

A Closer Look

Are You Ready for Hurricane Season?



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In Brief

- Last year was the most devastating and costly hurricane season on record, and this year could well bring more of the same.
- With the 2018 hurricane season now under way, it's important to review your hurricane preparedness, both in terms of risk mitigation and insurance coverage.
- In this piece, we review several of the many considerations involved in crafting an effective hurricane insurance plan and provide some guidelines for protecting yourself and your property from hurricane damage.

Building a Hurricane Insurance Program

Hurricanes Maria, Harvey, and Irma were the worst of a 2017 hurricane season that saw more than \$265 billion in damages — an all-time record.

The 2018 hurricane season began June 1, and many current forecasts are calling for another year of above-average storm activity.

If you live in an area where hurricanes are frequent, or could occur, are you prepared? Do you have adequate insurance coverage? Have you done all you can to mitigate the risk of hurricane damage?

Creating an effective hurricane insurance program can be complicated. After all, even the best home insurance may not cover every type of hurricane damage, and you

The Atlantic Hurricane Season

	2017	2018 (Est.)
Named Storms	17	14
Hurricanes	10	7
Major Hurricanes	6	3
Economic Damage (Est.)	\$265 billion	?

As of May 31, 2018.

Source: Colorado State University Meteorology Project, National Oceanic and Atmospheric Administration

may need to purchase additional insurance — flood, wind, valuable articles — depending on your situation. These policies can be lengthy, complex, and challenging to assess on your own. A thorough review of your homeowners and other insurance policies with your agent, broker, or insurance advisor can help to ensure that you are as prepared as possible for whatever comes your way.

In this piece, we outline some of the major insurance types and the specific considerations involved when seeking coverage for hurricanes and other severe storms. We also offer some steps you can take to avoid or minimize the need to use your insurance in the first place.

Your Residential Policy

If you live in an area relatively free from hurricanes, your homeowners policy will typically cover a wide range of losses — such as damage from fire, theft, or wind — to your home, detached structures, and contents. It will also pay for rebuilding to code and additional living expenses if you need to vacate your home, among other things.

But if you live in an area at higher risk for hurricanes and other severe storms, the coverage provided by your homeowners policy is likely to be different and cost more — sometimes considerably more. Certain types of coverage can be restricted, removed, or available only through separate policies, with new deductibles added.

Windstorm Insurance

Most homeowners policies cover windstorm damage, but in catastrophe zones, the specifics of that coverage can often change.

For instance, homeowners policies that automatically include windstorm coverage usually have a single deductible for all types of damage. In areas prone to storm damage, however, insurers will frequently impose either a separate windstorm deductible, which applies to damage from any wind; or a hurricane deductible, which is triggered when a hurricane makes landfall or its winds enter the state where you live. A hurricane deductible is preferable over a wind deductible as it applies only to the high winds of a hurricane and not to more common wind events, such as summer thunderstorms.

These special deductibles are typically equal to 2% to 10% of the insured value of the dwelling. For a house insured for \$1 million, for example, the hurricane deductible can range between \$20,000 to \$100,000, while the deductible for other kinds of damage can be much less. A number of factors, including the distance of the home from the ocean or the use of storm shutters, can determine the percentage of the deductible.

You should also be aware that, while some insurers will waive the regular deductible for losses greater than \$50,000, that benefit is eliminated for hurricane wind damage when a policy includes a separate hurricane deductible.

On a slightly more positive note, in Florida, a single hurricane deductible applies to all losses, cumulatively, that take place during the term of the policy. In other words, each time hurricane wind damage occurs, it counts toward meeting the deductible. Given the high hurdle for damage to exceed the percentage amount of the deductible, these “aggregate” deductibles can be beneficial in a state that can have multiple hurricanes in a season.

