Don't Flood Your Agency with Potential E&O Claims

Failure to offer proper coverage and misrepresentation of provided coverage are two common allegations levied against insurance agents in E&O claims. To avoid these types of claims, thoroughly review your clients' exposures and make them aware of policy exclusions that affect their coverage. In your day-to-day activities, it's often easy to fall pray to simply renewing a policy as is rather than looking to close coverage gaps by offering additional insurance. Cross-selling can increase revenue while reducing E&O exposure—a winning combination. If you do not offer flood insurance to clients and update client files with signed declinations of coverage, then you could be opening up your agency to a flood of a different kind—a flood of potential E&O claims.

Why offer flood policies to clients? Homeowners or businessowners policies don't cover flood damage, and lenders require flood insurance for federally backed mortgages on properties with substantial flood risk. Floods are caused by storms, melting snow, hurricanes and water backup due to inadequate or overloaded drainage systems. They can cause physical, emotional and financial damages. Unlike other insurance products, accessibility is not a problem, and it's not difficult to find a market for flood insurance.

Created in 1968, the National Flood Insurance Program (NFIP) makes federally backed flood insurance available in participating communities by adopting a floodplain management ordinance to reduce future flood losses. The Federal Emergency Management Agency (FEMA), which oversees the program, established the Write Your Own (WYO) program in 1983 to bring in private insurance carriers to administer the program. To learn more about the NFIP, visit the NFIP Web site or attend FEMA workshops offered across the country. Your employees' proper administration of the program can help your agency avoid E&O claims. The NFIP will even provide you with public awareness materials that you can use to market to your clients. Upon qualification, NFIP offers co-op dollars for reimbursement of advertising and marketing costs.

Flood insurance is available on both personal and commercial properties. Coverage is available for structure and contents:

- Single family residences can be covered for up to $250,000 on the structure and $100,000 on the contents.
- Commercial structures can be insured to a limit of $500,000 for the building and $500,000 for the contents.

Agents also can write flood insurance for renters. There is a 30-day waiting period in most cases, so don't wait until the last minute to offer it. This year's hurricane activities are a strong reminder of the need to purchase flood insurance.

To reduce the chance of your agency having a flood of E&O claims, concoct a barrier of sandbags around your agency by offering flood insurance for both building and contents on all clients, not just those located in high-risk flood areas. Take the time to understand how the program works and educate your staff. IIAA Agency Administrative Services, Inc., the licensed for-profit entity of the Big "I," offers the Big "I" Flood Program with Selective Insurance as the participating WYO company. The program's level of expertise can help you meet clients' flood insurance needs. IA

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Flood Insurance vs. Disaster Relief

When discussing a client's flood exposure, address the benefits of flood insurance versus relying on disaster assistance. Getting your client to think proactively about insuring against flood, not reactively after a flood happens, is paramount. By purchasing flood insurance, your insureds better control the protection of their assets. Most forms of federal disaster assistance require a presidential declaration, whereas a flood insurance policy pays even without a declaration of disaster.

In addition, less than 50% of flooding incidents receive federal disaster assistance declarations. Disaster assistance takes the form of a loan that must be repaid with interest over a period of time. The average cost of a $100,000 flood policy is about $400; the cost to repay the interest on a flood disaster loans may be more than having the insurance in the first place. That's about $1.10 a day for coverage and the piece of mind that comes with it.

The irony is that most recipients of disaster assistance have to buy flood insurance as a condition of the loan. So shouldn't your client buy the insurance now and forget about rolling the dice? If your client still does not want to purchase flood insurance, use Acord form #60 (2000/8), Flood Insurance Notice/Rejection, to document your files. This will assist in defending E&O claims from failure to offer coverage.

—D.H.