



Issue Date: FEBRUARY 2008, Posted On: 1/25/2008

Details can make the difference in flood insurance

by Parke Ellis, CPCU, Gillis, Ellis & Baker Inc./New Orleans, Louisiana



Flood insurance long has been a basic product for New Orleans agencies—even before Hurricane Katrina led to the worst flooding in the city's history. Indeed, for Gillis, Ellis & Baker Inc., discussing the coverage with our clients has always been integral to the way we do business.

Like most agencies, we write the great majority of this business via the National Flood Insurance Program. For single-family homes and multifamily housing with up to four units, the basic program can provide up to \$250,000 of coverage for the building and \$100,000 for contents. Businesses, meanwhile, can get up to \$500,000 of coverage for both buildings and contents. Agencies don't access the program directly, but rather through "Write Your Own" private insurance companies (ours is American Bankers Insurance Co.), which offer the coverage on behalf of the NFIP.

While practically all agents know these basic facts about the NFIP, not all are familiar with the program's nuances. Knowledge of those details, some of which I'll mention in this article, have helped us obtain business in many instances. More important, they have enabled us to provide the best possible protection to our clients.

In all, we write nearly \$2 million in flood insurance premiums. About \$700,000 of that comes from some 800 personal-lines clients, while approximately 250 commercial-lines insureds have paid an additional \$1.2 million for coverage.

About 80% of our personal-lines clients have bought flood insurance, which is not surprising, since homeowners located in an NFIP Special Flood Hazard Area (where property has a 1% or greater chance of flooding in any given year) are required to have the coverage to obtain a mortgage. Of course, a great deal of New Orleans and the surrounding area in which we do business lie within such areas.

In commercial lines, about 25% to 30% of our clients carry flood insurance. That may seem low, but it is partly attributable to the fact that many of our commercial accounts are located in high-rise office buildings, where none of their own property is exposed to flood.

Following Katrina, the great majority of our clients submitted a claim of one sort or another. (I'll comment on that experience a little later.) We did not have one allegation, however, that we failed to sell flood insurance to a client who should have had it, so I'd like to think that everyone who needed the coverage had a policy—or that we at least had properly counseled them.

We write a number of condominium associations as part of our commercial book. But under the NFIP, an entirely different set of rules—the Residential Condominium Building Association Program—applies to them. Rather than having to settle for the aforementioned residential or commercial limits, condos can buy limits equal to their full replacement cost or \$250,000 times their number of units, whichever is less.

The RCBAP program proved crucial to one of our clients, a \$3 million condominium that we initially found

insured for just the \$500,000 regular commercial limit. Using the RCBAP, we increased the limits on the condo's real property to full replacement cost. When Hurricane Katrina hit, the condominium experienced a \$1.8 million flood loss—which was covered in full. Under the condo's original limits and coverage, which was subject to unmet coinsurance requirements, the condominium association would have recovered just \$21,000.

Sales and marketing

That condominium case, incidentally, is described on our Web site. Among other things, the site also discusses flood insurance requirements for those financing a home with a mortgage. The site also urges *all* property owners to consider the purchase of flood insurance. A huge misconception people had before Katrina was that if you don't live in a Special Flood Hazard Area, you don't need flood insurance. To the degree that mortgage lenders didn't require the coverage for homeowners in NFIP Flood Zone B (areas with a 0.2% chance of flooding in a give year) or Flood Zone C (those with less than a 0.2% chance), they may have contributed to some residents' false sense of security. But following Katrina, the peril that even those areas face became evident. Particularly given that flood insurance in Zones B and C is available at preferred rates, many property owners in those areas have decided that forgoing coverage is not worth the risk.

Other than maintaining the aforementioned information on our Web site, we don't do much to promote flood insurance. (In New Orleans, the coverage doesn't have to be marketed very hard.) Each spring, however, we do send all our clients a one-page newsletter, called April Showers, urging any without flood insurance to buy it and explaining how the coverage works. Hurricanes aside, April and May historically have been the time when heavy rains produce flooding in this area, so it's a good time for a reminder. After each mailing, we get calls from clients interested in buying coverage.

