9 things you need to tell your clients about flood insurance right now

Despite beautiful sunny skies and lots of ice-cold bevvy breaks, many homeowners with property located in federally insured flood zones have plenty to be nervous about this summer. Hurricane season is upon us, and as we've just witnessed with Florence, these violent storms mercilessly tear through thousands of coastal properties with violent winds and inescapable storm surges.

Homeowners living in a floodplain often think federal coverage is enough, but it's not: According to Republican Senator Marco Rubio, "Floridians receive just $1 in claims benefits for every $4 paid in premiums." And the National Flood Insurance Act (NFIP) will expire on July 31, unless Congress can recertify the program or President Trump extends the deadline.

As a front-line real estate professional, a client's lack of knowledge and understanding of flood coverage can be shocking and stressful. Even homes in low to moderate flood risk areas are five times more likely to experience a flood than a fire over the next 30 years.

So what can Realtors and brokers do to help protect their clients? *Talk about it*. Here are nine points to discuss with your clients when it comes to flood insurance.

1. Know your coverage

According to insurance industry statistics, water damage accounts for 40 percent to 50 percent of all claim costs. But in the insurance world, there are different types of water damage and each type is covered (or not covered) by a particular type of insurance.

Explain to your clients that homeowner's insurance will cover water damage if it's caused by a "covered event" — industry jargon for "it's included." An example would be a shattered window caused by hurricane-force winds. The resulting water damage would more than likely be covered. However, tides crashing into a home are not covered. Neither is a storm surge or damage caused by wind-driven rain (unless the wind is coming into your home due to other "covered" events such as a tree smashing through your roof due to hurricane-force winds).

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Unfortunately, many uncovered perils are the primary causes of floods in low-lying and coastal areas. So your clients may wonder: Who is covered and for what?

If the house is located in an area designated by the National Flood Insurance Program (NFIP) as a hundred-year flood zone (meaning the chance for a damaging flood in any given year is 1 percent), then tell your clients they would be required to have flood insurance, particularly if they end up purchasing a home using a federally backed mortgage.

If the home is located outside of an NFIP high-risk flood zone, but in an area deemed to be a moderate to low risk area, tell your clients they won't have national flood insurance coverage but they can pay out of pocket for additional coverage through an insurance provider or through elective coverage through NFIP.

A good way to see if the house is covered under NFIP is to check on FEMA's website. Remind your clients that NFIP flood insurance isn't cheap — the organization's website says the average annual policy premium is about $700, and insurance experts say people who live in areas with the greatest risk of flooding can pay as much as several thousand dollars a year. But remind the purchaser that even the highest priced policy is still subsidized through the program.

At this point, it's good to remind your clients that there is a 30-day waiting period before the policy goes into effect. Experience a flood within that waiting period and the damage caused isn't covered.

2. Check for private provider coverage

Flooding in Louisiana in 2016. (The Advocate: Bill Feig)

If your clients are interested in paying for elective coverage, you will need to explain that there are three types of insurance coverage when it comes to water damage:

- **Sewer backup coverage.** This will protect your client's home from a sewer backup, septic backup or sump pump malfunction or failure. A sewer backup refers to the discharge of "dirty water" into a home from a septic tank, drains or pipes. This type of flooding commonly occurs when rain or snow builds up in a municipality's sewer system.
- **Overland flooding.** This is when water enters a home from a point at or above ground level. Explain to your client that this most often occurs when there is a torrential downpour, during spring runoff or when a nearby river or lake breaks its banks and overflows. Remind your clients that this coverage will only protect them from damage caused by water that came in through downspouts, eavestroughs and drains.
- **Groundwater flooding.** This type of water damage differs from overland water damage because it takes place below the ground. Natural weather patterns are a common cause for

groundwater damage. This includes flooding from nearby water sources or a large amount of rain flow in a short period of time. While insurance coverage to protect from ground-water flooding isn't always available, if your clients are able to get it, the coverage will protect them from the cost of damage caused when water suddenly and accidentally enters through foundation walls or floors.

3. Prevent damage from water before it becomes a problem

A bird's nest blocks an eavestrough and prevents water from draining away from the home. (Flickr: vitamindave)

According to insurance industry statistics, water damage accounts for 40 percent to 50 percent of all claim costs. This is often because today's basements are no longer unfinished concrete storage areas. These days most homeowners store valuable gear, customize the space for home gyms, design home theaters and redevelop this space into secondary suites.

All these upgrades mean that when a basement is damaged by water, it's not a cheap or easy fix. The average cost of a flooded basement in major urban centers is about $43,000, according to Blair Feltmate, head of the Intact Centre on Climate Adaptation at the University of Waterloo.

The good news is that homeowners don't have to rely solely on insurance in order to protect their home and valuables from water damage.

Remind homeowners that the best way to avoid many incidents of potential water damage is through prevention. Sump pumps, battery backup systems, generators and back-flow valves can help prevent sewer backup damage. As an incentive, remind homeowners that many insurance providers will offer a discount on insurance premiums if these precautionary measures are taken.

