

FLOOD INSURANCE UPDATE

By Gordon S. Woodward and Nicole Reimann

In the wake of Superstorm Sandy, affected businesses should be mindful of two very significant flood insurance related considerations. First, the extremely short period of time permitted for making claims under typical flood policies. Second, whether you have appropriate coverage going forward.

Assuming your business has flood insurance through the National Flood Insurance Program (NFIP), a claim for damages is made by filing a [Proof of Loss](#). The Proof of Loss must be completed, signed and delivered to your insurance company's claims manager within 60 days after the loss occurs. The Federal Emergency Management Agency (FEMA) may authorize Proof of Loss extensions. As of this writing, however, FEMA has not authorized extensions relating to Sandy claims.

As to the issue of your business' future flood insurance needs, examine how you do business, consider the potential impacts from flooding, and understand the insurance products available in the commercial flood insurance market.

Private insurers generally do not provide flood insurance in high risk areas. In these areas typically the only source of flood insurance is through the NFIP, which is federally backed flood insurance that is sold through private insurance companies. Some salient features of the flood coverage offered through the NFIP include the following:

- A \$500,000 limit on commercial coverage for business structures.
- An additional \$500,000 limit for business contents.
- Business interruption coverage is not available through the NFIP.
- Flood insurance through the NFIP does not include coverage for wind and rain; you will need separate property casualty coverage for wind and rain.

As these limitations suggest, the NFIP may not be sufficient for many commercial entities. Particularly problematic are the low coverage limits and the lack of business

interruption coverage — critical issues for most commercial operations.

Fortunately, there are at least two means for addressing the NFIP's limitations. First, in some cases it may be possible to acquire flood insurance underwritten by private insurers in higher risk areas outside of the NFIP. For example, the Natural Catastrophe Insurance Program underwritten by Certain Underwriters at Lloyd's may offer flood coverage, and significantly, this coverage may include higher limits as well as business interruption coverage. Second, it is possible for commercial entities to acquire excess policies from a number of private insurers to supplement NFIP coverage. Excess policies, when available, will provide increased limits for flood coverage and may also provide business interruption coverage relating to flood damage.

These solutions are not perfect but should be considered by any commercial entity attempting to mitigate risk in areas with any possibility of flooding. ♦

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