NFIP Perseveres Despite Issues

Credit Union Times

The federal government's flood insurance program has triggered a steady downpour of bad news, but private insurance isn't going to replace the troubled program anytime soon unless Congress makes some changes, experts said.
The National Flood Insurance Program is administered by FEMA, which works with more than 80 private insurance companies to offer flood insurance to business owners, renters and homeowners in areas where flooding is a distinct risk.
Currently, more than 5.5 million flood insurance policies are in place in 20,556 participating communities nationwide, but not everyone is eligible for the program.
And the typical homeowners' insurance policy doesn't cover flooding.
Washington is willing to reform the NFIP — and the private sector is ready. Here's what you need to know.

"In an ideal world, your home insurance would cover all risks, including flooding," according to United Policyholders, a consumer group. "But in this world, flood damage is excluded from most policies unless you've bought a rider, endorsement or separate policy."
And most homeowners who don't qualify for the national program don't believe they need flood insurance.
"Often consumers believe they are not in a flood zone and therefore don't need flood insurance, when in fact this is not the case," Christopher Heidrick, principal of Heidrick & Co. Insurance and Risk Management, an independent insurance agency in Sanibel, Fla., said earlier this year.
That means homeowners may not be prepared for a disaster.
"Because most people only buy flood insurance if they're in a zone where mortgage lenders by law make them buy it, flash flood victims rarely have flood insurance," United Policyholders Executive Director Amy Bach also said earlier this year.
The private policies are generally offered to two types of property owners – those who don't qualify for the program and those who are wealthy enough to want additional insurance beyond what the NFIP offers, Bach said.

“Most of the private policies look like the NFIP policies,” she added.
Congress created the NFIP in 1968, largely in response to the lack of availability of private insurance and because of increased costs associated with federal disaster assistance. At the time, flooding was viewed as an uninsurable risk. The availability of private flood insurance decreased as a result of frequent flooding along the Mississippi River in the early 1960s.
To be eligible for the federal program, a business or home must be located in a community with strict floodplain management that has also joined the NFIP. The rates are set nationally and are the same regardless of the company. The rates are also based on things such as the date and type of construction, and the structure’s risk level.
Homes and buildings in high-risk areas that are funded by mortgages from federally insured or regulated lenders are required to carry flood insurance. Homes in low- or moderate-risk areas generally are not required to have flood insurance, but any lender may require a homeowner to purchase it.
The NFIP dwelling form offers coverage of up to $250,000 for a building and up to $100,000 for its contents. The NFIP encourages property owners to purchase both types of insurance. It also covers the replacement cost of actual damages, up to the policy limit.
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In addition, the federal program pays for physical damage directly caused by the flood. For instance, FEMA explained that if a sewer backup is the direct result of flooding, the NFIP would cover those damages. If the backup is caused by something else, the damages would not be covered.
Unfortunately, the program has been plagued by problems. The Government Accountability Office has placed it on its list of troubled programs, saying that it is not self-sustaining and can’t repay loans it has already taken out from the Treasury.
Congressional Republicans have been pushing legislation to encourage the privatization of flood insurance and FEMA has been reviewing the program as a result of complaints from people affected by Hurricane Sandy, who contended they had been shortchanged when their claims were evaluated.
There are distinct differences between what the NFIP offers and what private insurers may offer. For instance, private insurance policies may cover other structures located on a property. In addition, they may pay replacement costs for a structure’s contents and cover contents located in a basement.
Private carriers can also be more selective than the national program, which must cover everyone in a qualifying region. As a result, private insurance premiums may be lower in some cases. In addition, the limits offered in a private policy may be higher.

On the flip side, however, private insurers can drop customers, while customers in the NFIP will always be able to obtain coverage.
As the recent flooding in West Virginia demonstrated, even when severe weather is anticipated, Mother Nature can deliver surprises – and credit unions need to be ready.
“Going into the period of severe weather, everyone was anticipating a stormy, rainy day with the potential for low-area flooding,” Dan McGowan, president/CEO of Pioneer West Virginia Credit Union, a Charleston, W.V.-based credit union with $192 million in assets, said. “That sort of situation is pretty common here, so it didn’t in and of itself raise any extraordinary level of concern.”
Things didn’t work out that way, though.
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“They’re now referring to it as a thousand-year flood with more than 90% of the state now officially listed as a disaster area,” McGowan said.
And while the weather can deliver surprises, credit unions can – and should – be prepared with plans to operate as soon as possible after bad weather occurs, according to Scott Teel, marketing and education director at Agility Recovery, a Charlotte, N.C.-based disaster recovery company that works with more than 600 credit unions.
Teel said there are several steps credit unions should take well before bad weather strikes.
First, credit union officials should know how they are going to obtain electricity if the power goes out. To effectively do that, officials should evaluate their electricity needs before seeking that source.
“If you don’t know what you need, you can’t get it,” Teel said.
In addition, credit unions should know how to restore communications and internet service. That can be a simple task as long as mobile phone service doesn’t get knocked out. When Hurricane Sandy hit, Teel said his company was able to provide such services though a satellite connection.
Credit unions should also plan ahead for temporary branch relocation in case their usual locations become flooded. This plan should take into account where the credit union’s members are located.
Teel said in some cases, banks have been willing to provide temporary spaces for credit unions.
Credit unions also must understand the needs of their employees, which may include transportation to work or help with repairing damage to their own homes.
McGowan said while one member died in the recent flooding in his state, others survived without suffering from much damage.
“Naturally, we’ll be working with members one-on-one in any way we may to alleviate their hardships, but so far, we haven’t experienced any requests from our membership, so that may be a good indication

that our members have fared relatively well,” he said.

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