Another easy way to prevent or mitigate the risk of overland flooding is to clean the home's gutters and eavestroughs. Tell your clients that a good way to make sure there are no blocks in the eaves is to run a hose through the pipes. If there are no blocks, water will flow freely through the eave, down the spout and away from the home.

Remind clients that the easiest way to prevent groundwater flooding is to shovel snow away from the house. The build-up of snowbanks at the side of a house may result in water seeping into the basement when the snow melts. Finally, warn your clients about the need for the garden to slope away from the house. If not, the water will seep into the home's foundation, rather than away.

4. Consider adding flood insurance

This is one conversation that may help you stand out in your client's mind. For many homeowners, flood insurance is covered under the federal NFIP program (and can cost as little as $400 per year, although the average annual policy costs $700), but for others, flood coverage may be optional.

Explain to your clients that while this optional insurance is an additional cost, it can save them from catastrophic financial loss. Each additional coverage can cost as little as $50 per year (or as much as $1,500 per year depending on where you live) but can save homeowners tens of thousands of dollars in clean-up and repair costs and can help alleviate the agony of having to replace all their personal belongings.

Remind your clients that they'll need to consider each type of water damage coverage — sewer back-up, overland water and groundwater. If you're working with lease tenants, also remind them of the importance of purchasing their own coverage, as their contents are not protected by their

landlord’s coverage.

5. Expect premiums to continue increasing

(U.S. Air Force: 2nd Lt. Laura Balch)

At this point, many of your clients might be worried about rising insurance costs. And so they should. Even the NFIP has struggled to match premiums to payouts in the last few years. The biggest reason for this rising cost is actually due to flooding. The number of flooding incidents has rapidly increased in the last few decades and this has put a big strain on the entire insurance system (both private and federally funded).

Explain to your clients that part of the problem is ageing infrastructure. The burden of this is initially felt by insurance companies and eventually trickles down to flood insurance premiums. It’s why

flood insurance premiums have risen — sometimes as dramatically as 30 percent — in the last few years.

Remind your buyers that the rising costs will be felt by all homeowners because insurance providers spread the burden of rising claim costs — claims due to bad weather and failing waste-water systems, hydro-electric systems, bridges, roads and other municipal, provincial and federal infrastructure — among all policyholders. It's the way insurance works: The many pay for the few.

6. Expect limited coverage

Insurance companies aren't just raising premiums. They are also limiting coverage, explains Adam Mitchell, president of Mitchell & Whale Insurance Brokers. Talk to your clients about the possibility of limited coverage.

Explain to them that this restricted coverage can include: raising premiums, raising deductibles, making it mandatory for homeowners to spend on mitigation upgrades, introducing or lowering policy limits, or just simply choosing not to renew a homeowner's insurance policy, forcing homeowners to find coverage elsewhere.

7. Look for upgrade rebates

Thankfully, you don't have to end your conversation on a bad note! You can help your clients find ways to prevent or limit restricted coverage by making upgrades to the home's systems. Better still, you can educate your clients on the possibility of rebates and financial incentives from insurance providers and the municipality.

"Most cities now realize the importance of prevention and offer rebates to homeowners who are proactive," explains Dan Sandink, manager of resilient communities and research at the Institute of Catastrophic Loss Reduction.

8. Taking a vacation? Watch out!

This is the conversation that can take you from being a one-time agent to a trusted professional. Quite often, homebuyers are unaware of clauses that can limit their coverage. So talk to your clients about exclusions that can render their home insurance coverage null and void.

For instance, tell them about the vacancy exclusion, which is included in most insurance policies. This exclusion states that if homeowners leave their home for more than 30 consecutive days, the home insurance coverage is no longer valid and any loss resulting from an insurable event will not be covered. For some policies, the exclusion can start in as little as four days!

If your clients are retirees who travel a lot or buyers who want to purchase a home with a mortgage helper, they should be particularly mindful of the vacant property exclusion. Here’s the good news: You can offer them a solution. For most insurance providers, all homeowners have to do is document that a reliable person either lived in the home during the “vacant” period or visited the property every three to seven days. The time-frame is different for each insurance provider, but the information can prompt your clients to ask the right questions so they can protect their largest investment.

9. Add separate coverage for high-value items, if you can

The maximum coverage amount homeowners can insure under NFIP is $250,000 for the structure of the home and another $100,000 for contents (which includes personal goods, along with appliances, such as stoves and refrigerators).

If your clients aren't covered under NFIP, they will also have limits as to how much of the home and their personal belongings are covered, but remind them that there are also sub-limits that apply to special property, like jewelry, bicycles, computers or furs (items that are often stored in basements).

Plus, coverage will typically only cover the footprint of the home and a garage or shed; it won't cover landscaping or hardscaping, such as pools. If your clients are concerned, prompt them to call their insurance provider. Most companies will offer additional coverage for an extra cost. For some high-value items, this additional coverage can save tens of thousands in replacement costs.

By discussing these nine critical points with your clients, you may be able to help protect them from catastrophic financial loss. Just remind them that these discussions are meant to be only general in nature — a way to help determine what questions to ask and what additional information is required.

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