcomes. Homes on the same block had varying outcomes with their insurance claims. Often, the loss of one house was ruled a total loss caused by wind, while next door the loss may be ruled a total loss caused solely by flood, and another home 100 yards down the street see their claim ruled half wind and half water.

**8. Home replacement cost valuations.** Many consumers found themselves in situations where their home may or may not have been insured to current replacement cost levels. Confusion exists among insureds in choosing the property valuation method. Where available the better method to insure is the replacement cost basis. However recent disasters have created a spike in housing costs. Supply and demand with few available contractors and materials in a disaster area along with extremely large number of devastated properties that need repair or replacement will significantly drive up the cost of construction after a disaster. Many insureds that may have been properly insured at the time of loss find that they may not build back their same home even when they received the full settlement on their insurance policies.

**9. State catastrophe pools.** There exists a disparity in the efficiency and cost effectiveness that states are able to provide a catastrophe insurance market for their citizens located in catastrophe prone disaster areas. With more than 50% of our population living within 100 miles of coast waters, catastrophic wind exposure affects a majority of the country's population. Headlines today show that we are all affected by catastrophes, even if we are not in the affected areas. Many argue that they should not have to bear the burden of catastrophe losses in other regions, but they will continue to bear the cost as long as they obtain insurance through regional, national or international insurance companies who purchase reinsurance to protect themselves from catastrophic loss. Most importantly, the assistance that our government provides after the loss to affected areas in the form of emergency response and rebuilding is spread among all of our citizens in the form of tax expenditures. The sheer size of exposed coastal areas and number of citizens affected when providing state wind insurance markets to states with large exposed coastlines, such as Florida or Texas, can be daunting. Some states with relatively small coastlines, such as Mississippi, Alabama, Rhode Island, or Connecticut, face an even more difficult and unique challenge due to the smaller concentrated coastlines and affected population with less ability to spread the risk among state residents. Pools, citizen plans, and fair plans differ greatly in their approach to handling wind exposure among the coastal states. Many plans spread the risk in the form of assessments to those state insurance carriers that will not voluntarily provide wind insurance in designated coast areas. Other state pools temper the exposure with purchased reinsurance, which they must either assess to the companies or pass on to the consumer. Other programs include state-backed revenue bonds to capitalize and stabilize these pools, the cost of which is passed on to consumers in the form of the premiums they pay. Concentrated coast line exposure and the relatively small size of participants in these small state pools can make the cost to operate the pools more expensive for smaller states than larger states. The basic tenants of insurance provide that the risk be spread over an actuarially sound population of risk that may not be available in smaller pools driving the cost of reinsurance per insured much higher than in other states.

## **Recommendations**

In my personal opinion many of the issues of concern noted above could be alleviated with the following recommendations:

1. An 'all-risk' insurance policy that would include insurance for natural disasters including wind, flood, earthquake, etc. that would be provided by private insurance carriers (assuming private carriers have access to adequate insurance/reinsurance – please see #2,3,4 below). Only one adjuster would deal with an insured who would be covered for all risks, which could avoid the wind versus water debate and costly litigation and excess cost for engineering studies. This could potentially address the

disparity that exists between policy forms, including separate wind, flood, earthquake and homeowners policies.

2. Private insurance carriers would be able to provide any insurance they have an appetite to write or reinsure themselves, but they would also have the option to purchase or utilize wind, flood or earthquake insurance through existing state or federal mechanisms including the National Flood Insurance Program, earthquake or state wind pool programs passing reasonable costs to the insured.

3. National disaster legislation in the form of a Federal backstop would be devised similar to that which has already been done for terrorism insurance. This limited Federal backstop would address, complement and backup state and federal catastrophe pools and plans, and it could include the federal government making lower cost reinsurance available to states and their catastrophe pools.

4. Tax incentives could be given to insurance companies to encourage them to write insurance and build the necessary reserves to survive the payout required in catastrophic losses. Likewise, consumers might also be given tax incentives to build their own reserves tax-free to cover their potential uninsured losses and potentially much higher deductibles in disaster prone area.

5. Both private carriers and federal or state catastrophe programs should review their approach to handling disaster claims to ensure adequate quantities of properly trained and equipped adjusters exist to handle potential catastrophe before the catastrophe occurs.

6. Just as communication was an issue with federal, state and local emergency response and relief and aid workers, many of these same communication issues exist between companies, their adjusters, their agents and their insureds. Communication issues should be reviewed in light of current available technology to find solutions in advance of the next round of catastrophes.

## **Conclusion**

In summary, the current insurance process for dealing with catastrophe losses is not an efficient or effective process nor has it been in recent years. It is not effective for insurance companies, agents, states, federal or state catastrophic pools, and most importantly, it is not effective for the American people – my clients and your constituents.

As we face a heightened cycle of natural disasters, the likes of which we have not seen in recent decades, an opportunity exists to dramatically improve what is already in place. It may be too late to help the many people affected by Katrina.

But, natural disasters can occur anywhere in our country and failure to act effectively now will continue to cost consumers and taxpayers more than it should.

Thank you for the time to speak this afternoon. On behalf of the many individuals who were affected by Hurricane Katrina in Mississippi, I also wish to thank you for the generous response we have received from you, our elected officials in Congress, the Administration and most importantly the heartfelt generosity from millions of Americans across our great country.