

# FLOOD INSURANCE FOR BUSINESSES: WHAT BUSINESS OWNERS NEED TO KNOW >>>



FEMA



Whether you are a tenant or a building owner, a flood can devastate your business. You can reduce your risk of losing your business due to flooding with a flood insurance policy. The National Flood Insurance Program (NFIP) insures losses of up to \$500,000 for your building and up to \$500,000 for contents. The Federal Emergency Management Agency (FEMA) manages the program, and coverage is available through insurance agents in more than 22,000 participating communities.

Some commercial insurance policies include flooding as a covered peril. However, many do not, and those that do often have a high deductible. The deductible can be as much as the NFIP's \$500,000 maximum coverage. For this reason, an NFIP flood insurance policy makes sense either as stand-alone coverage or in combination with other flood coverage.

More than 25 percent of businesses that close due to a devastating event, such as a flood, never reopen.

Source: Insurance Institute for Business and Home Safety

## UNDERSTAND YOUR RISK

What you pay for flood insurance usually depends upon your risk. FEMA, in cooperation with participating communities, provides Flood Insurance Rate Maps (FIRMs) that identify areas of high risk (known as Special Flood Hazard Areas) and areas of moderate and low risk. If your property is located in a moderate- to low-risk area, you may qualify for the NFIP's lower-cost Preferred Risk Policy (PRP).

Flood risks change over time. When a community's flood maps are updated, you may find that your business is at higher or lower risk than before. For businesses newly mapped into a high-risk area, the NFIP has flood insurance rating options to help reduce the financial impact. For businesses no longer shown to be at high risk, the existing policy can be converted to a lower-cost PRP with no gap in coverage. Business owners are encouraged to maintain coverage as the risk has only been reduced, not removed. To find out about flood mapping projects in your area, contact your community's floodplain manager. To view the flood maps for your community, visit [msc.FEMA.gov](https://www.fema.gov).

## UNDERSTAND YOUR FLOOD INSURANCE COST

Many factors go into determining what your final flood insurance premium will be, including:

- **Construction date**—If a structure was built before the first flood map or FIRM went into effect, it is known as pre-FIRM construction and may receive subsidized rates, which are being phased out.
- **Flood zone**—High-risk areas on flood maps start with the letters "A" or "V"; moderate- to low-risk areas start with "B," "C," or "X"; and undetermined hazards are shown as Zone D. Typically, higher-risk zones have higher rates, though elevation, floodproofing, or other mitigation efforts can often reduce that rate.
- **Base Flood Elevation (BFE)**—This is the elevation floodwaters are estimated to have a 1 percent chance of reaching or exceeding in any given year.
- **Lowest Floor Elevation (LFE)** —The elevation of the lowest floor of the lowest enclosed area (including a basement) is typically determined by a surveyor when completing an Elevation Certificate. The higher the LFE is above the BFE, the lower the risk and typically the lower the rate.
- **Deductible**—Deductibles as high as \$50,000 for both building and contents are available, which could result in a 40 percent or greater discount on certain rates.

Rate increases occur annually but are capped by the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA). Pre-FIRM building rates in high-risk areas and in Zone D will experience the highest increases, because in the past the rates did not represent the true risk. Congress directed FEMA to phase out these subsidized rates. Subsidize-rated pre-FIRM businesses will experience 25 percent annual rate increases until their rates reach equivalent full-risk rates. Rates for other buildings will increase by up to 18 percent per year. In addition, all business policies are subject to certain fees and surcharges, including an annual \$250 HFIAA Surcharge.

## UNDERSTAND YOUR COVERAGE

Building coverage includes the building and its foundation; electrical, plumbing, heating, and cooling systems; and walk-in freezers. Contents coverage includes furniture, fixtures, machinery, equipment, stock, and up to 10 percent of contents coverage for improvements and betterments. The value of flood losses at the time of the claim is based on the Actual Cash Value (depreciated cost), not the replacement cost.

The average NFIP non-residential flood claim is nearly \$89,000.

Source: NFIP Program Data 2010–2014

The policy also provides Increased Cost of Compliance (ICC) coverage of up to \$30,000 to elevate, demolish, relocate, or floodproof the building if the community declares the building to be substantially damaged or subject to repeated or repetitive loss. Payment of the ICC claim is in addition to the amount of the building claim; however, the total of the two claims cannot exceed \$500,000.

Note that there is limited coverage in basements, and the policy does not provide coverage for business interruption or loss of use of the insured property.

For an overview of coverage, read FEMA's summary of coverage at [FEMA.gov/media-library/assets/documents/34505](https://www.fema.gov/media-library/assets/documents/34505) and in the policy itself.

## MAINTAIN YOUR COVERAGE

Once you have a policy, it's important to renew it each year. Allowing your policy to lapse could result in losing any lower-cost rating options that your agent put in place to save on your premium. Higher full-risk rates based on the current flood map may apply when rewritten. For example, lapsed policies on pre-FIRM subsidize-rated buildings must be rewritten using full-risk rates if coverage has lapsed more than 90 days, unless:

- The lender no longer required the insured to obtain and maintain flood insurance at the time of lapse; or
- The insured was in a community that was suspended from the NFIP, and the policy was reinstated within 180 days of reinstatement of the community as a participant in the NFIP.

FEMA will also consider a policy lapsed if coverage was switched from an NFIP policy to a non-NFIP policy. It is best not to let your NFIP policy lapse.

## FOR MORE INFORMATION

To learn more about commercial coverage and rates, visit [FloodSmart.gov/Commercial](https://www.floodsmart.gov/Commercial).

To learn how to better reduce the risk of flooding through mitigation, visit [FEMA.gov/Protecting-Your-Businesses](https://www.fema.gov/Protecting-Your-Businesses).

For questions about purchasing flood insurance or about an existing policy, contact your insurance agent. To find an insurance agent, visit [FloodSmart.gov](https://www.floodsmart.gov).