



CIRSA COVERAGE ALERT

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What is Flood Zone "A" and Why You Should Care

Flood zones are geographic areas defined by FEMA which are categorized by the potential risk for flooding at a particular location. There are several different types of flood zones. However, the zone that we are concerned with in this article is Flood Zone A, or any zone which starts with the letter A. Many CIRSA Members have buildings located in this flood zone, and the purpose of this article is to point out how flood coverage is altered for certain buildings located in this zone.

Flood Zone A is an area determined by FEMA to have a 1 percent annual chance of flooding in any given year. Generally, but not always, these areas are located fairly close to rivers and other drainages. The CIRSA Property & Crime Coverage Policy provides coverage for buildings damaged from floods. However, for any location in Flood Zone A with values (building & contents) in excess of \$1,000,000, the amount of coverage is reduced, as these locations are subject to an additional deductible above the normal Member-selected property damage deductible.

The amount of this additional deductible is based on the maximum amount of coverage (buildings and contents) that can be purchased through the National Flood Insurance Program (NFIP). For a non-residential building with a value greater than \$1,000,000, the amount of NFIP coverage available is \$500,000. If a loss only involves building damage, the additional deductible would be \$500,000, since this is the maximum amount of insurance that could be purchased. However, if the loss involved both building and contents damage, the additional deductible would be based on the total amount of insurance that could have been purchased through NFIP for both the building and its contents. So the deductible would be \$500,000 for the building coverage loss and an additional amount based on contents coverage that could have been purchased through NFIP for that location. For contents, this amount could be up to \$500,000, since this is the maximum contents coverage available through NFIP. So the total additional deductible for a loss that involves both building and contents damage could be as much as \$1,000,000.

General Condition O located in the CIRSA Property & Crime Coverage Document states as follows:

O. Deductible

1. A "Member" selected deductible will apply separately to each "occurrence"; and
2. An additional deductible will apply separately to each location that is in a National Flood Insurance Program (NFIP) zone A, as determined at the time of the loss, where total values are in excess of \$1,000,000. The additional deductible shall apply as follows:

For any location eligible for NFIP insurance, coverage afforded under this policy is excess of the maximum limit of coverage which could have been purchased through NFIP, whether it was purchased or not.

Condition O was imposed on CIRSA and its members starting in 2006 by CIRSA's excess carrier. Although Condition O is actually less restrictive than other similar conditions found in the marketplace, we realize that it can create impacts for members with the above described locations in Flood Zone A. With advance planning, we hope that members can be prepared to handle those impacts.

So if your entity has a flood loss to a building that is located in Flood Zone A, and the building and contents are determined, at the time of loss, to have a value in excess of \$1,000,000, the loss for this location will be subject to the separate deductible discussed above. This is in addition to your entity's normal property damage deductible which it has

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selected. It is important for your entity to plan for this additional deductible before you experience a flood loss, either by purchasing NFIP insurance, or by being otherwise prepared to cover the additional financial outlay that this deductible will entail for your entity.

As noted, this separate deductible applies only to flood loss, to locations with values over \$1,000,000, and to each location with values over \$1,000,000. So, it is possible for this deductible to apply multiple times depending on the number of locations you have in Flood Zone A that have sustained damage. Flood coverage for locations with a value of \$1,000,000 or less are subject only to the normal property deductible your entity has selected.

Below are a few examples of how Condition O would apply in an actual claim scenario:

Member X has a location (recreation center) located in Flood Zone A damaged from spring runoff flooding. This location has a pre-loss building and contents value of \$5,000,000. The member's regular property deductible is \$1,000. The total amount of flood damage sustained to the building is \$700,000. In this scenario Member X would be owed only \$199,000, since it would be subject to the \$500,000 additional deductible listed in Condition O, and it would also be subject to its regular member selected deductible of \$1,000.

Member Y has a location (nature center) located in Flood Zone A damaged from flooding from a significant rain event. This location has a pre-loss building and contents value of \$600,000. The member has a regular \$25,000 deductible which it selected. The building sustained 250,000 in damage from the flood. Since the location has a value that is less than \$1,000,000, Member Y is subject only to the \$25,000 property deductible which it selected. Member Y would recover \$225,000.

Member Z has a location (City Hall) located in Flood Zone A damaged from flooding. Member Z has a \$50,000 deductible. The City Hall has a pre-loss replacement cost value of \$2,000,000 and the contents have a pre-loss replacement cost value of \$200,000. In this scenario, the building sustained \$1,000,000 in damage, and there was an additional \$75,000 in contents damage. The maximum amount of NFIP coverage that could have been purchased on the building is \$500,000, and the maximum amount of contents coverage available through NFIP is \$200,000. In this scenario Member Z would not make any recovery under the CIRSA Policy for its contents loss, since the amount of damage (\$75,000) does not exceed the amount of coverage that could have been purchased through NFIP. For the building loss, Member Z would recover \$450,000 under the CIRSA policy (building loss of \$1,000,000 less the \$500,000 available through NFIP less Member Z's regular \$50,000 property deductible).

Obviously the above is quite complex and concerning. To add to the concern, consider the three scenarios outlined above, and then change the set of facts. Now assume all of the above damage was sustained by the same member. With the exception of the regular selected member deductible which would be deducted, the loss payments made at each location would be the same. General Condition O additional deductible applies at each loss location.

As you can see, it is very important to know what flood zones your buildings are located in, and to purchase NFIP coverage where appropriate. The coverage provided by the NFIP policy will help in covering the gap created by the application of the additional deductible outlined in Condition O. However, since the NFIP policy is coverage based on the actual cash value of repair and not the full replacement cost value, it is possible that the coverage provided through NFIP will not be sufficient to completely alleviate the full additional deductible on a particular loss. Thus, if you have buildings subject to Condition O it is critical to pre-plan for the financial consequences of a flood loss.