

ERRORS & OMISSIONS

RISK MANAGEMENT ALERT

5 Takeaways from Past Hurricanes

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for Insurance Agents

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In light of past catastrophic weather events, insurance agents, property owners, and the general public can benefit from a crash course on insurance coverages for these types of events. Such storms seem to be more frequent and more severe in their scope of damage and aftermath.

There are some frequently misunderstood or misinterpreted coverage issues or items that only seem to come to light after a catastrophe (CAT) has occurred. These are areas that can lead to misunderstandings between agents and their clients, which in turn can develop into uncovered losses and errors-and-omissions claims against the agent who handled the insureds' coverage before the losses.

1. Property owners (Personal-Homeowners and Commercial-CPP) tend to think their regular property coverage includes damage caused by flooding, such as the type experienced in Texas from the effects of Hurricane Harvey.

FACT: Most Homeowners and Commercial Property policies sold in the United States specifically exclude coverage for flood damage. Less than 10% of the property owners in Texas who sustained flood damage from Hurricane Harvey had Flood Coverage on their buildings!

2. Many property owners tend to search for Flood Coverage for their property after an event, such as Hurricane Harvey and Hurricane Irma, only to be disappointed that they cannot immediately purchase Flood Coverage.

FACT: The National Flood Insurance Program (NFIP) has a mandatory 30-day waiting period before coverage will become effective. *Note:* This does not include a policy scheduled for a mortgage closing transaction. These are applied effective for the closing date.

3. There is always confusion with flood policyholders regarding their deductible(s). Depending on what coverage was purchased, there may be two deductibles that will come into play after a loss. Let's assume that a homeowner has purchased an NFIP flood policy and has elected to have both Building and Contents Coverage under the policy.

FACT: Flood coverages are considered separate in regard to application of the deductibles. There would be a deductible for the building structure damage and a deductible for the contents that are damaged. The deductible amounts are chosen when the application is completed by the insured when he or she applies for coverage.

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4. There is often confusion after a claim has been filed by the policyholder(s) under an NFIP flood policy for Loss-of-Use Coverage for Personal Lines, or Business Income Interruption Coverage for Commercial Lines. These coverages are included under regular Personal or Commercial policy types and are sometimes mistakenly assumed to be on the flood policy as well.

FACT: The NFIP flood policy does not offer any type of Loss-of-Use Coverage under the Personal (Dwelling Form) Coverage or any Business Income Interruption Coverage under the Commercial (General Property Form) Coverage forms, respectively.

5. Another CAT coverage matter that often creates issues for insureds with sustained damage from a hurricane event is whether Homeowners policies include Windstorm Coverage within their scope of coverage for an insured's property. In some coastal areas, many Homeowners carriers will exclude Windstorm Coverage altogether on the policy. This causes the property owner to have to purchase a separate Windstorm policy as it will be required by the mortgage holder and it's a coverage necessity, especially in coastal areas due to the hurricane wind exposure. Therefore, a homeowner may either have Windstorm Coverage included with the Homeowners policy or it may be excluded and a separate policy fills the need. In either case, there are usually multiple deductible applications that come into play for coverage for any loss from windstorm damage.

FACT: Most coastal Windstorm policies (standalone or included with the Homeowners Coverage) have a regular deductible of a chosen dollar amount (\$500 or \$1,000, for example) for non-CAT types of losses, and then have a separate deductible for CAT types of losses, and the policy language varies with different carriers as to how it will apply. Typically, the CAT deductible is a percentage (%) of the total insurable value (TIV) of the building and is usually reserved for named storms that cause the damage, but not always. For example, if the building value is \$500,000 and the windstorm named-storm deductible is 5% of TIV, the property owner's deductible for a named-storm loss would be \$25,000. As mentioned above, the policy language may vary from carrier to carrier and from state to state, so your agency staff and your insureds should know and understand the differing deductibles that may be on Homeowners or individual Windstorm coverages.

Helping to better educate your insureds can enable them to be aware of exposures they might not have known existed and then they can address those exposures by purchasing the proper type(s) of coverage.

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