

TECHNICAL ADVISORY

TA 118

APRIL 15, 1998

SUBJECT: FLOOD INSURANCE - NEW ACORD FORM

BACKGROUND: Flood Insurance is an important coverage for most insureds in Louisiana. Flood Insurance is also a vexing E&O problem for agents.

MAIN POINTS: As with many other types of E&O claims, lack of adequate documentation in the offering of Flood Insurance often contributes to an unsuccessful defense by the agency.

Several issues complicate the situation. First, while mortgagees require Flood Insurance in high-hazard flood zones, homes in low-hazard areas often don't have flood coverage. Yet approximately 30% of flood losses occur in these low-hazard areas. And industry studies and surveys continue to show that a sizeable number of homeowners mistakenly think flood is a covered peril in their Homeowners Policy.

In addition, mortgagees typically require Flood Insurance only on the building, leaving a loss to contents uninsured, with the agency often having to document the offering and rejection of contents coverage.

As for commercial risks, Flood Insurance is much less often a requirement of mortgagees, thus a substantial number carry no Flood Insurance at all. According to the NFIP, of the nearly 4,000,000 Flood policies currently in force nationally, only about 600,000 cover commercial property. And even for those commercial insureds with Flood Insurance, there is no coverage under the NFIP policy for business income.

While 4,000,000 Flood policies seems like a lot, the NFIP estimates that nationally there are over 11,000,000 structures in A or V zones, which means well over 50% in these high-risk zones are uninsured. The figure is certainly larger in low-risk areas.

One last issue agencies must be careful of is the maximum amount of coverage available through NFIP. For residential insureds the

limit is \$250,000 for building/\$100,000 for contents. For commercial insureds, the limits are \$500,000/\$500,000. Coverage for insureds with higher values can be secured through either Excess Flood policies, or DIC (Difference in Conditions) policies. Business income coverage can also included in such policies.

Now the good news! With the vital need to recommend Flood Insurance, and document such offers, ACORD has developed a new form for just such a purpose. Titled "*Flood Insurance Notice/Rejection*" (Form 60), it will provide a standardized way for agencies to document the offering of Flood Insurance to clients.

A copy of the new ACORD Flood Notice/Rejection Form is attached.

As with any other E&O procedure, the key is consistent use, standardized procedures, and invariable practice!

**NECESSARY
ACTION:**

Circulate this Technical Advisory to appropriate agency staff in both Personal Lines and Commercial Lines. Obtain a supply of the new Flood ACORD 60 Form.