How Insurance Plays a Role in Disaster Recovery

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Each natural disaster reminds us of the value of insurance to protect our homes and businesses. But with the news filled with stories about homeowners still waiting to settle claims, or insurance covering less damage than expected, what is the role of private insurance in disaster recovery?
The answer, unfortunately, varies for each individual situation. Geography, history of disasters in a particular area, and the type of catastrophic event all impact how easily—or how challenging—it will be to recover following a natural disaster.
One of the underlying issues is the rise of natural disasters over the past decade. Insured losses from U.S. tornadoes and thunderstorms—the most costly of weather events — topped $25 billion in 2011, more than double the previous record of 2010, according to the industry trade group the Insurance Information Institute.
Tornadoes were the costliest type of natural disaster in 2011 based on insured losses, far outpacing hurricanes, which resulted in insured losses of $5.5 billion, according to the Insurance Information Institute.

To respond to the rise of disasters—and the dollars needed to pay out following an event—U.S. insurance companies are now requiring higher deductibles, smaller reimbursements for incidents such as roof damage, and limits on the amount paid out for total reconstruction on a home.
For example, the insurance industry has changed the way it covers roofs—which are almost always damaged by the high winds of tornadoes. Most homeowners will find that their insurance policy will not cover the cost to replace a roof more than 10 years old. Instead, their insurer will pay the depreciated value.
In most of these cases, consumers opted for less generous policies in search of lower premiums. Still, people with tornado damage are likely to encounter a more straightforward claims process than residents with hurricane damage. This is because tornado damage is almost exclusively caused by winds, and leads to fewer "unknowns" for both sides than when damage is also caused by flooding, which typically

isn’t covered by standard homeowner policies.
Floods pose special challenges
Landslides, hurricanes, earthquakes, or other natural disasters can bring on floods. But while a homeowner may, for example, have earthquake coverage, that coverage may not apply to a flood resulting from an earthquake.
Floods are the most common natural disaster in the country. From 2002 to 2011, FEMA states that flood claims averaged more than $2.9 billion per year. Those living in high-risk areas stand a 1 in 4 chance of flooding during a 30-year mortgage. Those who live in lower-risk areas — where many people don’t purchase insurance — still account for 20 percent of claims.
One of the biggest challenges is that most people do not understand how flood insurance works, says Amy Bach, Executive Director of United Policyholders, an advocacy organization for the insured.
Nationwide, only 20% of American homes at risk for floods are covered by flood insurance. The National Association of Insurance Commissioners found that 33 percent of U.S. heads of household still hold the false belief that flood damage is covered by a standard homeowners policy.
After Superstorm Sandy hit the northeastern U.S. in 2012, many homeowners found they were uninsured for flooding damage. Had they purchased flood policies, which are typically bought from the federal government, they would have had greater protection from the wrath of Sandy.
On trips to New York and New Jersey, Bach has seen countless houses sitting and “rotting” since Hurricane Sandy struck.
“This is like a whole other level of people whose house is gone — it has to be demo’d and drug away,” says Bach. “And they maybe got $350 from their insurance company for spoiled food. These are the houses of those who never bought flood insurance.”
Flooding is defined by the National Flood Insurance Program as a general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or two or more properties at least one of which is your property) from: overflow of inland waters, unusual and rapid accumulation or runoff of surface waters from any source, and mudflows.
Most private insurers do not insure against the peril of floods due to the prevalence of adverse selection, meaning that the likely purchaser of flood insurance will be by people at the highest risk for floods—such as those living on or close to bodies of water. In traditional insurance, the model works because of economics: by charging a relatively low fee to large numbers of people, insurers can then pay a loss to those who file a claim.
Unfortunately, in flood insurance risk calculation scenarios, the numbers of claimants is higher than the number of people interested in protecting their property from floods. As a result, most private insurers

view the probability of generating a profit from providing flood insurance as being remote.
However, most people can buy flood insurance backed by the federal government's National Flood Insurance Program. Bach suggests that most homeowners should. "Flood insurance is accessible to most people, and [they] will be glad they bought it when a flood takes place," she says.
In exchange for federal help in the event of flooding, participating communities agree to adopt ordinances that meet the guidelines of the Federal Emergency Management Agency to reduce flood risk.
Flood insurance prices vary widely depending on the risk of the location, the physical condition of the building, how much coverage is purchased, and the deductible amount.
Anyone residing in a community participating in the NFIP can buy flood insurance, including renters. However, unless one lives in a designated floodplain and is required under the terms of a mortgage to purchase flood insurance, flood insurance does not go into effect until 30 days after the policy is first purchased. "You would not believe how many people call for flood insurance once the storm has hit," says an NFIP representative, "and then it's too late."
What you can do to help:
Investigate flood insurance for your own properties: Insure your own home or business against flood insurance so that in the event of a natural disaster, you are protected and can help others who may not be. Encourage your grantees to secure insurance, as well. Visit National Flood Insurance Program.
Help fill the gaps left by deductibles: In some cases, a check for $500 is enough to help someone pay the deductible to rebuild a home or recover possessions after a natural disaster.
Fund pro bon legal programs: Too often, people lose their insurance paperwork in the disaster and need help navigating the system. Fund pro bono legal service organizations to help people get their claims filed efficiently and accurately.
Sources: FEMA, National Association of Insurance Commissioners, National Flood Insurance Program, United Policyholders

– See more at: http://disasterphilanthropy.org/where/issue-insights/insurance-rules-changing-following-the-rise-in-natural-disasters/#sthash.TmE3oL6Y.dpuf