

MANAGING THE FLOOD INSURANCE CONUNDRUM

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TELEVISED IMAGES OF FLOODS ARE CONSTANT REMINDERS THAT FLOODING IS THE MOST COMMON NATURAL DISASTER. PROPERLY ASSESSING AND INSURING AGAINST FLOOD RISK IS ONE OF THE BIGGEST CHALLENGES FACING PROPERTY OWNERS.

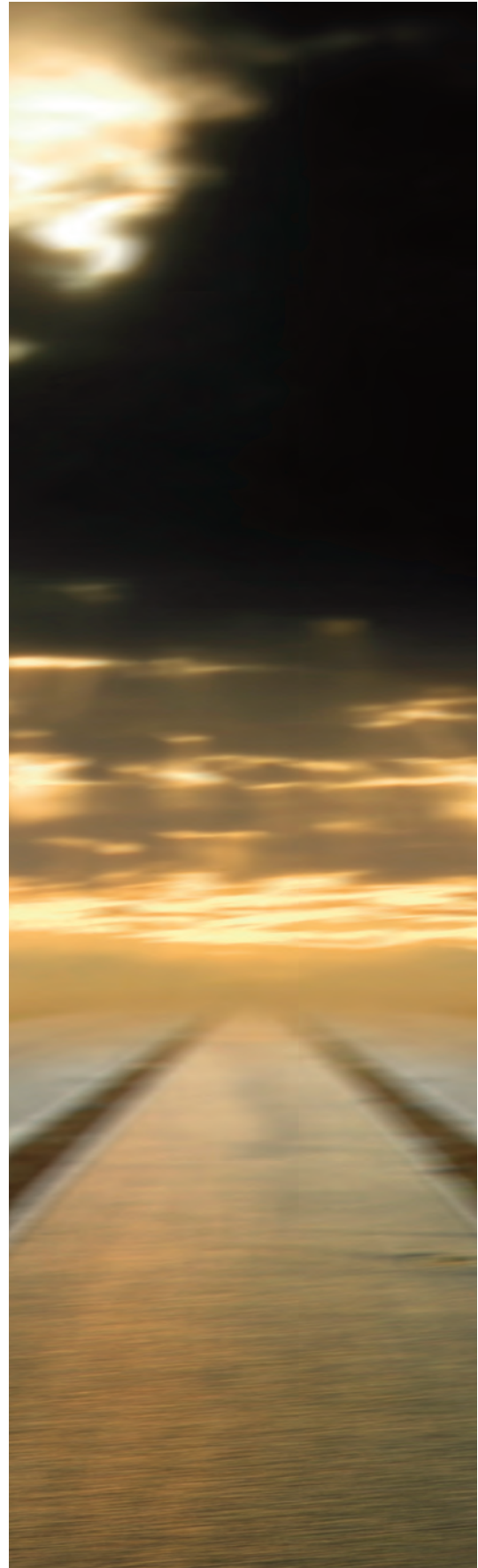
This edition of *Perspectives* will help you accomplish this goal with a discussion of:

- FEMA's Map Modernization Program
- Identifying and correcting inaccurate designations
- The importance of good elevation certificates
- Coping with FEMA's grandfathering rules
- Resources

FEMA'S MAP MODERNIZATION PROGRAM

To obtain the most comprehensive and appropriate flood insurance coverage at the lowest possible cost, property owners and brokers must understand not only their flood risk but FEMA's method for determining flood zone classifications. This is complicated by the fact that FEMA is in the midst of a national map updating project.

Flood Zone Correction, Inc., a leader in the field of flood zone analysis and correction, is a Willis strategic partner, working with Willis Client Advocates® in providing Willis clients with flood zone-related expertise and services.





coming out, note whether it is a new *preliminary* map or new *effective* map so you can gauge when it is likely to affect your properties. Always notify your insurance broker as soon as you hear about a new flood map so your broker can determine how it may affect your coverage and premium options.

NO EASY MAP TO READ

Map Mod presents several challenges for property owners and their insurance brokers.

