



Personal Risk Insight

Rude Awakening: Flood Victims Learn Homeowners' Policies Won't Cover Losses

The dangers of flooding and the need for homeowners to protect their homes and assets with flood insurance have attained a new level of urgency following the recent historic and deadly flooding in South Carolina.

As the flood waters recede slowly, impacted homeowners face another rude awakening: Homeowners' insurance may not cover their water-wrecked homes. Standard homeowners and renters policies exclude flood damage, which is typically covered by insurance available through the National Flood Insurance Program (NFIP). In fact, South Carolina's insurance director is warning of "horrendous losses" for property owners, in excess of \$1 billion based on preliminary assessments. As only 12% of the more than 1.6 million households in the state purchased flood coverage, residential property owners face significant out-of-pocket losses.

A National Concern

The dangerously low-flood insurance penetration is not unique to South Carolina – this is an issue of concern in most states across the country. In fact, of the 10 million properties in the United States at a higher risk of flooding, just a little more than half are insured through the NFIP.

In South Carolina, as in other parts of the country, many homeowners who were not in designated high risk flood zones neglected to purchase coverage because they did not believe it was needed. This is in spite of the fact that in the last 12 years South Carolina has had damages of more than \$7 billion from flooding and hurricane events.

Nationally, flooding is the most common and costly natural disaster but only 14% of Americans have a flood policy, according to the Insurance Information Institute.

Following the string of flood events this year, including the heavy rains which inundated Texas, Oklahoma,

and other Southern Plains states during the first half of 2015, USI's Personal Risk Services teams have been out meeting with clients to reemphasize the importance of obtaining flood coverage before it is too late.

In addition USI has been enhancing its flood solutions, leveraging the USI ONE Advantage® process, a fundamentally different approach to creating cost-savings programs and effective risk management plans, to help clients reduce their financial exposure to flooding.

The Power of ONE

Just a few inches of water from a flood can cause tens of thousands of dollars in financial losses.

In fact, from 2010 to 2014, the average residential flood claim amounted to more than \$39,000 whereas the average flood insurance policy premium in 2014 was about \$700 per year.

Continued on page 2

Based on the cost-benefit analysis alone, deciding whether to purchase flood coverage should be an easy decision, said Jim Kane, senior vice president of personal risk services at USI Insurance Services. According to Kane, anyone can be financially vulnerable to floods, even people outside of designated high-risk flood areas. NFIP data, for example, shows people outside of high risk areas file more than 20% of all insurance claims and receive one-third of Federal Disaster Assistance for flooding.

USI's practice includes reviewing both primary and excess flood coverage for every homeowners' policy regardless of location. This process begins with flood zone identification, USI utilizes FEMA software to accurately identify each individual home and its current flood zone.

In addition, USI reviews clients flood exposure to determine the amount of flood coverage needed, and provides guidance on what is covered and not covered under the flood policy.

USI's comprehensive process includes:

- Identifying the flood zone per location
- Reviewing client's overall flood exposure
- Providing guidance on coverage
- Investigating cost savings options

Under personal property coverage, certain valuable items such as original artwork and furs are covered up to certain limits, whereas currency, precious metals, and valuable papers such as stock certificates aren't. USI also helps clients understand

the many coverage limitations of flood policies. For example, certain policies restrict coverage for areas below the lowest elevated floor and in the basement of a home. Fuel tanks, solar energy equipment, central air conditioners, sump pumps are generally covered under the building property coverage, however, paneling, bookcases, and most personal properties such as clothing and electronic equipment are not covered.

Staying on top of changes to flood zones during the course of a policy year is crucial and requires a diligent and experienced risk consultant.

When maps change, preferred risk policyholders could find their rates increased by as much as 18%. In many of these cases, USI helps clients explore the applicability of the 'Grandfather Rule' as a cost savings option. With grandfathering, proof that a home that was built in compliance with the flood map in effect at the time of construction and evidence of continuous flood coverage can be used to lock in the flood zone for insurance rating purposes.

In some instances, a new flood map may actually result in a lower premium than the using the grandfathering option.

Staying Above Water

Ultimately the key is to protect clients from sinking financial losses as a result of a flood event.

For example, USI recently worked with the owner of an East Coast-based beachfront property that had previously sustained damage from Superstorm Sandy. The building

damage totaled \$500,000, but the primary flood coverage was only \$250,000, leaving the property owner with a \$250,000 uninsured loss.

When the property owner engaged USI as his broker, the personal risk team immediately initiated a review of the Sandy related flood losses. Based on its findings, the team recommended excess flood coverage, which provides coverage limits above the maximum limits of the NFIP.

This is just one example of how USI is working with clients to reduce their financial exposure to floods.

As state and federal lawmakers introduce legislation to improve the NFIP's financial stability, a wave of new private flood insurance products are flooding the market. USI is also working with its clients to assess all of the different private risk transfer solutions, which may offer lower premiums and more expansive coverage than the NFIP.

To learn more about USI's flood and personal risk solutions, contact your local USI representative.

To analyze our client's personal exposures and challenges our personal risk team leverages USI ONE®, a fundamentally different approach to risk management. USI ONE integrates proprietary business analytics with a networked team of local and national experts in a team based consultative process to evaluate the client's personal risk profile and identify targeted solutions to address those risks. Clients then receive tailored recommendations for more efficient investment of premium dollars through customized personal insurance risk management programs that enhance coverage and manage rate control.