One — admittedly counterintuitive — way to potentially reduce your costs would be to increase your hurricane deductible, which would lower your policy premium. Of course, the tradeoff is that you would pay more for a loss. To select an appropriate deductible, it can help to calculate how many years it would take for the premium savings to equal the difference between the lower and

higher deductibles. If you believe that a hurricane is not likely to cause damage exceeding the higher deductible in that period (perhaps because the house is exceptionally well built) or you have a greater tolerance for risk, taking the higher one could make sense.

For instance, increasing the deductible from 2% to 5% for a house insured for \$1,000,000, or from \$20,000 to \$50,000, could reduce your premium by \$1,000 a year. If you don't expect a hurricane loss of more than \$50,000 in 30 years, taking the higher deductible could result in a real savings, rather than more out-of-pocket expense at the time of a loss.

Beyond the complexities associated with deductibles, windstorm policies can also include a variety of other restrictions. Insurers can decrease payments for rebuilding the house, additional living expenses, or rebuilding to code — all of which might otherwise be at a higher or unlimited amount. For instance, coverage could be reduced from the actual cost of rebuilding the structure (even if it's greater than the limit amount stated on the policy) to some percentage greater than that stated limit, such as 150% or 200%. In some cases, it could simply be reduced to the limit amount stated on your policy.

Something similar can happen when it comes to the provision of additional living expenses and rebuilding to code. Outside of catastrophe zones, many insurance companies will pay the actual cost or a percentage of your dwelling limit for additional living expenses or rebuilding to code. In catastrophe zones, these coverage amounts will often be reduced, sometimes substantially.

The reduction for additional living expenses can be particularly onerous if the insured house is your only home, but less so if it's a second home and you have somewhere else to live while repairs are made. For homes in communities where the building codes have changed significantly since the house was built, such as in South Florida, the reduction of payments for rebuilding to code can be costly, especially since these areas can be hardest hit by severe storms.

You may need a separate windstorm policy. It's also worth noting that, in high-risk coastal areas, insurers may be unwilling to provide you with windstorm coverage on your homeowners policy — or may even

decline to provide you with a homeowners policy altogether. Maybe your house is located in a high-risk zone or isn't protected the way the insurer wants it to be (maybe it doesn't have storm shutters). Or if you own multiple properties, perhaps the insurer feels that too many of them are in catastrophe zones.

In these cases, you would need to seek coverage from a secondary-market insurance carrier, known as surplus lines insurers, or a state-run facility, such as a FAIR Plan or Joint Underwriting Association. Unfortunately, these policies are often not as comprehensive or generous in their amounts of coverage as they are on a regular homeowners policy, and some of these insurers may not pay claims well. Close examination of insurers and the coverage being offered is critical.

Windstorm insurance is expensive. Wherever you get your windstorm insurance, it can be costly. Your total insurance premium can rise significantly, sometimes even doubling.

If you have a particularly well-built home, however, your premium could be lower than it would be otherwise. Even if your home doesn't meet all the latest structural guidelines, you can lower your premiums — while also better protecting your home from hurricane damage — by installing storm shutters or hurricane windows, and roof clips or wraps (which connect the trusses or rafters to the walls), or undertaking other risk-mitigation initiatives. For instance, to help determine the premium, insurers in Florida use a Uniform Wind Mitigation Inspection to assess how well the residence is built to withstand damage from hurricane winds. In some cases, such improvements can qualify you for windstorm coverage that would otherwise be denied.

Flood Insurance

Flooding is the most common — and costly — natural disaster in the United States. In fact, according to the National Flood Insurance Program, 90% of all officially declared natural disasters in the United States involve flooding, with billions of dollars in flood-related property damage every year.

While your homeowners insurance will usually cover water damage originating from inside your home (bursting pipes, overflowing fixtures), it will not cover

damage caused by floods — surface water emanating from outside your home, such as heavy rains or surges from rivers, lakes, or oceans. For that coverage, you may need to obtain a separate flood insurance policy or add it to your homeowners policy via a special endorsement (if the option is offered).

