



February 21, 2013

## **MOST HURRICANE SANDY FLOOD PAYOUTS PAID ON A DEPRECIATED BASIS**

Recent news articles have commented that many homeowners are dissatisfied with the size of the checks they are receiving from their flood insurance companies. There are a number of potential reasons why the flood insurance payouts may be lower than expected.

The most likely reason is that losses under most flood insurance policies are paid out on an Actual Cash Value basis (ACV) basis. Actual Cash Value is defined as the replacement cost of an insured item at the time of the loss **less** the value of depreciation. Replacement Cost Value (RCV) basis, on the other hand, is the cost of an insured item **without** a reduction for depreciation.

Almost all flood insurance policies are written on an ACV basis, which means the adjuster should reduce the value of the insurance payout based upon a calculation of the depreciation of the item, which can be the home itself or the contents coverage.

However, there are two important areas where flood insurance uses the (higher) RCV basis for calculating a payout. The first is for a residential property that (a) is the policyholder's principal residence and (b) is insured for at least 80% of the building's total insurable value at the time of the loss (or the \$250,000 maximum insurance limits under the flood insurance program, whichever is higher). In that case, losses to the home itself (not the contents) should be calculated without any reduction for depreciation. The second situation applies to Residential Condominium Building Association Policies, provided the building is insured to at least 80% of the replacement cost.

The frequent application of the ACV basis to calculate the value of a flood loss is likely responsible for a significant portion of the policyholder dissatisfaction with the amount that is paid by the flood insurance carriers. While the ACV basis should be applied for most flood policies, policyholders who fall into either of the RCV categories listed above need to make sure their claim is not being incorrectly depreciated.

For policyholders who feel their claim is being undervalued, the National Flood Insurance Program (NFIP) has set up a four-step appeals process by which the policyholder can get a second opinion. The NFIP has also set up a Flood Response Office in Marlton, New Jersey to assist policyholders with claims (NFIP Flood Response Office, 106B Centre Blvd., Marlton, New Jersey 08053 Tel #301-775-6845).

Schenck, Price, Smith & King's Hurricane Sandy Insurance Advisory Group has prepared a presentation on a wide range of topics which are likely to arise from Sandy-related insurance claims. Please feel free to contact any member of the Group with any questions which you may have at 973-539-1000.

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