

Flood Insurance 101

Let's say the river near your home overflows its banks after an excessive rainfall, causing severe damage to your home and its contents. Your homeowners insurance takes care of all related costs, yes or no?

Answer: Not at all! Why? Because damages caused by floods are specifically excluded from all homeowners policies. You need to have a separate flood insurance policy in order to be covered.

Flood insurance is a very necessary coverage for those who live in flood prone areas, and even for those in low-to-moderate risk areas. However, it is important to understand that while homeowners insurance is designed to bring your home and its contents back to the same condition it was in before a loss, flood insurance is only meant to get you back on your feet. To understand more about how this coverage operates and what it covers, please review the following topics:

Background information

In the not too distant past, flood insurance was unavailable because it was too costly for private insurers to offer. The national response to flood disasters was generally limited to constructing flood control works such as dams, levees, sea walls, etc. If you were a flood victim, the only recourse you had was the remote possibility of disaster relief.

In 1968, Congress established the National Flood Insurance Program (NFIP) with two objectives in mind. The first goal was to give property owners the opportunity to purchase insurance protection for flood losses. The second goal was to encourage communities to implement and enforce measures to reduce future flood risks in Special Flood Hazard Areas (SFHAs).

Today, individuals who reside in communities that make the effort to reduce flood risks can receive insurance as a financial protection against flood losses. And the government has been able to lower its financial risk by having local governments take responsibility and steps to limit the chances (and the resulting devastation) of floods.

How flood insurance helps your community

By limiting development in areas of high flood risk and encouraging construction practices that help reduce the impact on structural damages, a community can protect its citizens against the high costs associated with flood disasters. The entire community benefits from effective flood area management: the risk of loss is lessened, the impact on property is decreased and property owners can purchase much needed insurance protection.

What if my community chooses not to participate in the National Flood Insurance Program?

Flood insurance is not available to residents of communities that don't participate. Also, if a federally declared disaster due to flooding occurs in a non-participating community, no federal financial assistance can be provided for the permanent repair or reconstruction of insurable buildings in Special Flood Hazard Areas (SFHAs). Your local insurance agent, community officials can inform you whether or not your community is participating in the NFIP.

What is a flood?

"Flood" is defined as a general and temporary condition of partial or complete inundation of normally dry land areas from:

- overflow of inland or tidal waters
- the unusual and rapid accumulation or runoff of surface waters from any source, or
- mudflows caused by flooding.

Do I need flood insurance?

Don't let the fact that you don't own beach-front property lull you into a sense of false security. The fact is that beach-front structures only account for 3% of all flood losses. Homeowners who live in high hazard flood areas should seriously contemplate purchasing flood insurance... especially when you consider that they have a 26% chance of having a flood loss over the course of a 30 year mortgage! Often, flood insurance is required as a condition of granting a mortgage if your lender determines that your home is in a high hazard flood area.

Even if you live in a low hazard flood area your property may still be at risk. Each year, about 25% of all flood claims paid are for property located outside high-risk areas. The good news is that there is a Preferred Risk program that offers substantial premium discounts for homes located in low hazard areas.

If you think your home is at risk, you might want to consider contacting your local agent or Travelers of New Jersey representative. Or you can check out special flood insurance maps published by FEMA (the Federal Emergency Management Agency). These maps (which indicate a community's flood hazard areas and the associated degree of risk) are usually kept on file at your local town hall or county building and are available for your review.

How can I get flood insurance?

About 85 private insurance companies participate in selling and servicing the National Flood Insurance Program for the federal government. Your local insurance agent or representative should be able to provide you with all the necessary information.

Waiting period rules

Don't wait until the water's rising to decide that you need Flood Insurance! There is a standard 30-day waiting period for new applications and endorsements to increase coverage. The effective date of the new policy will be 12:01 a.m. local time on the 30th calendar day following the application and premium payment date. The exception is for insurance purchased as a condition for a mortgage loan. In that case, the flood insurance is effective on the date of the closing.

Coverage availability/limits

Flood insurance is catastrophic insurance, which means there are limits on how much insurance will be provided. For example, residential buildings can only receive up to \$250,000 in coverage, non-residential buildings only \$500,000. Contents within the home are also limited up to \$100,000 for residential (\$500,000 for non-residential) locations.

What's covered?

Direct physical losses by flood are covered. Also covered are losses resulting from flood-related erosion caused by excessive waters accompanied by a severe storm, flash flood, abnormal tidal surge or the like, which result in flooding. Damages due to mudflows, if caused by flooding, are also covered.

Coverage is provided for flood damage to the building itself. This includes foundation elements, as well as posts, pilings, piers or other support systems for elevated buildings. Coverage is excluded for:

- Most buildings located entirely over water (like boat houses),
- Structures other than buildings (such as fences, retaining walls, swimming pools, underground structures), and
- Items like walkways, decks, driveways and patios located outside the building.

Coverage is also available on an actual cash value basis for the contents (your personal possessions) located inside the building. However, it's very important that you know that coverage on valuable items

(such as artwork, rare books, jewelry and furs) and personal property used in business is limited to only \$2500. (A Personal Articles Floater will protect your most treasured possessions from many perils, including floods. You might want to contact your local agent or representative to learn more about this very important protection).

Remember, this section is not intended to be a complete description of coverage. Your policy, independent agent or representative can provide you with complete provisions.

Coverage for basements and enclosed areas beneath the lowest floor.

You need to be aware that flood insurance only provides limited coverage for these areas. Coverage is available for equipment necessary to the habitability of the building such as utility connections, sump pumps, well water tanks and pumps, fuel or water tanks, furnaces, clothes washers and dryers, food freezers and air conditioners. Clean up expenses are also covered. Likewise, basement dry walls (unpainted), sheet rock walls (including fiberglass insulation) and ceilings are covered.

However, finished structural elements (such as paneling and linoleum) and contents (such as rugs and furniture) in basements and enclosures are not covered.

Replacement cost versus actual cash value

Here's an extremely important point. Replacement cost coverage (which pays to replace or restore structure items) is only offered on a limited basis...and only for a single-family dwelling that is your principal residence. To receive replacement cost coverage on the structure, you must be insured for at least 80% of the building's replacement cost at the time of the loss or the maximum amount of coverage available, whichever is less.

Contents losses are always adjusted on an actual cash value basis. That means that you only receive what the item was worth as of day of the loss. For example, if you bought a \$300 color television two years ago and it was damaged in a flood, you might only receive about \$50 for it, if that is what the equipment was worth on the day of the flood. Your building loss would also be handled this way unless you qualified for replacement cost coverage.

Remember, flood insurance is not meant to restore your home to its original condition, just to get you back on your feet! And, it's much better than having no coverage at all.

Deductibles

A deductible is the amount you have to pay out of your own pocket before the insurance coverage kicks in. Standard flood deductibles are \$500 and \$750. Higher deductibles are available to reduce policy premiums. Please be aware that with flood insurance your deductible will be applied to both your building and its contents, even though they might be damaged by the same flood.