Primary flood insurance. Most people purchase primary flood insurance through the National Flood Insurance Program (NFIP), which is run by the Federal Emergency Management Agency (FEMA).

Risk Mitigation: Wind and Water Damage

- Install impact-resistant storm shutters on all windows, doors, and skylights. Storm shutters can be custom-designed to fit your home. Plywood can be used as last-minute protection, but be sure it is strongly secured.
- Check the seals around your windows and doors for wear and damage, and repair as needed.
- Obtain a roof inspection to identify weak areas and ensure that all shingles or tiles are intact and well-secured, and that the roof structure is securely attached to the house (preferably with metal straps).
- Double-wide garage doors are susceptible to high winds. Retrofit kits are available to strengthen garage doors. (In an emergency, back your car up against the inside of your garage door to prevent it from “twisting” from high winds.)
- Secure fuel tanks (and other items that can float and cause damage) in accordance with local building codes.
- Consider raising the location of your electrical switchbox and your electrical outlets; elevate your furnace by placing it on blocks.
- Make sure your sewer system has a backflow valve.

Are You Ready for Hurricane Season?

With an NFIP primary flood policy, you can insure your house or condominium's interior for up to \$250,000 and your personal property for up to \$100,000. If you rent, you can purchase up to \$100,000 in coverage for your personal property.

Properties with multiple building structures, such as a guest or pool house, would need a separate flood policy for each structure. Unfortunately, the structures most susceptible to storm damage — seawalls, docks, and others built over water — cannot be insured.

NFIP primary flood policy premiums, which are largely determined by the flood zone and elevation of the residence, range from about \$500 to over \$10,000. If your home is in a high hazard zone — an area with at least a 1% chance of flooding in a year — and not elevated well, your policy premium will be one of the most costly.

One way to reduce your flood policy premium is to select a higher deductible. You can choose any amount from \$1,000 to \$10,000, and premium savings of up to 40% are possible with the highest deductibles. Greater deductible amounts for poorly elevated homes or those in high hazard zones result in the most savings. But be aware that, unlike homeowners or hurricane deductibles, the flood deductible applies separately to the building and contents, so damage to each must exceed its own deductible before the insurer will pay for a loss.

In addition, it's important to know that NFIP primary flood policies will pay only if two or more contiguous properties or acres are flooded, and only for the depreciated value to rebuild a secondary home or to replace personal property (and only for limited types of property located in a basement). They do not pay for additional living or rebuilding to code expenses.

The Emergency Supply Kit

Maintain an emergency supply kit throughout the hurricane season. Store items in a watertight container, and keep it in a place that all family members know about and can access.

- A one-week supply of water, with a minimum of one gallon per day, per person. Two quarts are for drinking, and two are for food preparation and/or sanitation.
- A one-week supply of nonperishable food. Store a nonelectric can opener, cooking tools, camping stove, paper plates, and plastic utensils. Remember the special dietary needs of infants, the elderly, or pets.
- Adequate clothing, including rain gear and sturdy shoes.
- A first-aid kit, including painkillers, an assortment of bandages and gauze pads, antiseptic, latex gloves, first-aid cream, scissors, tweezers, and a thermometer. Also include a two-week supply of any medication taken by family members.
- Pet carriers.
- Flashlights and batteries.
- A battery-operated radio.
- Cash.
- Bleach and antibacterial soap.
- Personal hygiene items.
- Plastic bags and tarps.
- Matches.
- Pillows and blankets.
- Your insurance companies' toll-free claims numbers and your insurance agent's phone number.

