

Reality Check

Spring Rains Bring Disaster

The flooding problems that AccuWeather.com feared would ensue across the Northeast have evolved. Unfortunately, flooding will remain an issue for many communities through the next several days.

Melting snow was a significant contributor to the flooding across the central Appalachians. The arrival of colder air will slow the melting rate the rest of this weekend. A few mountain peaks will even have snowflakes.²

Individuals living in low-lying areas often look forward to spring with dread. Rather than thinking about warmer temperatures and budding flowers, these families and their communities start preparing for floods. This is particularly true when spring rains follow a winter season with heavy snow amounts. Thawing snow causes the ground to become saturated, and even minor downpours can cause significant flooding. A major storm system with many days of rain can only lead to disaster.

In 2008, floods in large areas of the Midwest caused billions of dollars in property damage and loss of life. Cedar Rapids, Iowa, suffered significant effects from this storm. In 2009 and 2010, heavy rains combined with melting snow caused flooding in the Red River Valley and particularly in Fargo, North Dakota, resulting in substantial property damage losses. Similar weather patterns also caused spring flooding and property damage in states along the East Coast and into New England in 2007.

Such events underscore the importance of flood insurance to individuals and businesses as well as the fact that the flood loss exposure is not limited to coastal locations.

[DA05803]

NATIONAL FLOOD INSURANCE PROGRAM COVERAGE CASE STUDY

Floods are typically catastrophic losses that affect large numbers of insureds at the same time. Claim representatives handling flood losses are generally under pressure to settle claims quickly and fairly when resources may be scarce and conditions difficult. A thorough understanding of how to determine coverage and the amount payable in a flood claim can help claim representatives manage challenging circumstances efficiently.

When adjusting a flood insurance claim, the claim representative must establish the facts of the case and then analyze the policy wording itself to determine whether coverage exists for the loss and, if so, the appropriate amount to offer in settlement of the insured's claim.



Case Facts

When a community has applied to the Federal Insurance Administration (FIA) to participate in the National Flood Insurance Program (NFIP), and had been approved for inclusion in the regular program, what happens when a flood occurs in that community? How are flood losses actually adjusted?

Anytown is located along the banks of the Winding River. The town participates in the NFIP regular flood program. It is spring, and melting snow and heavy rains have caused the Winding River to overflow, flooding many of the homes and businesses in town. The flooding lasts two weeks before the muddy water begins to recede.

William is an NFIP-certified flood adjuster who works for an independent adjusting firm. He and several coworkers have been sent to Anytown to assist in handling the numerous losses that have occurred. The first claim that William is assigned involves damage to the home of Max and Felicia, who have a separate HO-3 policy in addition to an NFIP Dwelling Form. The couple has owned the home for several years and has a mortgage on the property with the local savings and loan association. The NFIP policy limits are \$175,000 on the dwelling and \$60,000 on the contents. The policy deductible applies separately to the dwelling coverage and to the contents coverage. See the exhibit “Flood Insurance Coverage Facts.”

Flood Insurance Coverage Facts	
Insureds	Max and Felicia
Policy	NFIP Standard Flood Insurance Policy Dwelling Form
Building Limit	\$175,000
Contents Limit	\$60,000
Deductible	\$1,000 Building coverage \$1,000 Contents coverage
Endorsements that affect the case	None
Background	Insureds have complied with policy conditions

[DA05931]

As required under the terms of the policy, the insureds have submitted a proof of loss detailing the estimated value of their claim. These values exclude items of property contained in the basement, which are not covered under the NFIP Dwelling Form (see “Section III, Property Covered” in the NFIP Dwelling Form). The flood damage to the couple’s home is extensive in the basement



and on the ground floor. All of the drywall and wall-to-wall carpeting needs to be replaced, and the furniture is damaged beyond repair. The refrigerator, stove, and built-in dishwasher cannot be salvaged, nor can the television, DVD player, or personal computer. In addition to the damage at their home, Max and Felicia incurred the cost of staying in a hotel during the flood and will continue to stay there while their claim is settled and their house and contents are repaired or replaced. See the exhibit “Max and Felicia’s Estimate of the Value of Their Claim.”

Max and Felicia’s Estimate of the Value of Their Claim

Item	Estimate
Structural repairs to the home	\$45,000
Carpeting	\$7,000
Refrigerator, stove, and dishwasher	\$3,000
Furniture	\$30,000
Television, DVD player, and personal computer	\$2,000
Hotel stay	\$9,000

[DA05932]

Case Analysis Tools

To determine coverage, William will need a copy of Max and Felicia’s NFIP Dwelling Form, including the policy declarations. The declarations page identifies who is covered, the location, and the policy period, as well as any endorsements that may apply. A description of the dwelling as well as the coverage limits are also listed on the declarations page. To determine whether the policy covers this loss, William will apply the DICE method. See the exhibit “DICE Decision Tree.”

Determination of Coverage

As a first step in the DICE method of coverage determination, William examines the declarations page of Max and Felicia’s policies. Because it has been determined that this loss resulted as a consequence of a flood (see the “Definitions” section of the NFIP Dwelling Form), the homeowners policy will not provide coverage. In reviewing the NFIP Dwelling Form, William notes that the property for which they are submitting their claim is the insured location on that policy. The loss occurred during the policy period. The policy limits are \$175,000 on the home and \$60,000 on the contents. The \$1,000 deductible on the policy will apply to both the building portion

