



TailoredRisk
Insurance Advisors



PERSONAL FLOOD INSURANCE

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What is a flood?

As defined by the National Flood Insurance Program (NFIP),

“(1) a flood is a general and temporary condition of partial or complete inundation of two or more acres of normally dry land area of two or more properties (at least one of which is your property) from a. overflow of inland or tidal waters; b. unusual and rapid accumulation or runoff of surface waters from any source; or c. mudflow.

(2) collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined in A.1.a. above.”

Flood zones

Flood zones are designated based on probability and severity of flooding. The zones were designed to set minimum building requirements for coastal areas and floodplains. Lenders often use them to determine flood insurance requirements.

Special flood hazard areas are high-risk areas:

- They begin with A or V and have at least 25% chance of flooding during a 30-year span

Non-special flood hazard areas are moderate-to-low risk areas:

- They begin with B, C or X and are responsible for more than 20% of NFIP claims

Undetermined flood hazards/unstudied areas:

- They begin with D and the flood insurance rates reflect the uncertainty of the flood risk

Primary and excess flood insurance

Flood insurance provided by FEMA through the NFIP is readily available to most homeowners. Regardless of issuing company, the NFIP policy will include the same scope of coverage and annual premium. The maximum coverage for the dwelling is \$250,000 and for contents it is \$100,000. The NFIP imposes a 30-day waiting period, which can be excluded for new home closings.

Excess flood is available to clients who prefer to insure beyond the maximum limits of a primary flood policy. Additional coverage limits can be structured in various ways. To purchase an excess flood policy, you must meet the underlying of a primary flood policy.

FEMA vs. private flood insurance

Over the last decade, the U.S. insurance market has seen more personal flood policies issued by private flood insurance companies. These private policies are underwritten and funded by each individual company (not the federal government)

Each private insurance company is free to set their underwriting guidelines, and therefore not every client will be eligible for coverage. They are also fully capable of setting policies for non-renewal, so coverage is not guaranteed upon each annual renewal.

While most private policy coverage forms are similar to the NFIP contract, there are different coverage advantages built into these policies. Private insurers are not limited to the NFIP's maximum Dwelling Limit of \$250,000 and Contents Limit of \$100,000. Clients are afforded more flexibility with these limits and can often customize coverage to better fit their needs.

Private insurers are also able to set their own pricing tables. Depending on location and building characteristics, a homeowner may see meaningful difference between the NFIP and individual private carriers. Private carriers are much less regulated, so they have more flexibility to raise or lower rates upon each renewal.

Since the emergence of private flood insurance is still a relatively new occurrence, the private carriers have much less experience settling catastrophe related claims. FEMA has significant resources and experience in mass flood events. However, they are known to impose many bureaucratic requirements that private carriers may not. FEMA doesn't employ their own claims adjusters, instead they contract with outside adjusters who do not have authority to fully settle claims. The private carriers are free to assign incoming claims to both outside adjusters and their own inhouse adjusters, assigning authorities as they deem appropriate.

How flood damages are valued – RCV vs ACV

Replacement cost value is the cost, without depreciation, to replace the part of a building that is damaged. Actual cash value is the replacement cost value minus the value of depreciation.

The NFIP Dwelling Form is based on either Replacement Cost Value (RCV) or Actual Cash Value (ACV). However, personal property will always be settled using the actual cash value method.

Home vs condo

Owners of a single family home can insure the building and contents. Coverage purchased as a condo owner can insure the improvements and betterments coverage, loss assessment, and separately, contents

If your condo is located in a high hazard zone the HOA is required to carry flood insurance for the building, including your walls-in coverage. This does not include your personal contents.

What is covered by building coverage

- The insured building and its foundation
- The electrical and plumbing systems
- Central air-conditioning equipment, furnaces, and water heaters
- Refrigerators, cooking stoves, and built-in appliances such as dishwashers
- Permanently installed carpeting over an unfinished floor
- Permanently installed paneling, wallboard, bookcases, and cabinets
- Window blinds
- A detached garage (up to 10 percent of building property coverage); detached buildings (other than detached garages) require a separate building property policy
- For a primary home, the dwelling will be RCV; for a secondary home, the building coverage will be ACV

What is covered by contents coverage

- Personal belongings, such as clothing, furniture, and electronic equipment
- Curtains
- Portable and window air conditions
- Portable microwave ovens and portable dishwashers
- Carpets not included in building coverage
- Washers and dryers
- Food freezers and the food in them
- Certain valuable items such as original artwork and furs (up to \$2,500)

Loss Assessment

Most flood insurance policies offer loss assessment coverage for condominium unit owners but not for single family homeowners. The available coverage will typically cover certain assessments levied by a condominium's homeowners association (HOA) for flood damage to the building and common property.

In situations where a flood damages the building or common areas of a condominium community, the association may levy assessments on individual unit owners for repairs or expenses not covered by the association's flood insurance policy. Loss assessment coverage afforded under an individual flood policy can help reimburse the policyholder for their share of these assessments (up to the dwelling limit specified in the policy). The coverage will only pay for loss assessments that are a result from direct flood damage to the specific building the covered individual unit is located in.