Risk Mitigation: Interior Furnishings, Personal Belongings, and Important Documents

- Move furniture and household fixtures away from exterior doors and windows. If possible, elevate these items and cover them with plastic.
- Unplug household appliances, including personal computers, and store them away in cabinets or interior closets.
- Maintain a current inventory of jewelry and other valuable items, and store these items in a secure location (such as an inland bank safety deposit box). If off-site storage is not possible, place these items in a waterproof container, and store in an interior closet.
- Personal documents are some of your most valuable possessions — and the most difficult to replace. Protect legal papers (deeds, passports, vehicle titles, living wills, etc.), financial documents, insurance policies and related information (including telephone numbers of agents, appraisals, home-improvement records, and records of your home's contents), and personal items (such as irreplaceable photographs) in a bank safe deposit box, electronically in the cloud or in other off-site storage, or if that is not possible, in waterproof containers.

Even if you live in an area thought to be at low risk for flooding, you may want to maintain a primary flood policy. According to FEMA, 20% of all NFIP claims are from outside of high-risk areas — and that number obviously doesn't account for flood damage occurring to property not insured by FEMA. During Hurricane Harvey last year, for instance, roughly 40% of all damaged properties were in areas considered to have a minimal flood hazard. Part of the reason for this is that flood maps don't recognize the risks posed by inadequate storm water drainage in highly developed areas.

Private flood insurance. A limited number of insurers offer private primary flood insurance, which can be worthwhile obtaining, if available. Private flood insurance is usually issued and financially backed by your homeowners insurer.

Unlike NFIP policies, private flood insurance will pay even if your property is the only one flooded. This can be helpful, for instance, when heavy rains flood just your home, perhaps because your property has poor drainage or your house is located downhill.

These policies will also pay for the replacement cost to rebuild a secondary home and for personal property (the NFIP pays only the replacement cost of a primary residence and the depreciated value for personal property). In addition, they may pay for detached structures and additional living expenses.

Some private policies also offer higher coverage maximums than the \$250,000 for the house and \$100,000 for contents provided by the NFIP. As rebuilding costs for houses — particularly those located near the shoreline — can often be greater than the NFIP maximums, the higher coverage amounts included on private policies can be an important benefit.

Notably, the claims processes for private and NFIP insurance can be very different. With a private policy, you'll deal only with your homeowners insurer, which will adjust and pay a claim. NFIP policies are often issued by companies that specialize in issuing flood insurance rather than by your homeowners insurer.

With private insurance, the claims process for floods is the same as it is for your homeowners policy, and the overall experience is likely to be more straightforward than it is with an NFIP policy. A single insurer can be particularly beneficial when it's not clear whether damage to your home was caused by high winds or water. Having one claims adjuster evaluating the loss will avoid having two insurers pointing to each other as responsible — and leaving you without a timely payment for repairs.

It's important to know that private flood insurance is unlikely to be available in areas at the highest risk of flooding.

Risk Mitigation: Fine Art and Collections

- Make a list of all works in your collection, noting any existing damage as well as the condition of the frames and bases.
- Be sure all wall-hanging devices are secure. Wet plaster lacks structural integrity, so artwork hung on plaster walls could fall. Art hung on the outside walls of your home should be spaced from the wall. You can buy spacers at a hardware store or make them by taping or screwing pieces of wood to the back of the frame. If possible, drape or wrap nonsticky art with plastic to prevent water damage. You can tape works framed in glass (though not plexiglass).
- Place works taken off the wall in an interior room. Elevate the items at least three inches off the floor using blocks. If the surface of the work is not tacky, wrap it in plastic sheeting. Separate stacked works with cardboard larger than the size of the frame.
- Bring outdoor sculptures inside or secure them outside. Those left outdoors can be wrapped in burlap or blankets tied with tape to protect them from flying objects and sand.

Excess flood insurance. If you live in a high-risk area and the cost to rebuild your home and replace your personal property is greater than the coverage maximums on your NFIP or private primary flood policy, excess flood insurance is worth considering.

How does excess flood coverage work? Basically, the excess flood policy sits on top of your primary flood policy, and it begins to pay when the dwelling or personal property limits are reached on that policy. Buildings and personal property are typically covered separately from each other.

