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Flood Coverage Not All Wet



With several years of erratic weather behind us—and predictions of more to come—flood is an increasingly real threat to many U.S. homeowners and businesses. WSI Corp, a Massachusetts-based provider of weather-driven solutions, predicts 13 named storms for the 2009 hurricane season—higher than the 1950-2009 average of 9.8 storms.

Creative producers focus on the opportunities such climate changes can present.

Williams Insurance Agency, Rehoboth Beach, Del., and Neefus-Stype Agency Inc., Aquebogue, N.Y.—both named by the National Flood Insurance Program (NFIP) among its top agencies for 2008—prove how innovative and proactive marketing can turn into a flood of new business.

Adequate flood insurance is essential in nearly every area of the United States. Along the Northeast Coast, the threat comes from nor'easters, storms resulting from low pressure fronts that move up the coastline. Bud Clark, vice president of Williams Insurance Agency, Rehoboth Beach, Del., said that in his region, nor'easters and local heavy thunderstorms can create heavy floods. These unpredictable storms can decimate portions of towns and drop 10 inches of water in an hour's time, Clark said.



Bud Clark

This provides marketing fodder for Williams Agency, which brings in \$25 million in premium volume with its 10 agents. Flood insurance brings in about 5 percent of total premium. "It gives us more ideas to throw at people," Clark said. "When Katrina hit, we did our first major push for insurance and that was fresh in people's minds even though this area had not been hit. The two items together provide a one-two punch."

The threat of bad weather provides an opportunity to act as a consultant for creative agencies. Neefus-Stype Agency reviews the projections and procedures in the summer before the heavy storm season, said John Stype, CIC, senior partner with Neefus-Stype Agency Inc.

Nor'easters also hit this area and Stype said that flood claims may occur in the winter—not always during the summer hurricane season.

The erratic weather—and capitalizing on clients' fears—is one of the many reasons why these two agencies have been named NFIP agencies of the year. Stype said his agency mails brochures produced by NFIP and Fidelity (Neefus-Stype's flood insurer) to clients who have purchased homeowners policies. To protect against E&O, the agency requires clients to sign a flood insurance rejection letter if coverage is declined. The agency also adds stickers to homeowners policies alerting insureds that floods aren't covered under homeowner's insurance. Since launching these initiatives in 2006, Neefus-Stype has seen flood insurance policies grow from 5 percent to 15 to 20 percent each year, Stype said. And when flood insurance accounts for 2 to 3 percent of \$25 million in total premium volume, that is a sizeable increase.



John Stype

Williams Insurance Agency has adopted similar initiatives and seen comparable results. The agency recently launched a mailing to current clients featuring information about hurricanes, local storms and NFIP facts. Over a 4-month period, the agency wrote more than 300 new policies, compared with only 10 to 20 policies without the marketing efforts, Clark said.

Clark also said that the agency provides local real estate agents information on flood insurance and different flood zones.

If H.R. 3121 passes Congress in its current form, both agencies may see growth because of the bill's provision allowing increased coverage limits (see the November AA&B's "Legislative Roundup"). Clark said many of his clients have second homes, which would have flood insurance coverage under H.R. 3121. Another advantage is that H.R. 3121 remaps floodplains to ensure proper zoning for property locations. The bill could also include business interruption insurance and optional replacement cost on contents and options for coverage for a finished basement.

Trends and the Future

Stype predicts that the legislation will be the main issue for 2009. "If it's not renewed, claims don't get paid," he said.

Clark sees different challenges ahead for the year. "I would like to see local municipalities take a greater role in determining where it is safe to build structures," he said. "People shouldn't be building homes in coastal barrier resource areas. If the county can get tax money, they let it happen. I am beginning to see a trend where counties and municipalities are taking a stronger stance [determining where it is safe to build structures]."

And while he predicts that state and national legislators will continue to focus on floods and other catastrophes, the current economic situation has made many insureds reluctant to spend more money on insurance, Stype said.

"If they don't need it, they don't want to purchase it," he said. "We see a trend of many clients not purchasing all of the insurance they really should get to take care of their larger losses. But with the catastrophes that hit our nation, our insureds are starting to see the cause and effect a flood could have in our area."

Clark and Stype agreed on the importance of consumer education about the need for flood insurance and exactly what it covers. Under current flood insurance policies, basement coverage is bare bones; while the basement structure is covered, contents of a finished basement are not. Trees, septic tanks, and swimming pools are also excluded under a flood insurance policy. Insureds should know their flood zones and elevations. It's important to clarify that floods are a nationwide problem. An insured can check his risk for floods at www.fema.gov at the FEMA Map Service Center.

"Almost everybody has an exposure to floods," Stype said. "You can't base purchasing coverage on what has or hasn't happened in that property over the past 40 years."

Flood Stats

Table 1

Year	Flood Policies in Force
1978	1,446,354
1988	2,149,153
1998	4,235,138
2007*	5,653,949

Table 2

Year	Total Coverage
1978	\$50,500,956
1988	\$175,764,175
1998	\$497,621,083
2007*	\$1,139,822,517

* 2008 data not available. Source: www.fema.gov

NFIP Extension

Years ago, flood insurance was too costly for private insurers to offer. If you were a flood victim, your only recourse was disaster relief. The National Flood Insurance Program (NFIP), established in 1968, changed all that by providing property owners the opportunity to purchase insurance protection for flood losses, with coverage provided by a pool of participating private insurers. Community participation in NFIP is voluntary, and currently more than 20,000 communities are onboard. Flood mitigation is part of the program through the development of building standards. Buildings constructed in compliance with

NFIP standards sustain 80 percent less damage annually than those not built in compliance, NFIP states.

The program has been in the headlines because of its need for Congressional reauthorization. In June 2004, President George Bush signed the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004, reauthorizing NFIP through September 2008. That month, a 7-month extension (H.R. 6965) was passed to reauthorize NFIP through April 30, 2009.

Among other initiatives, H.R. 3121, the Flood Insurance Reform and Modernization Act of 2007, looks to extend NFIP to 2013. The bill passed the full house in September 2007 and a different version passed the Senate in May 2008. The two chambers have yet to resolve their differences and have the bill be signed into law by the president. The bill would reauthorize NFIP for another 5 years and ban insurers who offer NFIP policies from excluding wind coverage if wind and flood destroy a home at the same time.

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