



FLOOD 101: WHAT TO KNOW ABOUT STANDARD FLOOD INSURANCE

CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker.

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Courtesy of AmWINS Group, Inc.

As the mountain snows melt, spring rains begin to fall and hurricane season rapidly approaches, it is important to remember that flood insurance typically is not a covered peril in a traditional homeowners, dwelling, condo or commercial property policy. As the property market continues to harden in 2020, it is more important than ever to educate clients about their true risk of flooding and ensure you are offering adequate coverage options to protect what is probably one of their largest assets.

Flooding is the most common and costly natural disaster in the United States, with 90% of natural disasters in the U.S. involving flooding. This isn't just coastal flooding, either. In fact, 98% of all U.S. counties were impacted by a flood event in 2018.

Yet, most property owners do not think their building is susceptible to flood. Common stances on flood insurance include, "I'm not in a flood zone;" "My realtor told me I am in a preferred flood area;" or, my favorite, "It hasn't flooded in this area in years." Because mortgage mandatory purchase requirements exist ONLY for buildings deemed to be in high-risk flood zones, most property owners assume that if it is not required, then the threat does not exist. This could not be more incorrect. The highest-risk areas have at least a 1% annual chance of flooding. To compare, the average chance of a home fire is 0.33%...nearly three times less likely to occur in any given year! Even many low-to moderate-risk areas see an annual risk greater than that of home fire, with ranges between .2% and 1% in the 500-year flood plain.

Key facts about low-risk flood zones include:

- More than 20% of claims come from properties located outside of the high-risk A and V flood zones.¹
- More than one-third of the federal disaster assistance for flooding is allocated to properties found outside the high-risk A and V flood zones.²
- Almost 75% of flood-damaged property caused by Hurricane Harvey (2017) occurred outside the high-risk flood zone.³
- The NFIP is comprised of 50% of properties in low-risk flood zones and 50% of properties in high-risk flood zones, even though more than 90% of properties exist in low-risk flood zones.⁴
- Where not required to carry flood insurance, a shocking 43% of property owners believe their property (homeowners) policies cover flood.⁵

Until recently, the only market through which to purchase traditional flood insurance was FEMA's National Flood Insurance Program (NFIP). However, after years of program deficits, Congress passed the Biggert-Waters Act of 2012 to encourage private insurance carriers to launch competitive flood insurance solutions and subsequently mandated that mortgage companies accept private options to satisfy their mandatory flood insurance purchase requirements. This created an opportunity for private carriers to enter the market with better coverage and service at a lower price to those interested in purchasing or, in many cases, required to carry, flood insurance.

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NFIP STANDARD FLOOD INSURANCE POLICIES: WHAT'S IN AND WHAT'S OUT

1. Flood insurance covers direct physical losses from flood and losses resulting from flood-related erosion caused by heavy or prolonged rain, coastal storm surge, snow melt, blocked storm drainage systems, levee dam failure or other similar causes. To be considered a flood, waters must cover at least two acres or affect two properties.
2. Limits for residential properties with less than five units are \$250,000 for the building and \$100,000 for personal property (private carriers almost always allow for higher limits).
3. Limits for commercial properties are \$500,000 for the building and \$500,000 for business personal property (private carriers almost always allow for higher limits).
4. Limits for residential buildings with five or more units are \$500,000 for the building and \$100,000 for business personal property.
5. Unless your client is insuring their single-family home that they have resided in more than 80% of the previous 365 days AND they insure the building at least 80% to value (or the NFIP maximum of \$250,000), then claims are always settled at Actual Cash Value.
6. There is practically NO coverage for a basement or any floor below ground.
 - a. Coverage is limited to merely taping drywall back into place and those mechanicals that service the building.
 - b. No finishing is covered, even if the area previously was finished.
 - c. Contents are limited to just those items listed in the policy:
 - i. Air conditioning units, portable
 - ii. Clothes washers and dryers
 - iii. Food freezers, other than walk-n
7. Fences, docks, foliage, swimming pools, wells and septic tanks are all not covered.
8. Outbuildings must be separately insured, as the NFIP only insures one building per policy. The only exception is single-family homes with detached garages, in which case 10% of your building coverage can be applied toward the detached garage.
9. Additional coverages like loss of use, business interruption, loss of rents, and other coverages that typically can be added to normal property policies are not available under the NFIP.

CONCLUSION

So, before the 2020 hurricane season blows in, make sure to review with your clients their actual flood risk. Those in high-risk flood zones should be warned that a 1% annual chance is actually very high compared to other perils. Walk through scenarios and explore private alternatives that could save money and improve coverage for your insured's greatest exposures. The bottom line: today's market demands a thorough and thoughtful approach to flood coverage. Understanding an insured's risk and knowing which options to recommend will offer protection when it's needed most.

The Flood Insurance Agency (TFIA) specializes in the distribution of private flood insurance throughout the United States. For more than 30 years, TFIA has been at the forefront of the flood insurance industry. It provides access to private market flood insurance as an alternative to the National Flood Insurance Program. The private flood insurance program now insures over \$4.5 billion of property spread over 25,000 risks and has registered over 3000 independent agencies in 49 states to market the program. Learn more about FloodFlex, TFIA's innovative commercial flood coverage enhancement.

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ABOUT THE AUTHORS

This article was written by Eric Weber, executive vice president of The Flood Insurance Agency.

SOURCES

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³ cncb.com. Hurricane Harvey damage costs could reach \$75 billion, research firm says. <https://www.cncb.com/2017/08/30/hurricane-harvey-damage-costs-could-reach-75-billion-research-firm-says.html>

⁴ NFIP database.

⁵ iii.org. 2016 Consumer Insurance Survey. <https://www.iii.org/sites/default/files/docs/pdf/pulse-wp-020217-final.pdf>

