



# Free Market Project

Auditing the media's coverage of the free market system



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## Snapshot

Unemployment	5.0% (July 2005)
Jobs	+207,000 (July 2005)
Inflation	(0.5% in July 2005)
GDP	3.4% (2nd Quarter, 2005)

## A Flood of Incomplete Insurance Coverage

As the media point out that hurricane victims' insurance coverage is lacking, news coverage also lacks some key points.

**By Amy Menefee**  
**September 14, 2005**

As Katrina survivors begin to file insurance claims, some politicians and activists want to hold insurance companies and taxpayers responsible for uninsured properties. The media are entering the fray, relying on anti-business "experts" and often overlooking the fact that the government flood coverage people want so badly can't even afford the claims it will face.

On the extreme end, Mississippi Attorney General Jim Hood said he would review insurance contracts to determine whether he will try to "override flood-exclusion clauses in homeowners' policies in that state," The Wall Street Journal reported September 8. The Journal said "insurers are likely to resist any such effort, though a fight could be a costly public relations nightmare." One of those putting pressure on Hood is Richard Scruggs, the class-action lawyer behind anti-industry tobacco and asbestos lawsuits. Media coverage thus far has included other "consumer advocates," benignly labeled, who are anti-business.

And coverage of the issue is only beginning. The Poynter Institute's Al Tompkins included [resources for journalists covering insurance](#) on September 13, saying he expected more coverage of the issue as coastal reconstruction gets under way. It is important for journalists to explain the insurance programs involved, to label their sources accurately, and to highlight the suggested use of businesses' and taxpayers' money to bail out the uninsured.

### The problems with the coverage

The government-subsidized National Flood Insurance Program (NFIP), run by the Federal Emergency Management Agency, is the only source of flood insurance. Fewer than half of New Orleans homeowners had flood insurance, and The Baltimore Sun reported that about 10 to 20 percent of those in Alabama's and Mississippi's coastal areas were covered. The federal program offers up to \$250,000 for rebuilding and up to \$100,000 to replace the contents of a home.

The Washington Post on September 12 described insurance companies' responsibility to policyholders to "make them whole after a disaster." But policies have restrictions and limitations, as many flood victims have learned. Reporters Justin Gillis and Amy Joyce only briefly mentioned the fact that "payments are expected to send the government's flood-insurance program into the red."

Private insurance companies that write homeowners' policies have more than \$400 billion total in reserves – more than enough to cover the estimated costs of Katrina-related claims, which are expected to reach up to \$35 billion. The government-subsidized NFIP, however, is another story. CNN Money's Shaheen Pasha reported on

September 6 that the NFIP “has the ability to borrow \$1.5 billion from the Treasury Department but the agency has already asked to increase its borrowing authority to cover expected claims” from Katrina.

That detail was absent from much media coverage of insurance costs.

On CNN’s “American Morning” Sept. 11, 2005, Soledad O’Brien interviewed “consumer advocate” Doug Heller but didn’t make it clear that Heller had a strong anti-business agenda. Heller advised hurricane victims to try to get as much money from insurance companies as possible: “You know, insurance is a much better way to get – to rebuild your home because the insurance company gives you money. FEMA and the federal government, we are just going to give loans, you know – or I should say they’re just going to give loans to the public. And that’s not the same thing. You are going to have to pay that back. ... And that’s why we got to make sure that the insurance companies don’t let the taxpayers pick up the tab where they’re supposed to.”

CNN simply identified Heller as executive director of the Foundation for Taxpayer and Consumer Rights. FTCR bills itself as a “non-partisan, non-profit organization” or a “consumer group” when, in fact, it’s a radical left-wing, anti-business group. According to its own Web site, the group “takes on big industries and the politicians every day in legislatures, the courts and in the media.”

The Web site listed industries it criticizes, including oil, insurance and health care. FTCR is already attacking the insurance industry for its approach to the storm. According to its site, “Hurricane Katrina could be made worse by insurance companies that attempt to limit their losses by refusing to pay claims that are due to homeowners. Insurers have already told some homeowners in New Orleans and the Gulf Coast that it was flooding not the hurricane that did the damage, so they are not covered. Of course, the flooding only occurred because of the hurricane and insurers should be required to pay claims.”

Likewise, the Post’s Gillis and Joyce included J. Robert Hunter, from a “consumer group” called the Consumer Federation of America – an organization the reporters didn’t identify, but whose ratings of Congressmen betrays its loyalty. On the CFA’s Web site, it gave ratings of 100 to Democratic Massachusetts Sens. John Kerry and Ted Kennedy for supporting “the interests of the organization.” In the Post article, Hunter blasted insurance companies that have written living-expense checks, saying they were engaging in “nice theater.” “And in fact, they owe the money,” he said. Hunter, like Scuggs, was calling on states to “pressure the companies” to pay more, the Post said.

CNN Money focused on insurance rates rising as a result of Katrina claims. Pasha wrote that flood insurance is “relatively cheap” and that “insurance experts say a rate hike is necessary to keep the program functioning.” Rate hikes and the controversy between flood damage and wind damage have been leading insurance stories. While wind damage is covered under most homeowners’ policies, flood damage is not.

In a report on the September 6 “Today,” NBC’s Janice Lieberman painted the insurance companies in a more fair light. She showed Allstate insurance adjustor Jerry Sampson telling a policyholder, “In any case that we can attribute damage to the wind portion of it, we’re going to do that.” And Matt Lauer added, “It seems, Janice, credit where credit is due. And that is that the insurance company had people in place trying to take care of this situation in a timely fashion.”

### **Uncle Sam: helping or hurting?**

Naturally, the subject of risk management is most touchy in the immediate aftermath of a disaster. After Sept. 11, 2001, the Cato Institute’s Doug Bandow wrote about the dilemmas of the insurance market, saying that Congress should leave it alone. “In short, insurance will always be available,” Bandow wrote. “People want subsidies to make it cheaper. But if the cost becomes prohibitive, then it would be best to abandon the activity, not subsidize it.” He noted that “allowing the market to work will force insurers and insured to cooperate to moderate risks” and that “risks don’t disappear and costs



don't fall when Uncle Sam gets involved.”

In fact, Uncle Sam often makes things worse. James DeLong, now a senior fellow at the free-market Progress & Freedom Foundation, wrote about the NFIP in Reason magazine in 1999. DeLong cited a study by the left-wing environmentalist National Wildlife Federation that found 40 percent of the program's payouts between 1978 and 1995 went to 2 percent of the insured homes. The continual payouts to these “repetitive loss properties,” which were rebuilt only to be hit again, underscored the inefficiencies in the program, DeLong said.

It “takes on risks that no sane insurer would accept, which encourages development in flood plains,” DeLong wrote. “This, in turn, increases both the political pressure for more government expenditures on flood control and the monetary losses that occur when the inevitable 100-year or 500-year floods overwhelm those defenses.” Christy Black of the National Center for Policy Analysis published a similar report on September 7, detailing government spending on several flood-control attempts. (<http://www.ncpa.org/pub/ba/ba525/>)

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