

# Foreign Policy

## A False Sense of Security on Flood Insurance Can Be a Costly Mistake

By COREY MURPHY

**D**espite the attention brought to the subject by hurricanes Katrina and Rita two years ago, and some local episodes that fall and since, many individuals and businesses continue to ignore the real possibility of suffering severe property damage resulting from a flood.

There are several reasons why people have a false sense of security: many believe that since they live and work in an area well away from the coastline, the danger of having a flood is relatively low; others believe their homeowners or business property insurance policies will provide coverage in the event of a flood. Still others believe that in the event of a flood, the federal government will provide assistance for flood damage. All or most of this thinking is off the mark.

Floods affect thousands of Americans every year. According to the Federal Emergency Management Agency (FEMA), more than 27,000 policyholders filed flood insurance claims in 2006, with thousands more being uninsured for flood damage. To many of us in Western Mass., it seems that these devastating events always occur in some other part of the country, and that here in the Bay State we have little to worry about when it comes to flooding. Recent experience tells us a different story.

In 2006 the National Flood Insurance Program paid more than \$39.5 million dollars in claims to insureds in our state. This was more than the combined total payments made in all of the states bordering the Mississippi River for that same year. While some experts consider 2006 to

have been an unusual year for Massachusetts, the National Flood Insurance Program (NFIP) has paid Bay State policyholders more than \$2 million dollars in both 2004 and 2005.

Massachusetts areas away from the coast are at risk of suffering from floods. In fact, it is typical for the NFIP to pay between 20% and 25% of their claims in low- to moderate-risk zones. The good news about being in such a zone is that you may be eligible for a preferred risk policy, which provides very inexpensive flood insurance protection.

Many people believe that their homeowners and business property insurance will respond in the event of a flood. However, these policies in their standard format (which most insurance carriers follow) specifically exclude flood as a covered cause of loss. It is interesting to note that it was this exclusion that provided the basis for many insurance carriers to deny coverage to many homeowners in New Orleans and the southern states following Hurricane Katrina.

Insurance policies provided by the NFIP afford a rather generous definition of 'flood.' In order for the policy to respond, the flood must affect at least two properties in the area, or two or more acres. The flood can result from an overflow of inland or tidal waters, what most people typically think of as a flood.

In addition, the flood could be a result of water from any source that causes an "unusual or rapid accumulation or runoff of surface water." This source of water could be heavy rainfall, a water tower, or a broken water main.

Certainly, most everyone lives and works in an area where heavy rain or a broken water main could occur and cause a flood as the NFIP policy defines one. It is important to take these sources of water into consideration when assessing your need for a flood policy.

When you purchase a flood policy from the NFIP, you have several things to consider: the coverage limit on the building, the coverage limit for the contents of the building, the per-claim deductible, and the waiting period before coverage goes into effect. A maximum of \$250,000 of building coverage is available for residential protection. Commercial structures can be insured to a limit of \$500,000 for the building and \$500,000 for the contents.

The maximum insurance limit may not exceed the insurable value of the property. For limits in excess of the maximums offered by the NFIP, private flood insurance is readily available.

Another important element to note in the NFIP's definition of a flood is some very important wording that is *not* within its definition. What is missing is the requirement for the president to declare a federal disaster.

For those individuals and business owners who don't carry flood insurance as part of their disaster recovery plan, they need to be aware that in order to receive funds through the Federal Disaster Assistance program, there are a few serious issues to consider.

First of all, as was just outlined, in order for FEMA's Disaster Assistance Program to

become involved, the U.S. president must declare that area a federal disaster.

With this declaration, FEMA can distribute funds in the form of a loan that must be repaid. In the case of a business loss, FEMA may require the business owner to first seek a loan through the Small Business Administration before they request FEMA support. Under the NFIP flood insurance policy, there is no need for a federal disaster to be declared. There is no need to pay back any claim payments. The policy will respond if the definition of a flood is met.

It is important to seriously consider the large potential physical and financial loss that a flood can cause.

While many people believe there are several ways to obtain assistance in the event of a flood, without a doubt incorporating a NFIP insurance policy into your personal or business disaster recovery plan provides a critical point of relief, at a reasonable and affordable cost. An independent insurance agent can discuss your necessary limits, coverages, and deductible options with you.

There are other elements of the policy that should also be discussed, such as valuations on claim payments, contents coverage, and basement coverage. To answer some questions on your own, you can visit [www.floodsmart.gov](http://www.floodsmart.gov). ♦

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