Avoiding Errors & Omissions In Flood Insurance

Moderator: M. Rita Hollada, CPCU, CIC, CPIA

Sally Combs, Technical Director, Professional Liability Claims, Fireman’s Fund Ins. Co.

Patrice Collingwood, Senior V. P., Marsh USA
WHAT YOU DO MAKES A DIFFERENCE!
Lessons Learned
Common Causes of E&O Claims

➢ No Flood policy in place at the time of the storm.
  ➢ Reason: Failed to offer flood insurance
  ➢ Reason: Failed to submit application on time or failed to submit payment with application
  ➢ Reason: Submission of a binder to lender
ANYBODY CAN FLOOD!
Avoiding Errors & Omissions In Flood Insurance

➤ Do you suggest flood insurance to every client regardless of flood zone?

Everyone is in a flood zone - some are just less hazardous than others.

Secure a signed rejection form!
Lessons Learned
Common Causes of E&O Claims

➤ No contents coverage on Flood policy
➤ Reason: Insured misunderstood that there is no automatic coverage
➤ Reason: Agent failed to specifically discuss contents
Lessons Learned
Common Causes of E&O Claims

- No coverage for Other Structures or Pool Cages
  - Reason: Agent failed to point out that each structure must be separately insured
  - Reason: Agent failed to understand definition of “building”
  - Reason: Agent failed to explain “Property Not Covered”
Avoiding Errors & Omissions In Flood Insurance

Do you inspect all of the properties that you insure?
Do you suggest a flood policy for each building on the premises?

The General Property Form and RCBAP do not provide coverage for appurtenant private structures. Coverage for a detached garage responds only on one-to four-family residential buildings insured under the Dwelling Form. The insured may elect to apply 10 percent of the building coverage for an appurtenant private structure. This is not an additional amount of insurance.

NFIP Adjusters Manual
What is a detached “private garage?”

We do not cover any detached garage used or held for use for residential (i.e. dwelling), business or farming purposes.

For example, a detached garage that has been converted and contains a separate room such as a play room, home workshop, laundry room, workout room, or bathroom receives no coverage unless it is insured under a separate policy.

NFIP Adjusters Manual
This is probably NOT a private garage
Lessons Learned
Common Causes of E&O Claims

➢ Inadequate limits overall
  ➢ Reason: Insured wanted to insure only what was required by the lender
  ➢ Reason: Agent failed to offer excess flood coverage
  ➢ Reason: Agent did not explain valuation of property
  ➢ Reason: Agent offered higher limit but failed to document the declination by the insured
Avoiding Errors & Omissions In Flood Insurance

Do you discuss the valuation method that will be applied to property at the time of loss

- ALL Personal Property - ACV
- MOST structure ACV
  - Exception; Single Family, Principal Residence insured to 80% of RC
  - Building in RCBAP
- No Coinsurance Clause other than RCBAP
Lessons Learned
Common Causes of E&O Claims

➢ Some items not covered by the Flood Policy
  ➢ Reason: Agent did not explain limitations in a basement or under certain elevated buildings
  ➢ Reason: Agent failed to point out “Property Not Covered” and “Special Limit”
Avoiding Errors & Omissions In Flood Insurance

- Do you review the limitations found in the flood policy
  - Limited coverage in a basement all zones
  - Limited coverage under a Post Firm elevated building in the SFHA
  - Property not covered
  - $2500 Total on valuable items
  - Exclusions
Avoiding Errors & Omissions In Flood Insurance

➤ **Property not covered**
  ➤ Wells and septic systems
  ➤ Property in the open (incl building materials)
  ➤ Anything outside the perimeter walls
    ▶ Screened porches OK
    ▶ Attached awnings OK
    ▶ Decks more than 16 sq ft
    ▶ More than one staircase to the deck
  ➤ Hot tubs and swimming pools
Flood Insurance for Specialty Risks

Patrice Collingwood
Senior V. P., Marsh USA
Inadequate coverage available for large property risks
- There is no scheduled policy form available
- Solution: Seek coverage in the excess market

Business income coverage not available from the NFIP
- The NFIP covers direct damage by flood; all indirect of financial loss must be sought in the specialty marketplace
Tenant Improvements and Betterments must be identified and insured properly

- Only one building may be issued per property address
- Tenant cannot purchase building coverage
  - Owner of a commercial condominium unit cannot purchase building coverage
- Owner and tenant can be joint named insureds
Business owner may not insure “Property of Others” under the NFIP policy
- No “Bailees” coverage
- No consignment goods

Vehicle dealers stock is not insurable for flood under the NFIP policy
- Automobiles
- Motorcycles
- Farm implements
BAILEE GOODS
Customer property held by commercial bailees, such as shoe repair shops, dry cleaners, laundries, and consignment shops, are not covered by the bailee's Standard Flood Insurance Policy (SFIP) for personal property. Only personal property owned solely by the insured is covered by the General Property Form. The bailor can take out a separate flood policy for his property while located at the bailee's location, provided the property location is that of the bailee.

There is no coverage for property such as the neighbor's lawn mower or the cable box under the Dwelling Form.

NFIP Adj Manual VIII-1
Trust owned properties

- How to express the Named Insured
- Documentation necessary to prove “Principal” residence to secure Replacement Cost valuation at the time of loss
- Documentation necessary to qualify for “Primary” residence surcharge
Avoiding Errors & Omissions In Flood Insurance

Do you confirm the ownership of the Building and Contents being insured?

Do you confirm that the named insured is the sole owner of the property being insured?

- We insure property owned by the insured and household members or property of guests or servants (Dwelling Form)
- We insure property owned solely by the named insured (Gen’l Property Form)
New Issues in Flood Insurance

M. Rita Hollada

V. P., The Insurance Professionals, Inc.
Avoiding Errors & Omissions In Flood Insurance

➤ Surcharges applicable
➤ “Primary Dwelling” vs. Non-Primary structures
  ▶ Clarify documentation necessary
  ▶ Clarify surcharge applicable
Avoiding Errors & Omissions In Flood Insurance

- Newly Mapped Properties
  - Observe eligible effective dates to qualify
  - Explain phase in of full actuarial rates
  - Estimate final premium
Avoiding Errors & Omissions In Flood Insurance

Grandfathering

- New property owner can assume policy
- Compare rates if grandfathered zone and BFE
- Rate the property as beneficial to the insured
Avoiding Errors & Omissions in Flood Insurance

➢ Do you confirm the flood zone and BFE on each property by
  ➢ Securing a Flood Zone Determination
  ➢ Reviewing the Community’s Flood Map

➢ Do you review the “Lowest Floor Guide”
  ➢ To confirm lowest floor for rating
  ➢ To confirm proper venting
Agency Practices to Avoid Errors & Omissions In Flood Insurance

➢ Do you monitor and review flood policy expirations / renewals?
➢ Do you review updates to the NFIP manual when issued?
   ➢ WYO Company Bulletins (NFIPiservice.com)
➢ Do you confirm coverage is on the correct policy form?
Avoiding Errors & Omissions In Flood Insurance

When I get back to the office . . .

I WANT TO . . .
BECAUSE . . .
SO I CAN . . .
Avoiding E&O In Flood Insurance

THE END