

Advocates for the Insured Since 1894

Don't Get Soaked By A Flood

In the aftermath of last year's horrific hurricane season, there exists an understandable concern over severe and unpredictable future weather-related disasters. I would suspect that neither Al Gore nor even Nostradamus, for that matter, could predict with any certainty the path of the next Category 5 hurricane. One fact that does not require much insight or prognosticator's skills, however, is that if the hurricane does strike your particular area, your business could be subjected to the flooding that often accompanies a hurricane. Furthermore, you'll potentially suffer financial distress from the limited coverage that is provided by the *National Flood Insurance Program (NFIP)*. Is there an alternative to this bleak scenario? Indeed, there can be. It is found in a policy called a *Difference in Condition, or DIC*.

The shortcomings associated with *NFIP* policies are well chronicled. To summarize, it is a government-sponsored program that can be obtained only if your property lies in a flood plain. Furthermore, flood insurance may be written only in those communities that have been designated



Above: Water is almost up to this worker's waist! Right: Water created paper chaos.

by FEMA as participating in the *NFIP*. The property limits can be inadequate for a commercial risk (\$500,000 for commercial risks for buildings, \$500,000 for contents), limited coverage exists for basements, and no coverage is provided for Business Interruption/Extra Expense.

Unlike most commercial policies, *NFIP* policies don't provide replacement cost coverage for apartment buildings, commercial buildings or contents. There are also many other restrictions in coverage. On the whole, it's likely not to fully indemnify you for the losses sustained. While you may be able to purchase additional insurance in excess of the \$500,000 limit from the surplus market, the coverage limitations inherent in the *NFIP* policy are unlikely to change. The *DIC*, which is generally available only for larger risks, may be a better solution.

The *DIC* is essentially an endorsement that provides coverage for losses that would otherwise be excluded under conventional commercial property



forms. Examples of normally excluded events would include earthquakes, volcanic eruptions, sewage backups and groundwater. The *DIC* specifies a limit of insurance for the occurrence and generally states that "all other terms and conditions of the policy remain the

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same." The upshot of all this is that the fairly broad coverage contained in a typical commercial policy applies to this loss.

Due to the size of its deductible, the *DIC* can also be utilized as supplemental or excess coverage. As an example, if a company has a *NFIP* policy with \$500,000 of coverage, it may be prudent for them to purchase a *DIC* policy with a \$500,000 deductible. The *DIC* can essentially act to pick up the coverage deficiencies associated with the *NFIP* policy.

Now for a short "war story." *Professional Loss Adjusters* was hired to represent a manufacturer after its offices and production facilities were submerged following the torrential rainstorms that occurred in October 2005. The *DIC* policy provided coverage under "Business Personal Property" for the replacement cost of computers, furniture, production machinery (including parts), raw stock and finished goods (at selling price!).



About two feet of rust!



Two feet of water and mud destroy office furniture.

Additionally, under the coverage provided for "Business Interruption/Extra Expense," the insured was compensated for lost income, as well as the Extra Expense costs associated with traveling to China (multiple times) in order to obtain the product necessary to retain its customers. The loss was settled for about \$1.5 million. A conventional commercial

policy would have paid nothing and an *NFIP* policy about \$500,000 less than what the *DIC* policy paid.

Without the right kind of coverage, could your business "weather" this kind of loss?

—Jonathan Sadick, *SPPA*

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