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*"The current flood policy is full of coverage exclusions, restrictions and limitations on how much it will pay."*

## The Coming Hurricane Winds of Skyrocketing Flood Insurance Premiums

*2.4 million Floridians live less than four feet above the high tide line along our coastal shores. Given the astonishing number of properties and people this represents, the cost prohibitive increases in the National Flood Insurance Program (NFIP) and the severe ramifications that will follow, deserve more attention and debate.*

The media is finally waking up to the major increase policyholders will see in their flood insurance policies. Our public adjusters are already seeing an impact on the insurance claims market. Here's my take based on our assistance to Superstorm Sandy victims and our dealings with the NFIP over the years.

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Our team of adjusters at Tutwiler & Associates learned a lot of lessons from Super Storm Sandy. Now, with the underwriting issues surrounding the new federal flood legislation, things are looking worse for property owners in coastal communities around the country. The news is just starting to roll out in these waterfront communities about a law passed by Congress that may have catastrophic unintended consequences on property owners who have relied on FEMA Flood Insurance coverage going back as far as 1968. The irony is that government has allowed and even encouraged people to build in these same communities (See [The New Flood Insurance Disaster](#), New York Times article)

The Biggert-Waters Insurance Flood Reform Act of 2012, also known as B-W-12, was passed by Congress ostensibly to make the NFIP actuarially sound by raising flood insurance premiums to mirror the actual flood risk where the insured property is located. There is however a school of thought that as a result of this "reform act," there may very well be an exodus of policyholders from the program due to the draconian price increases being proposed. This depopulation if it happens may negate the intended effect of raising rates to make the flood program actuarially sound in and of itself.

To provide an example of what is coming, if your property is in a V-Zone (velocity of water pushing forward in contrast to rising water) in a non-elevated home (slab on grade), you can expect to pay a lot more than someone across the street whose home may be in an A-zone designation with an elevated home that meets flood map height requirements. If you own a non-owner occupied second home or one used as a rental, your rates will skyrocket. The same proposed rate structure applies to a home that is not in compliance with height requirements and the policy lapsed because the premium was not paid on time. Folks, you need to make sure your mortgage company or others who pay your flood premium does not let it lapse. If so, it will cost you big time.

If implemented as written, these rate increases will jolt homeowners and commercial property owners financially in the coming year. If you or a friend owns any waterfront property, now is the time to call your agent. While each property situation will vary, you will likely be shocked based on all I am reading.

So expect major increases in flood insurance premiums and, as an unintended consequence, a significant devaluation in property values for coastal properties in flood zones across the nation. Local municipalities who have relied on the property tax revenue from these homes may be in for a shock of their own and should be lobbying their federal representatives. Increasing windstorm premiums along with the proposed flood rates will likely make coastal living affordable to only the very wealthy.

**See more articles on the new flood dilemma:**

[A Year for Flood Insurance](#) (NBC News)

[Rising Flood Insurance Rates Could Hurt Real Estate Market](#) (Tampa Tribune)

While I suspect most folks would agree that a federal program that is billions in the red needs some type of reform, using a sound reasonable approach implemented over time would have been the better approach than using a draconian sledgehammer. The really sad part is that I was told this flood "reform" legislation was tacked on to a transportation bill and was not even debated by Congress. Thus no input from property owners, real estate professionals, or others was solicited that would have provided valuable real world input on the likely devastating effects of this "reform." So much for transparency of our government and the elected officials we sent to Washington.

Since it appears this train has already left the station, now is a good time to lobby to make flood policies actually fully cover flood damage. After all, since these new premium increases are supposed to make flood policies actuarially sound, should not the policyholders really be made whole from a flood loss? I think so, and I think consumers need to lobby their congressional representatives to get flood policies and the terms of coverage in line with private market property insurance coverage standards.

The following are a few items we all should demand from the NFIP:

**1.** As flood insurance rates skyrocket to reflect actual risk exposure, policyholders should be able to purchase limits that cover the real risk of flood damages they can expect to have in a major flood event. Today, flood policies limit coverage to a maximum on the structure of Coverage A to \$250,000. Property values (notwithstanding the great recession bubble) and the cost to repair them may for many far exceed this limit. Commercial policies are limited to \$500,000 and other limits apply to condominiums. So let's permit the consumer to choose what limit they want or can afford. \$250,000 is nothing in today's environment and let's remember the demand surge issue and the costs for construction and labor that likely will follow a major Cat loss like Super Storm Sandy or perhaps a late season 2013 storm. These costs can quickly eat away from policy limits now authorized by the NFIP/FEMA flood program. As a by-product of adequate flood limits, the fight over wind versus water and the anti-concurrent causation issue may be avoidable, thus limiting lengthy and costly litigation and its inherent unknown outcome. Boy, wouldn't that be a good thing!

**2.** As we are seeing in Sandy claims, policyholders whose flood damage exceeded 50% of their pre-loss structural value are now running into the "50% rule" which requires them to either raise the structure to current flood elevation heights or tear down the damaged structure and build a new one to comply with updated building codes. The cost of this law and ordinance requirement will be covered up to \$30,000 providing your actual flood loss does not exceed \$220,000 (assuming you have the full \$250,000 coverage). The NFIP will allow you to use the remainder of the \$250,000 policy (\$30,000) to comply with that cost, provided you actually do the work. The actual cost depending on the size and location to elevate can run tens of thousands of dollars above the \$30,000 that may be available in a flood policy. This is so bad that some folks in the northeast are trying to give some of their flood payments back to the government so they can stay under the 50% threshold! So my message to NFIP is to please provide some realistic Law &

Ordinance coverage, figure a fair price, and let the consumer choose. For you Tea Party people out there, this may reduce the government giveaways we saw in Sandy where as much as \$33,000 was given as a grant from good old Uncle Sam if no insurance was purchased by the property owner. Sad but true. Want to check up on how Uncle Sam's largeness worked in Hurricane Katrina? Do a little background investigation on the Road Home grant money that was given away, it may surprise you!

**3.** The current flood policy is full of coverage exclusion and restrictions and limitations on how much it will pay. In other words, it is a barebones policy. Do you know what "direct flood damage" means? Well, if your home is flooded and the base kitchen cabinets are destroyed, direct flood damage means that since the flood water did not touch the upper cabinets, your family will have kitchen cabinets that do not match. Flood will pay to replace the flooded base cabinets but not the uppers. If you want your kitchen cabinets to match, that's out of your pocket.

**4.** Here's another example of a flood policy issue that is just mind-boggling. Water weighs 8 pounds per gallon. So imagine how much weight 4 or 5 feet of flood water pushing down on your slab represents. In all likelihood this will cause some sort of slab foundation damage. Is this flood damage? You bet. But the flood folks call this "earth settlement," which of course is excluded. But if you can show that dirt under the foundation is "eroded" away by the water, policy money is made available for this. Coverage also applies if hydrostatic pressure is pushed up from below and damages the slab.

Folks, I could go on and on about the nuances that have evolved over the years with this Federal program. The fact is that much of the damages caused by a flood are not going to be covered under the current program and if it is, coverage amounts will be severely restricted based on today's replacement costs.

In conclusion, if flood rates are allowed to rise to reflect the actual risk, then let the flood program offer proper coverage for a price that will cover the actual flood damages. Finally, how about a graduated rate increase from Uncle Sam to allow homeowners hit by Sandy and other future storms time to recover in our coastal communities as well as the ability to adjust for loss of property values and tax revenue given the fact that homeowners have become addicted to low subsidized rates. Even the most hardhearted conservative would probably allow for some rehab time to adjust to the coming "reforms."

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