All producers sell flood insurance

Gillis, Ellis & Baker has 10 producers. In commercial lines, they recommend flood insurance to every client and prospect. Should a business express interest, the support staff determines the property's flood-zone status (via online software provided by our WYO carrier) and rates it. The producer then offers the quote as part of the proposal. The producers also sell personal-lines insurance. They're backed up by three personal-lines CSRs who are literally flood-insurance experts.

Flood-insurance regulations change frequently, so we make it a priority to keep our staff up-to-date. Our WYO company is extremely helpful in this regard. Now and then they conduct in-house classes for our CSRs. They also regularly e-mail us NFIP updates.

In personal lines, we are extremely reluctant to write flood insurance without also writing a client's homeowners coverage, although we occasionally get requests to do so. Inquiries, for example, sometimes come from property owners, insured by direct writers, who may be under the mistaken impression that their carriers don't participate in the WYO program. Or we may get a call from the neighbor of a client for whom we saved a lot of money after determining he or she was eligible for preferred rates. But we believe the same agency that handles an insured's homeowners business also should deal with the flood insurance. Following a hurricane or other event that leaves the cause of damage—wind or water—in question, we don't think it's fair to compel a client to deal with two agents (and their adjusters), who may point fingers at each other rather than give all their attention to the client.

The homeowners and flood insurance coverages also need to be coordinated, a task best handled by one agent. Under the flood insurance program, if you buy the maximum dwelling limits—\$250,000—then your coverage is for replacement cost, regardless of the property's value. So for clients whose homeowners limits are \$250,000 or more, which is the case for many of our clients, we make sure that their flood-insurance limits are set at the maximum. If we have a house that's insured for less than \$250,000, we try to make sure the flood-insurance limit matches the homeowners limit.

For homes that have a replacement cost greater than \$250,000, we also inform owners that they can buy excess flood insurance in the private market. Surprisingly, even after Katrina, we've had only 13 takers, mainly because excess flood insurance is expensive. In fact, annual premiums can reach five figures.

With the WYO program, one knows how much coverage to buy—enough to cover the home's replacement cost, up to the NFIP's \$250,000 cap. But with excess flood insurance, the decision may not be so simple.

Does a client with a multistory mansion valued at, say, \$2 million buy complete replacement cost limits? Does the client opt for something less, figuring that only the first floor is likely to be damaged in a flood? Or does the client conclude that a house doesn't have to be inundated to collapse into a total loss? Some excess-flood carriers render such questions moot by requiring buyers to insure to 100% of replacement cost, but others offer more leeway, which can leave clients in a quandary. Our advice is to always insure to replacement cost. The last thing we want is to have a client spend the considerable sum of \$10,000 on excess flood insurance—and then find out it wasn't actually enough.

Selling to business

Katrina changed our commercial clients' interest in flood insurance. Many businesses don't have a mortgage, which could compel them to buy flood insurance, so the coverage tended to be a "backburner" issue. You took care of the essentials first—standard property coverage and liability—and maybe later got around to flood insurance. Now, however, the coverage comes up much earlier in discussions.

But while our commercial clients' demand for flood insurance has increased following Katrina, I can't say it has become a stampede. Some businesses even make a counter-argument for skipping flood insurance: "We had the worst case-scenario with Katrina, and my building wasn't touched, so I don't need flood insurance."

In reply, we point out that maybe for them Katrina *wasn't* the worst-case scenario. We remind them that had the canals and levees failed some place other than where they did, it could have been *their* buildings that were under water. Also, we point out that tropical storms can just sit over a city—the way Allison did over Houston, where it dumped 21 inches of rain—and flood everything in sight. Still, selling flood insurance to those who emerged unscathed from Katrina can be a challenge.

Following Katrina, a great deal of home rebuilding has been taking place in New Orleans. For our clients, we've stressed the importance of ensuring that their homes are rebuilt above the base-flood (100-year flood) level. Compliance with building regulations aside, the difference in the annual cost of flood insurance for a typical house situated below base-flood elevation and one built above it can easily be \$1,000 or more.

We can refer clients to survey firms that can help them ensure their structures are at the proper elevation. The NFIP's flood insurance manual has diagrams that show how base-flood measurements are affected by such things as piers, basements, crawl spaces, etc. All the surveyors and civil engineers we recommend have a good working knowledge of those diagrams, so we know they will give our clients the information they need to rebuild their homes right—and save them money on flood-insurance premiums.

