

## Catastrophe insurance

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Protections are available for local consumers in wake of floods, fires

One draw of Colorado living, some would say, is the endless variety. The suburbs, the city, the country, the mountains and the plains; living here means there's something for nearly everybody.

But living in Colorado also means preparing for challenges as unique as the state.

Blizzards, hail and thunderstorms are nothing new along the Front Range. But the summers of 2012 and 2013 have provided a wakeup call to southern Coloradans, and now planning for the unexpected is more important than ever.

As such, it's vital for homeowners and businesses to understand the evolving insurance landscape in order to protect possessions and property.

Where there's smoke

"[Insurance] definitely evolves," said Amy Bach of United Policyholders, an insurance consumer advocacy group based in San Francisco. "In fact, insurance companies are just like any other business. They constantly evaluate their position in the marketplace. Whenever there's a wildfire, it causes insurers to look at their market share.

"What is their exposure in the region? How many policies are in the area? Is that a healthy number or should they trim it? Should they expand it? They'll look at competitors and see whether they want to make a change."

United Policyholders was cofounded in 1991 by Bach, a consumer advocate and attorney, and Ina Delong, a 22-year insurance professional. Bach had been a victim of an urban area wildfire in Northern California that year that destroyed 3,000 homes.

Many of those victims experienced gaps in coverage and slow response from insurance companies, which led Bach to start the nonprofit, she said. It is an official consumer representative to the National Association of Insurance Commissioners.

Bach said a second massive wildfire in San Diego four years later caused insurance companies to reconsider their policies.

"Many people were non-renewed," she said. "The insurers shed the risk and dumped the policies."

Bach said that forced many homeowners to go with the “insurer of last resort,” the Fair Access to Insurance Requirements Plans — also known as Fair Plans — which are state programs sometimes subsidized by private insurers. They provide coverage to people who would otherwise be denied due to high risk.

“Most people, however, have found that if they are dropped, they can get replacement coverage,” she said, adding those buying homes in high-risk areas can also find coverage. “It may not be as good as the last plan, or as cheap, but it’s coverage.”

Considering the amount of wildfires Colorado has seen over the past 10 years, Bach said the insurance industry has been “measured” in its risk assessment and non-renewals, but that may not go on indefinitely.

“I thought, after the High Park fire and Waldo Canyon fire in 2012, we would get more people calling and saying they were dropped,” she said. “It’s early to say what the results from the Black Forest fire will be, but Colorado Springs has been hit twice in two years.”

United Policyholders has conducted workshops in the area, and Bach said when they divide the room based on insurers, there is diversity.

“There’s healthy competition in the area,” she said. “That’s good. It means there’s no wide-scale availability crisis. After a wildfire, you typically see big names like Allstate, State Farm and Farmers reducing market share and smaller, lesser-known insurers picking up new customers. ... We tell people brand loyalty isn’t important. What’s important is whether you have the coverage you need and whether the insurance company has the money to pay in case of a claim.”

Bach suggested home and business owners do research through A.M. Best Company, a global credit rating agency that focuses on the insurance industry. Ratings can be found online at [www.ambest.com](http://www.ambest.com). She said one of the most common mistakes home and business owners make is that they underinsure their property.

Marshall & Swift, a supplier of residential and commercial cost data for the appraisal, assessor and property insurance industries, found through a survey that nearly two-thirds of all homeowners are underinsured.

Bach said United Policyholders also conducts surveys following disasters and its numbers coincide with those of Marshall & Swift. However, following the Black Forest fire, about half of property owners in Black Forest were properly insured.

“That makes me happy,” she said. “All the publicity we’ve been generating about underinsurance has led to some change. There’s a greater awareness to this problem.”

Flooding the market

While the impact of last summer's flooding in Manitou Springs was immediately felt by businesses and residents, Jerry DeFelice with the Federal Emergency Management Agency's external affairs said that from an insurance standpoint, the repercussions could take years to play out. DeFelice said insurance companies utilize FEMA-produced flood maps to determine flood risk across the country. He added that there are two broad categories most areas fall into: high risk, or low to moderate risk.

Until that map is fully updated for El Paso and Teller counties, the old insurance rates will remain the default.

"There's a flood map in effect for El Paso County and a new one is in the process of being updated," DeFelice said. "[Insurance rates] are regulated by the map that is currently in effect. It could take a couple of years before that map is completely updated."

He said the science and expense involved with updating flood maps are what slow down the process, but anybody in the state can purchase flood insurance and that "last year's floods won't prevent or exclude anyone from getting a policy."

Recent flood maps can be found at [floodsmart.gov](http://floodsmart.gov), which states that Flood Insurance Rate Maps generally show a community's base flood elevations, flood zones and floodplain boundaries.

DeFelice said municipalities and counties conduct studies of their own and often hire firms to look at flood risk in particular areas.

"If it's based on sound engineering, that information can be incorporated into the FEMA map," he said. Congress took steps last month to protect the consumer by passing the Homeowner Flood Insurance Affordability Act of 2014.

The act "prohibits the Administrator of the Federal Emergency Management Agency (FEMA) from: 1) increasing flood insurance risk premium rates to reflect the current risk of flood for certain property located in specified areas subject to a certain mandatory premium adjustment, or 2) reducing such subsidies for any property not insured by the flood insurance program as of July 6, 2012, or any policy that has lapsed in coverage as a result of the policyholder's deliberate choice ..."

Within the act is a grandfather clause that "repealed a provision ... that required FEMA, upon the effective date of a new or updated Flood Insurance Rate Map, to phase-in premium increases over five years by 20 percent a year to reflect the current risk of flood to a property, effectively eliminating FEMA's ability to grandfather properties into lower risk classes."

The law also "sets first-year premiums at the same rate offered to properties located outside the Special Flood Hazard Area," and "with limited exceptions, flood insurance premiums cannot increase more than 18 percent annually."

DeFelice said it is important for people to understand their homeowners and business insurance policies and realize that flooding and wildfire protection rarely fall under basic coverage.

He explained it this way:

“It takes 30 days for a flood insurance policy to take effect and ... homeowners insurance ordinarily does not cover flooding — two items that, sadly, some people learn too late.”