In response to the devastating Midwest floods of 1993, Congress appropriated \$1 billion to FEMA to update all of the nation's flood insurance rate maps (FIRM), which includes more than 80,000 flood map panels for over 20,000 communities that participate in the National Flood Insurance Program (NFIP). FEMA developed the Map Modernization Program (Map Mod) to accomplish this goal during a five-year period from 2004 to 2008.

FEMA is unlikely to finish the update project by the end of 2008. However, the rate at which FEMA is issuing new maps has increased dramatically in the last few years. During 2008, FEMA plans to issue more than 18,000 new flood map panels. The agency expects to complete the update of the map panels by 2010. From that point forward, FEMA plans to update each map panel every five years to account for changes due to new development, levee repairs and other elements that change the flow of floodwaters within the floodplain.

FEMA must issue a preliminary version of each map for public review and comment for 90 days before it goes into effect. All stakeholders including property owners, insurance agents, insurance companies, developers and real estate agents have the opportunity to challenge the accuracy of the preliminary map if they believe it is based on erroneous data. Not surprisingly, stakeholders adversely affected by the new map tend to challenge it, which often extends the review period from 90 days to up to five years. If you learn a new map is

- **Awareness:** FEMA requires participating communities to post two public notices announcing the issuance of preliminary maps to give the public time for review and comment before the maps become effective. Unfortunately, these notices are often just two small advertisements in a local newspaper making it highly unlikely for property owners or brokers with large property schedules to see them. FEMA does not require lenders or write-your-own (WYO) flood carriers to provide advance notice about new maps. Finding out about new maps before they take effect is as challenging as it is important.
- **Datum Conversion:** Building elevations and base flood elevations are referenced to networks of elevation benchmarks around the nation. FEMA's maps are based on one of two different national networks of benchmarks which are based on different geodetic measurement systems or datums. Old maps are based on NGVD 1929 datum while all new maps are based on NAVD 1988 datum. The finished floor elevation for a building and the base flood elevation shown on the map will be different when a different datum is used. The difference can range from a few hundredths of a foot to a few feet and can be positive or negative. To understand a building's true flood risk and rate a policy correctly, one must compare finished floor elevations to base flood elevations in the same datum. Failure to do so will result in a misunderstanding of the flood risk and an incorrect rating of the flood policy.

- **Understanding the Map:** When FEMA issues a new map, it may put a building in the flood zone for the first time, remove a building from the flood zone, keep a building in the flood zone with no change to the zone or base flood elevation, or keep a building in the flood zone and change the zone and base flood elevation. In most cases, the datum is probably changing. As a result, the data on the new map are not easily compared to data on old maps or other documents. Insurance brokers cannot make appropriate recommendations and property owners cannot make appropriate coverage decisions unless they understand the new maps.

IDENTIFYING AND CORRECTING INACCURATE DESIGNATIONS

Whether your insurance broker is negotiating flood deductibles and coverage limits afforded by a property policy or trying to rate an NFIP or excess flood policy, it is critical to have the right flood zone classification for each building. Getting the flood zone right will help you obtain flood insurance at the lowest cost.

Most of us have been taught that a standard flood zone determination is the final word on flood zone classification. However, this is not the case.

The standard flood zone determination shows the flood zone for a particular street address based solely on the geographic location of the address on a flood map according to an automated system. While these automated systems are time and cost effective for large property schedules, they have limitations based upon the quality of the base maps, map overlay procedures, search algorithms and the frequency with which they update street addresses.

While the geographic location is one important flood risk factor, selecting the right flood zone classification really involves the evaluation of other equally important flood risk factors such as type of construction, building elevation relative to the base flood elevation, topography and drainage systems.



To ensure the accuracy of the flood zone classification, you need to perform a thorough flood risk review of the properties and buildings currently shown to be in a flood zone. Often, the review shows that the buildings were constructed in a flood-safe manner to protect against the 100-year flood event. In these cases, FEMA will reclassify the buildings out of the flood zone, enabling you to obtain better flood coverage through your property policy and to eliminate unnecessary NFIP and excess flood policies. You get more bang for each buck.