The existence of a basement is a particularly critical piece of information. From the outside, it's not always easy to tell whether a house has a subgrade basement. And while New Orleans—a city famous for its above-ground cemetery vaults—doesn't have that many basements, they do exist. So when selling flood insurance, we always ask clients whether their homes have basements—and sometimes are told no agent has asked before.

Here's why the question is vital: Suppose a client buys a flood insurance policy for \$500 but the agent fails to find out that the house has a basement. A flood occurs, and after the client turns in a claim, an adjuster discovers the basement. Its existence means the house's elevation in relation to the base-flood level is entirely different from what the WYO insurer thought it was. Consequently, the insurer will retroactively re-rate the policy, which now provides only the limits that \$500 buys for the house at the corrected elevation figure. Thus, the client may discover that instead of having \$250,000 of flood insurance for the dwelling, he has just \$80,000; and rather than \$100,000 of contents coverage, he has only \$20,000. Depending on the size of the loss, the agent could be in real trouble.

Basements aside, it is vital that all agents selling flood insurance understand the base-flood elevation concept. It's also crucial to ensure that the house's elevation above or below the base-flood level, as reflected in the elevation certificate accompanying the application, is accurately determined.

Having said that, there are cases in which a structure's elevation is not an issue. In fact, elevation certificates are not even required for "pre-FIRM" buildings. These are structures that were erected before the effective date of a city's first Flood Insurance Rate Map (FIRM). (New Orleans' rate map took effect in 1974.) We always try to determine the age of a structure to see if it qualifies for pre-FIRM rates, which

are designed to be low enough to help owners afford flood insurance, despite their structures' elevation or type of construction.

Our agency's role in handling flood-insurance claims primarily consists of taking the client's information, forwarding it to the carrier, and following up regularly with the adjuster while keeping the client informed of the claim's status. We have a one-person claims department that under normal conditions handles flood insurance claims along with all others. Of course, normal conditions rarely apply to floods. You never have just one claim; instead a heavy rain might produce 100—or even 500.

And then, of course, there was Katrina, which for us resulted in more than 2,500 claims—many of which had a flood component. Initially, just reporting these claims was enough challenge by itself. With the city in chaos, we implemented our disaster plan and set up shop in Baton Rouge in a double-wide trailer equipped with 20 computers. We initially routed claims through a third-party service provider—we posted their toll-free number on our Web site—which continued to take calls for us as we got back up on our feet.

As our clients reported flood claims, we processed them as quickly as possible and got them off to American Bankers, while dealing with the less-than-ideal conditions. Many clients called the insurer directly. Fortunately, it kept a constantly updated log of these claims for us. We coordinated the claims we received with those submitted to the carrier to ensure there was no duplication.

For months after the storm, everybody in this agency—from the chairman on down—continued to take claim reports from clients. We also spent a lot of time reassuring clients and tracking down their adjusters, who frequently were reassigned to other accounts, as insurers contended with the monumental recovery effort.

Katrina taught us and our clients that regardless of how rare a catastrophe might be, the risk is very real. New Orleans used to have a cavalier attitude toward hurricanes, assuming the long-anticipated Big One would never really hit—and then it did. Now, every June, with the start of hurricane season, we can feel the community get nervous. It's our job is to allay this anxiety by ensuring our clients have the right coverage—and a big part of that is flood insurance.

Parke Ellis is chairman and a third-generation owner of Gillis, Ellis & Baker. The agency, which has 35 employees, ended 2007 with about \$70 million in premium volume and \$7 million in total revenue. Mr. Ellis joined the agency in 1981, after obtaining a degree in business administration from Washington and Lee University. Mr. Ellis, who holds the CPCU designation, serves on the board of the Independent Insurance Agents & Brokers of Louisiana and is the current president of the Associated Risk Managers of Louisiana.

Please tell us how interesting you found this article:

- Not interesting; not applicable to my business
- Somewhat interesting; worth reading
- Very interesting; very applicable to my business

Please Provide Your Comments and include your email address:

Submit