

Deja Flood

Most homeowners know that certain natural catastrophes that tend to occur on a massive scale are beyond the abilities of regular insurance companies to handle. One type of catastrophe is flooding. While flooding can affect a single home, floods tend to occur on a large scale, often causing substantial damages to dozens, hundreds or even thousands of homes during a single occurrence.

Because of their catastrophic nature, flood coverage in the United States is handled by an insurer of last resort; the federal government. Coverage for homes and businesses are available under the umbrella of the Department of Homeland Security; which oversees the Federal Emergency Management Agency.

In the years after the devastation caused by Hurricane Katrina, the government flood program has run into a number of major problems. The program is a financial black hole. The rates that are charged to policyholders are highly subsidized by taxpayers. The lack of sufficient premiums for the program is accompanied by other problems such as:

- Adverse selection – coverage is purchased primarily by those with the very highest likelihood of loss
- Communities that are supposed to help reduce losses by following building code strategies fail to enforce their laws
- The trend continues of persons migrating to and building increasingly expensive homes in flood prone areas

However, another issue represents an ongoing problem. A small percentage of homes (less than five percent of homes insured under the program) cause a disproportionate share of losses. Technically they have been labeled Repetitive Loss Structures. The term refers to property located in areas that are highly prone to flooding and which have suffered several major losses within a given timeframe. Such homes were supposed to be subject to new flood program rules that required such buildings to undergo loss mitigation after a given number of losses. However, rather than owners being required to add features to minimize flood damage or to elevate the sites of the homes; they are repaired and/or rebuilt with no changes.

The flood program's viability has been threatened by the fact that billions of dollars continue to be spent on, essentially, the same set of homes that undergo repeated losses. In essence, the flood program is being "flooded" by the lack of action and enforcement by individual property owners and their respective communities.

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