For multiple building properties with only one street address, a standard flood zone determination may not be enough because the zone determination may only pertain to one building on the site. While some may assume the rest of the buildings have the same flood zone classification, that assumption may be wrong.

If the main building associated with the street address is in the flood zone but other buildings on the site are not, then the owner may be overinsured. If the main building is not in the flood zone but other buildings on the site are, then the owner may be under insured. The latter case can create the most liability at the time of loss because there is typically no coverage under the property policy and no NFIP or Excess policies to cover the loss.

A GOOD QUALITY ELEVATION CERTIFICATE IS HARD TO FIND

Most property owners and insurance brokers are familiar with using elevation certificates to rate flood policies. How can you know a good quality elevation certificate when you see one?

The quality of the elevation certificate determines whether or not your underwriter can correctly rate the flood policy. According to FEMA, an alarmingly high percentage of elevation certificates used to rate NFIP flood policies have errors or omissions leading to inaccurately rated flood policies. The agency has responded by creating new training programs for surveyors; unfortunately, not all surveyors take these courses.

A good quality elevation certificate includes not only accurate data but comprehensive pictures and notes. It is essential that the surveyor uses the most recent flood map, the correct flood zone and base flood elevation (BFE), and that the pictures are taken correctly to enable your broker and flood carrier to verify the building type and other data. Given the complexities associated with the new flood maps, it is essential that you use a qualified surveyor.



COPING WITH FEMA'S GRANDFATHERING RULES

FEMA established grandfathering rules to reward policyholders who have remained loyal customers of the NFIP and/or who have built structures in compliance with floodplain regulations in effect at the time of construction. The grandfathering rules enable the policyholder to select the lowest premium rate out of the various rates that may apply. Insurance agents and brokers are responsible for investigating all applicable rates to determine the lowest available rate. Before you buy a new NFIP policy, ask your broker to explore the grandfathering options shown below.

For post-FIRM buildings, policies are rated two ways.

1. Using the current flood map, flood zone and BFE, post-FIRM rates, and an elevation certificate showing the finished floor elevation (FFE) in the datum used for the BFE on the current flood map.
2. Using the flood map in effect at the time of construction, the flood zone and BFE (if applicable), and an old elevation certificate or permit issued at the time of construction showing the FFE in the datum used for the BFE on the map in effect at the time of construction.

For pre-FIRM buildings, policies are similarly rated two ways.

1. Using the pre-FIRM rates that apply to buildings constructed before the first flood map took effect in a particular community.
2. Using the current flood map, flood zone and BFE, post-FIRM rates, AND an elevation certificate showing the finished floor elevation (FFE) in the datum used for the BFE on the current flood map.

When a preliminary flood map is released, your broker should rate the policy as described above. Rating the policy based on the preliminary map enables you to determine whether it is more advantageous to buy the policy before or after the new flood map takes effect.

When rating a policy based on a new flood map, it is important to remember that FEMA is changing the datum used to produce maps and calculate BFE. If you are using an old elevation certificate to rate a policy based on a new map, most likely the datum used on the elevation certificate is different from the datum used for the BFE on the new map. This means you must have a surveyor convert the FFE to the datum used on the new map in order to properly rate the policy. Failure to convert the datum in these cases will result in bad information every time.

RESOURCES

In 2004, Willis established a strategic alliance with Flood Zone Correction, Inc. (FZC) as a resource for thoroughly evaluating flood risk and correcting erroneous high-risk designations. FZC provides a free flood risk analysis on all buildings shown to be in a flood zone. FZC also offers a portfolio analysis service to manually review the flood zone classification for multiple building properties with one street address where the flood zone determination shows buildings in a low risk zone.

In 2007, the principals of FZC launched another company, Premier Elevation Certificate Network, Inc. (PECN), to coordinate the preparation of elevation certificates on a nationwide basis for insurance brokers and property owners. PECN employs a proprietary quality control process to prevent errors and omissions on elevation certificates.

For more information about these services and issues, contact:

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