



## Flood Insurance

### How to provide a better value to TRICOR insureds

#### Summary:

If your customer has an exposure to flood, it is strongly recommended to write the amounts on the structure – at or near replacement to avoid a co-insurance penalty and so that he/she can receive payments on a replacement cost basis.

If the basement is not walkout – personal property and basement finished walls are excluded. Often people are concerned about their basement and yet a National Flood Policy in this situation might cover only a very small fraction of any loss. Possibly 30% of what customer expects. Walkout basements do not have this limitation as it is considered the first floor.

Personal property is always paid on an actual cash basis.

There are some nice links provided by FEMA, especially the first one listed below which is helpful to an insurance agent who understands insurance terminology.

The Federal Policy has a \$250,000 cap on the dwelling and \$100,000 on personal property. If this is not adequate for the customer, the private market can sometimes write higher limits at a higher price.

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**A residential flood insurance policy is more than 40 pages long. FEMA does put out a two page document, “designed for the insurance agent”, to provide quick answers to most questions.**

[https://www.fema.gov/media-library-data/20130726-1620-20490-9466/f\\_679\\_summaryofcoverage\\_11\\_2012.txt](https://www.fema.gov/media-library-data/20130726-1620-20490-9466/f_679_summaryofcoverage_11_2012.txt)

You also can review a sample residential dwelling policy here.

[https://www.fema.gov/media-library-data/1449522308118-6752c210f65aed326a9ddf4a0ddaca1f/F-122\\_Dwelling\\_SFIP\\_102015.pdf](https://www.fema.gov/media-library-data/1449522308118-6752c210f65aed326a9ddf4a0ddaca1f/F-122_Dwelling_SFIP_102015.pdf)

Basement Flooding and How a Flood Policy works.

<https://www.fema.gov/faq-details/Flood-Insurance-Coverage-for-Basement-Contents>

## Is Flood Insurance expensive?

Pricing is based on the zone or the homes probability of being flooded. The smallest policies might cost \$200 per year if in a low hazard flood territory. The price might be three or four times more if the location is subject to flood frequently. A typical home with a replacement cost of \$250,000 to \$300,000 might cost \$400 to \$500 to insure properly if in the lowest hazard territory.

If you do write a small policy, co-insurance is not applied on personal property but is applied on the structure, so be aware of what this means and how structure payments can be reduced due to the co-insurance clause.

## Can I write inexpensive policies for basic insurance coverage?

Basic coverage \$20,000 structure \$8,000 personal property can be as low as +- \$200 annually in an area where flood is unlikely. The point here is – some flood insurance can be purchased inexpensively if the probability of loss is low. **Extreme caution needs to be used when writing such a policy, “refer to claim example below”** and the summary above”.

## How much insurance is enough?

Flood can be a total loss quickly. You can insure the home on a replacement cost basis, but to have replacement cost coverage the amount of insurance must be at 80% or higher of the cost to replace at time of loss. The maximum amount of coverage on a residential structure is \$250,000 when using the Federal Flood Insurance program. Personal Property is limited to \$100,000. Private companies will offer additional coverage on top. So, Please don't advise the client that more coverage is not available.

**Client purchases a \$302 Flood policy with \$50,000 coverage on the dwelling and \$20,000 on personal property. Basement is flooded, loss is \$43,000. How much will he be paid in the example below? Payment – as low as \$3,340.**

- Has a loss of \$21,000 on personal property and cost to demo it.
- He has finished basement walls – partitions, doors and flooring – cost is \$2,000 to demo and \$5,000 to replace + \$1,000 for flooring – total \$8,000.
- He has a service entrance to replace + wiring for \$8,000, \$6,000 to replace the furnace and hot water heater + water softener- total \$14,000.
- Total loss caused by flood is \$21,000 + \$8,000 + \$14,000 for \$43,000.

The home costs \$200,000 to replace. The age of the home is 25 years. Co-Insurance requires that the flood insurance policy to have replacement insurance be at 80% of replacement of \$160,000. Policy limit purchased on the structure is \$50,000 or 31% (did / should \* Loss = payment) (50K / 160K \* 14K covered loss) = \$4,340 – deductible of \$1,000 = payment of \$3,340.

- Personal property is 100 % excluded. No coverage on the \$21,000

- Basement walls and finishing are excluded, same for flooring. No coverage on \$8,000.
- Service entrance and wiring + furnace and hot water heater + water softener – loss here is \$14,000, but co insurance applies. Only is 31% covered or \$4,340 less \$1,000 deductible = \$3,340 payment.
- Co- insurance clause applies on rest of repair. Requirement is to be 80% or \$160,000 to be paid on a replacement basis. Coverage amount is only \$50,000 on the structure. This is 31% (did / should \* loss)

## **What is the definition of Flood - “the trigger to cause a Flood Policy to provide coverage”.**

The flood policy requires a **triggering event**, “FLOOD”, by definition the flooded area, “TOTAL FLOOD SIZE”, must be at least 2 acres in area, **the flood must be on your property as well as a neighbors property – not just in the street.** This means that the flood water must clear the road and flood water is in your yard. Once this event occurs like this - the definition of Flood is triggered and now there is a flood s. This allows for payment for penetration through the walls by the flood water or backup of sewer and drain losses too.

## **If I have just backup of sewer and Drain No Flood Insurance and there is a flood “by definition of a Fed. Flood Policy”, do I have any coverage on my home insurance policy?**

Yes, if the flood water level is only into your yard – and has not gotten high enough to come up to your home walls, or into your basement then if your loss is from backup of sewer or drain and not leaks through cracks in your foundation wall, your backup of sewer and drain insurance on your home policy covers you.

## **If the water then keeps rising and becomes a flood, can I still collect on my backup of sewer and drain coverage?**

No, this is called concurrent cause of loss and most backup of sewer and drain policies won’t respond when there also is flood?