

**OPENING STATEMENT OF
CHAIRMAN MELVIN WATT
AT THE HEARING**

“Insurance Claims Payment Processes in the Gulf Coast after the 2005 Hurricanes.”

BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON FINANCIAL SERVICES

February 28, 2007

Today’s hearing will examine the insurance adjustment process in the Gulf Coast area after the 2005 hurricanes.

Hurricane Katrina was the single most expensive insured disaster in the United States, with privately insured losses of about \$40 billion. It resulted in approximately 1.7 million private insurance claims, with the vast majority of those claims coming from Louisiana, Mississippi and Alabama. Although the insured losses from Hurricane Rita were lower than Hurricane Katrina, Hurricane Rita was also expensive, with privately insured losses of almost \$5 billion from about 381,000 claims, the 7th most expensive in history.

After this unprecedented destruction, the National Flood Insurance Program paid out more than \$18 billion in claims. The substantial claims that resulted from Hurricanes Katrina and Rita far exceeded the premium income to the program. NFIP has borrowed most of the \$18 billion paid out in claims from the U.S. Treasury. The Federal taxpayer has a financial interest in how the NFIP operates and specifically how the claims process works.

I recognize that insurance matters are generally governed by the States, but the Financial Services Committee has jurisdiction over the NFIP and Congress acted three times last term to approve additional borrowing authority for the NFIP to enable it to continue to pay claims.

Having given this factual background, let me set some ground rules, address some of the questions that have been addressed to me by colleagues, interested parties and the press and frame the issues in the following way:

First, what is our Subcommittee’s role? In this hearing, and in every hearing or investigation we conduct this year, let’s keep in mind that the Oversight and Investigation Subcommittee is not a legislating committee. Our sole purpose is to get the facts and build a factual record. If we do our job thoroughly and fairly, whatever legislation might

be appropriate will be based on the facts. But it will be done by another subcommittee, the full Financial Services Committee or elsewhere.

Second, what do we know already? Well, there are a number of things that various people will tell you that they know. But the only thing I'm prepared to say that we know for sure (and this is where I would like all Subcommittee members to start) is that everybody I've talked to in the process is unhappy. Our citizens, our constituents, are unhappy. The one thing that many of them know is that their claims were not timely paid. They blame private insurers, the Federal Flood Insurance Program and the system for all the finger pointing and blame shifting.

- The members of Congress from the Gulf, our colleagues, are unhappy because their own experiences and their constituents' complaints indicate that there was not only a breach in the levees that were designed to protect them, but there was also a breach in the insurance coverage, adjustment and payment process that was supposed to compensate them.
- Private insurers are unhappy. They'll tell you that they were just honoring the provisions of their insurance contracts. For a better understanding of their position, I commend to the Subcommittee members a thoughtful article from the February 24, 2007 New York Times, which suggests that a confluence of acts of God, voters, the press, trial lawyers for classes of civil litigants, the threat of criminal action, activist judges and self-interested politicians at the Attorney General, U.S. House and Senate levels conspired (or at least coalesced) to make private insurers the "victims."
- The Federal Flood Insurance Program is unhappy. There's been some suggestion that they rolled over and paid claims that shouldn't have been paid by the Program (or that should have been paid by private insurers). Most of the Program's flood insurance premium dollars are now going to pay interest on the \$18 billion used to pay these claims.
- Finally, taxpayers could end up being very unhappy. If we can't sort through this and if it is not fixed, they could be left footing the bill and what's more, a similar result could occur following future disasters.

Third, now that we know that everybody is unhappy and pointing the finger of blame at someone else, where do we go from here? Our job is to document the facts. Today's hearing is the start. There will certainly be others and I intend for them to be conducted fairly and even-handedly. But let me be clear – we will follow the facts where they lead us. There will be an effort to identify possible solutions. But we need to know the facts first.

We thank the witnesses for being here to start the process.