The HOA's commercial flood insurance will meet most individual lenders' requirements. However, the commercial policy will not cover loss assessments or damage to contents within an individual unit. Following Hurricane Ian, there were local reports of condominium assessments ranging from \$1,000 to \$50,000. We therefore recommend unit owners purchase primary flood coverage to avoid out of pocket expenses associated with HOA loss assessments and damage to personal property (within their unit or storage lockers).

What is not covered by flood insurance

- Property and belongings outside of a building such as trees, plants, wells, septic systems, walks, decks, patios, fences, seawalls, hot tubs, and swimming pools
- Cars (they should be covered under your auto policy physical damage coverage)
- Damage caused by moisture, mildew, or mold that could have been avoided by the property owner
- Currency, precious metals, and valuable papers such as stock certificates
- Living expenses such as temporary housing
- Financial losses caused by business interruption or loss of use of insured property
- Most self-propelled vehicles such as cars, including their parts

What is insured under building coverage in areas below the lowest elevated floor

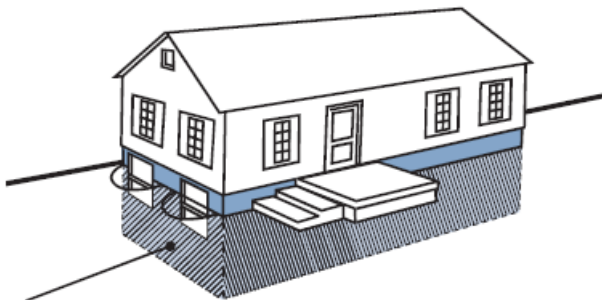
- Foundation walls, anchorage systems, and staircases attached to the building
- Central air conditioners
- Cisterns and the water in them
- Electrical outlets, switches, and circuit-breakers boxes
- Fuel tanks and the fuel in them, solar energy equipment, and well water tanks and pumps

What is insured under contents coverage in areas below the lowest elevated floor

- Washers and dryers
- Food freezers and the food in them, but not refrigerators
- Portable and window air conditioners

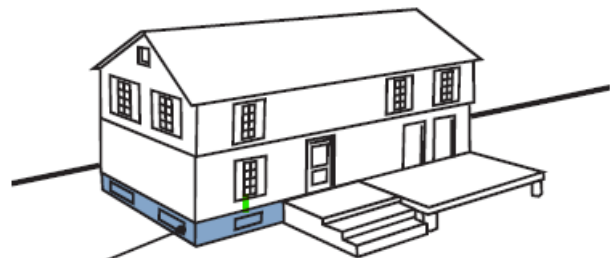
What is not insured under building or contents coverage in areas below the lowest elevated floor

- Paneling, bookcases, and window treatments such as curtains and blinds
- Carpeting, area carpets, and other floor coverings such as tile
- Drywall for walls and ceilings below the lowest elevated floor
- Walls and ceilings not made of drywall
- Most personal property, such as clothing, electronic equipment, kitchen supplies, and furniture



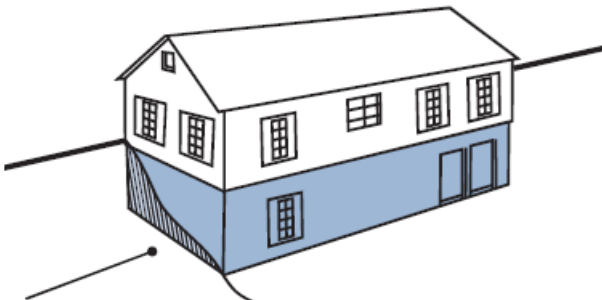
1. BASEMENT

Coverage limitations apply to "basements," which are any area of the building, including a sunken room or sunken portion of a room, having its floor below ground level on all sides.



2. CRAWLSPACE

When a building is elevated on foundation walls, coverage limitations apply to the "crawlspace" below.



3. ELEVATED BUILDING ON FULL-STORY FOUNDATION WALLS

Coverage limitations apply to the enclosed areas (lower floor) even when a building is constructed with what is sometimes called a "walkout basement."



4. ELEVATED BUILDING WITH ENCLOSURE

Coverage limitations apply to "enclosed areas" at ground level under an "elevated building." An elevated building allows water to flow freely under the living quarters, thus putting less strain on the building in the event of flooding. An "enclosure" is the area below the lowest elevated floor that is fully shut in by rigid walls.

What to expect at the time of a claim

An important distinction of flood insurance is that it is intended to restore you to livable conditions. There will not be coverage for loss of use.

In the event of catastrophic flooding, the NFIP and private carriers will commonly deploy outside adjusters to help settle the large volume of related claims. Outside adjusters will have limited authority and are not generally responsible for settling claims since they are not familiar with local costs of construction. They are usually focused on documenting sustained damage and reporting their finding back to the NFIP or private carriers. The involvement of multiple claims adjusters will often lead to prolonged negotiations/settlements.

Hurricanes will often generate damage caused by flood, wind, lightning, and fallen trees. As a result, clients will often need to file claims with their flood insurance policy and with their homeowners carrier. These cases will commonly generate Cause of Loss disputes between the flood and property adjusters (ie. wind driven rain vs flood).