

Flood Insurance

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One of the most overlooked coverage is flood insurance. It is a common misconception amongst homeowners that the peril, flood, is covered under their standard homeowner's policy. Thus, homeowners, including those living in high-risk flood areas, do not purchase an additional policy that specifically covers floods. It should be noted that Auto insurance is a bit different in this area. Cars damaged or ruined due to floods are covered under the typical comprehensive coverage in an auto insurance policy. A reason auto insurance includes the flood peril is because when a flood or hurricane is looming, insurers would probably escape the hazard zone by physically driving their cars away.

Early on, insurance companies realize flood insurance would not be a profitable business, because only those living in high risk flood areas would be willing to purchase flood insurance. However, being profitable in the business requires high rates that would surely be unattractive to even the high risk customers. Congress realized the problems with insuring floods and created the National Flood Insurance Program (NFIP) in 1968. The NFIP is based on an agreement between the government and the community in which the government would provide flood insurance to the communities under the condition that the community regulates development in their floodplains. Participation in the NFIP is completely voluntary but nearly 20,000 communities today are a part of the program. Some communities were forced to join the program because The Flood Disaster Protection Act of 1973 required buildings in flood hazard areas to have flood insurance as a condition for receiving federal aid and federal disaster assistance. Besides providing flood insurance, the NFIP maps the floodplains in the nation to bring awareness to flood risk. The maps then accurately rate the areas for flood insurance.

It is generally a good idea to purchase flood insurance no matter where the house resides. About 25% of all flood insurance claims comes from areas with low-risk floods. After a flood, the government may offer Federal disaster assistance to the residence, but most of the assistance is a loan that needs to be repaid with interest. Without flood insurance, a flood can put a family into financial ruins.

Flood insurance is similar to standard homeowner's policy except flood insurance specifically covers the peril floods. The standard flood coverage covers damage to the floors, structure, furnace and it also covers debris cleanup. An additional policy is available to cover the contents. Flood insurance is not limited to just homeowners and property owners; renters should also purchase a flood policy to cover their contents. Flood insurance is typically inexpensive for low-risk flood zones, and it is a safe risk avoidance measure to prevent financial disaster.

WORKS CITED

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<http://www.floodsmart.gov/floodsmart/pages/learnbasics.jsp>

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Home-Study Course presented Online.