

Saving Money on Your Insurance

BY JOSE MONTEMAYOR

Flood Insurance Can Prevent Expensive Losses

PEOPLE WHO OWN BUILDINGS in flood plains or in areas with poor drainage are taking a big financial risk if they pass up flood insurance.

Flood insurance is important because most property insurance policies don't cover flood damage. Standard Texas homeowners, renters, dwelling and condominium policies all exclude flood losses. So do most commercial property policies. Owners of commercial buildings should check with their agents to determine whether their policies cover floods.

Congress created the National Flood Insurance Program (NFIP) in 1968 to fill the coverage gap contained in most property policies. Flood policies are available in 19,000 communities nationwide—including 1,000 in Texas—that meet federal standards for minimizing property losses in flood-prone areas.

Texas is near the top nationally in flood losses. Flood insurance claims paid to Texans totaled \$1.4 billion in the period 1978–2000, second only to Louisiana. Our 122,554 individual flood claims during that period ranked behind only Louisiana and Florida.

Some people think a home or business is safe if it's not near a creek, river, lake or low-lying area. They might be mistaken. The NFIP says that one of every three claims comes from outside high-risk flood areas. An overflowing ditch or rainfall that overwhelms the drainage around your house can send rising waters into your living room.

It's important to think ahead and buy flood insurance before you need it. With few exceptions, a flood policy takes effect 30 days after you buy it.

A flood policy covers both the insured building and its contents. The policy also pays up to \$500 for moving insured contents to a safe location and up to \$750 for expenses—such as pumps and sandbags—to protect a building.

Even though flood insurance is a federal program, you can buy flood insurance from the same local agent who writes your home or auto policy.

Some people mistakenly assume they don't need flood insurance because they can get federal grants to rebuild after a flood. However, nearly all federal aid for such disasters comes in the form of Small Business Administration (SBA) loans, which must be repaid with interest. In addition, most federal disaster assistance is available only if the president declares your community to be a major disaster area.

Flood insurance is cheap compared with paying out of your own pocket or taking out an SBA loan.

The price of flood insurance depends on where you live and the amount of coverage needed. The average annual premium in 2000 was \$353. That's a bargain compared with payments averaging \$3,732 per year for a \$50,000 SBA loan. If you live in an area with low to moderate risk of flooding, you might be able to buy an NFIP "preferred risk policy" for as little as \$106 per year.

Be sure to buy enough coverage. You can insure your home for as much as \$250,000 and your personal property for as much as \$100,000. Commercial buildings can be insured for as much as \$500,000, with another \$500,000 for contents.

If your home is insured for at least 80 percent of its value, you will have replacement cost coverage on the structure. This means the policy will pay for repairs with no deduction for depreciation. Contents coverage, however, is on an actual cash value—that is, depreciated—basis.

You can get more information about flood insurance by calling the NFIP at, 1-800-611-6123, extension 901, accessing the NFIP's Web site, www.fema.gov/nfip or by contacting your insurance agent. ★

Editors:

- *If you need further information, call:*
**Texas Department of Insurance
Public Information Office
(512) 463-6425**

We welcome your questions and suggestions about this column.