Written by Ann Richardson
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Broker says NJ's building codes help to maintain property insurance for coastal homeowners

OCEAN CITY — By the end of the second day after Superstorm Sandy's powerful storm surge overwhelmed coastal areas of New York and New Jersey, the National Flood Insurance Program had already recorded more flood claims than the total for Hurricane Katrina, a storm that devastated the Gulf Coast in 2005.

William McMahon III, president of the McMahon Agency Insurance in Ocean City, said Sandy has since far surpassed the notorious Katrina.

Katrina, he said, delivered both flood and wind damage. Sandy's damage was primarily from flooding. Few claims, he said, have been filed for wind damage.

"Major carriers are shaking their heads about how little damage was caused by wind," he said. "They were really surprised that there wasn't more actual damage."

Coastal homeowners have to maintain two different types of coverage to be completely protected by a storm. If the water comes up from flooding, then federal flood insurance provides minimal coverage. A comprehensive homeowner's policy protects homeowners against water damage that comes in through a window or any damage or destruction that might be incurred from the wind, or a fire. In the event of a declared hurricane, a higher deductible would apply.

"If it's a major flooding event, it's one thing. If it's a wind event, it's a different picture," he said.

McMahon attributes the smaller number of wind claims to New Jersey's strict building codes.

"One of the major carriers said we're built for this, and it's back to business," he said, adding that carriers have confidence in New Jersey's building codes. "We're not seeing massive wind damage claims. Even in North and Central Jersey, from what we understand, the damage is

mostly from the storm surge. You see a couple of roofs blown off here and there, but not a lot. In Staten Island, entire blocks of homes burned down, but for the most part, flooding knocked the buildings down. Most of the damage was from flooding almost everywhere in Sandy's path."

Not long after Katrina, Hurricane Wilma tore across southern Florida, causing massive destruction.

"Wilma was a small storm. It came across the state from the gulf blowing about 70 mph, but the wind did major damage by the time it hit Miami," McMahon said. "The wind ripped through all the high rises with 100 mph winds."

In the wake of those two storms, barely two months apart, insurance companies bailed out of writing property and casualty insurance policies in some areas of Florida. The state of Florida, he said, instituted its own carrier, Citizens, now the largest underwriter in the state.

"Insurers started dropping policies in Florida after Hurricane Andrew," he said, which tore across southern Florida in August 1992.

After Katrina, he said, the nation's largest carriers began to "pull back off the coast" altogether.

"They unloaded their property books," he said.

Florida and Louisiana, he said, are the two most difficult states to obtain property insurance. While flood insurance is available in Florida, it is expensive, particularly close to the coast.

In the wake of Hurricane Sandy, will it be more difficult to obtain property and casualty insurance in New Jersey?

"Sure, it could," McMahon said. "We'll see where it falls after this is all over."

Smaller carriers, he said, would be the most likely to pull out of the state. Overall, most of the major property and casualty carriers are thus far unfazed by the storm.

McMahon said he is confident that New Jersey's Department of Banking and Insurance will do "whatever they can" to keep carriers underwriting in the state.

"That's good news for the consumer," he said, adding that state officials have listened to the concerns of insurance carriers over the years and taken steps to make the Garden State more attractive to underwriters. "As a coastal community, they've encouraged a lot of carriers to come to New Jersey and write policies."

The Professional Insurance Agents of New Jersey, he said, has worked very closely with the Department of Banking and Insurance "to take care of the needs of the consumer."

New Jersey homeowners, he said, generally expect a good policy.

"There is real risk in writing on the coast," McMahon said.

For an insurer to take that risk, "they need to be able to get a proper premium."

Flood insurance, McMahon said, would continue to be available to everyone in New Jersey through the federal program.

"You can get flood insurance, it may be more difficult, but we are all writing policies," he said. "November was our third busiest month of the year. We've been writing new policies after the storm. We're busy helping current customers and new customers. We would be happy to review anyone's policy."

Rates vary on the age of a home, he said.

“If you have an older home, built before the flood program, you’re going to pay more,” he said.

The NFIP was a hot topic before the storm after several short-term extensions were passed before long-term funding was approved.

“The National Flood Insurance Program was renewed for five years in July of this year,” he said.

The NFIP provides insurance for homes and businesses in flood prone areas, such as Cape May County. Created in 1969 to fill the gap after private insurers declined to continue coverage for property owners in flood-prone areas, it now covers more than 5.6 million policyholders in 21,000 flood-prone communities.

“The federal flood insurance product is the only product available,” said McMahon. “It’s the only product that any agent can sell.”

Since the program began, it had been renewed for five year periods. The NFIP will be in effect until Sept. 30, 2017. The program includes several reforms, including the phasing out of subsidies for many properties, allowing multi-family properties to purchase NFIP policies and imposing minimum deductibles for flood claims.

Meanwhile, McMahon said the checks cut for Sandy “will be significant.”

“The flood insurance adjusters are on the side of the consumer,” he said. “It is their job to find as much damage as they can, so they can pay people.”