For the most part, excess flood policies typically mirror the respective underlying NFIP or private primary flood insurance policy in terms of what's covered, what's excluded, and how losses are settled. Some excess flood policies will broaden coverage, such as paying for the replacement cost of second homes and personal property or for additional living expenses.

In terms of costs, as with primary flood insurance, premiums vary depending upon the flood zone, elevation of the residence, and coverage amount. They also can vary substantially from provider to provider. But it's fair to say that excess flood policies can be expensive, especially if your home is near the water and insufficiently elevated, so it's important to set your coverage amounts correctly to avoid paying for too much coverage.

It can make good sense to work with your insurance advisor to obtain proposals of incremental coverage amounts — say, 25%, 50%, 75%, and 100% of the replacement cost for your dwelling and personal property. Your advisor may be able to use flood models that predict the height of the storm surge generated by category 1 through 5 hurricanes. Depending on the replacement value of real and personal property and where it's situated in the house — above or below the height of the expected storm surge — you can determine the appropriate level of coverage.

Valuable Articles Insurance

Valuable articles insurance is designed to protect some of your most prized possessions, such as fine art and antiques. Sometimes overlooked, valuable articles coverage pays for wind and flood damage. Even when your homeowners insurer won't offer wind or flood coverage because the risk of loss is too high, a valuable articles policy may be available. What's more, most valuable articles policies do not include hurricane or other deductibles, and the cost can be reasonable.

Valuable articles insurance can be used strategically to reduce costs and eliminate deductibles. For instance, you may want to consider reducing the amount of personal property coverage on your homeowners

The Action Plan

- Familiarize yourself with your community’s disaster preparedness plan.
- Know your evacuation route and have a predetermined destination in mind.
- Select a common meeting place or single point of contact for all family members in case you are separated during the evacuation process.
- Fuel up all vehicles well in advance of evacuation as gas will most likely be hard to come by.
- Make sure your cellphone has a full charge, and bring along the charger.

If you are unable to evacuate:

- Consider installing a gas-powered generator to power your appliances and air-conditioning, and to provide minimal lighting in the event of a power outage. Test and refuel the generator regularly to ensure that it is operational when you need it.
- Identify a “shelter” room: a windowless enclosed area on the first floor in the central part of the house. When the storm gets bad, go there.
- Remain in contact with neighbors who are riding out the storm.

policy by the value of any fine art or antiques and, instead, insuring those belongings as valuable articles. Depending on the relative cost of the personal property and valuable articles coverage, there could be a net savings for this change.

Even if your total premium increases, in most circumstances hurricane or other deductibles will no longer apply to the fine art or antiques insured as valuable articles. In essence, you could buy back potentially expensive deductibles for a comparatively small cost.

Let’s say your homeowners policy has a hurricane deductible of \$50,000, and you purchase \$500,000 of fine art coverage for a premium of \$1,500. For that relatively small cost, the deductible would no longer apply to the art. Moreover, the homeowners personal property amount could be reduced by \$500,000 for a premium reduction and possible overall net savings.

Valuable articles insurance also offers important benefits when it comes to flood damage. NFIP primary flood policies only pay up to \$2,500 for fine art and the functional value of antiques. In other words,

no value is accorded for rarity or craftsmanship. In the event of a loss, your original Le Corbusier arm chair would be assessed solely for its functional value as a chair — a basic piece of furniture with a seat, a back, and legs. Valuable articles coverage can pay for the full value for fine art and antiques. Depending on the policy you choose, the insurer would pay an agreed-upon value, current market value, or some other amount.

You Don’t Have to Be Caught Off-Guard

Every year, hurricanes and other serious storms result in the loss of precious lives and billions of dollars of damage to homes and other property, but you can take important steps to lower your risks. Some careful planning and preparation in advance of a storm can provide valuable protection for you and your family and help reduce property damage. In addition, taking the time to review your insurance policies with your agent, broker, or insurance advisor can help ensure that you have all of the appropriate types of insurance and amounts of coverage for any damage you are unable to prevent.

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