



FEMA

W-16021

March 29, 2016

MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators,
WYO Vendors, and the National Flood Insurance Program (NFIP)
Direct Servicing Agent

FROM: Roy E. Wright
Deputy Associate Administrator for Insurance and Mitigation
Federal Insurance and Mitigation Administration

SUBJECT: Addendum 4 to April 1, 2016 Program Changes -
Revised Underwriting Procedures for
HFIAA Section 28, Clear Communication of Risk

Bulletin W-15046 described the initial implementation of Section 28, *Clear Communication of Risk*, of the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA). Section 28 requires FEMA to clearly communicate full flood risk determinations to individual property owners regardless of whether their premium rates are full-risk rates. Ensuring clear and accurate communication of flood risk requires correct underwriting information. This bulletin describes how FEMA will rate policies using correct information; the accompanying attachment includes specific procedures for insurers to follow as part of this effort.

FEMA initially proposed that NFIP insurers report current flood zone and current Flood Insurance Rate Map (FIRM) information, including Base Flood Elevation (BFE), if applicable, for all new business policies effective on or after April 1, 2016, and for all renewals effective on or after October 1, 2016. After further consultation with NFIP insurers, and out of concerns for our customers, FEMA determined that a phased approach would best implement these requirements.

Phase 1— Renewals Effective on or after October 1, 2016

NFIP insurers must re-underwrite the following policy types with renewals effective on or after October 1, 2016:

- All policies receiving pre-FIRM subsidized premium rates;
- All standard X-zone-rated policies;
- All Preferred Risk Policies; and
- All policies rated under the Newly Mapped rating procedure.

Phase 2 — Renewals Effective on or after October 1, 2017

NFIP insurers must re-underwrite all other policies (except Mortgage Portfolio Protection Program (MPPP) policies, provisionally rated policies, tentatively rated policies, and Group Flood Insurance Policies with renewal dates beginning on or after October 1, 2017.

The phased approach to re-underwriting renewals does not change the requirement to report current map information for all new business effective on or after April 1, 2016.

Insurers must correct policies as needed and notify policyholders of changes to their policy rating information. These changes may result in a premium refund or a premium adjustment due at the next renewal.

Please see the attachment for the re-underwriting process for insurers.

Attachment

cc: Vendors, IBHS, FIPNC, Government Technical Representative

Required Routing: Accounting, Data Processing, Marketing, Underwriting

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ATTACHMENT

HFIAA SECTION 28 - REUNDERWRITING PROCEDURES FOR NFIP INSURERS

This reunderwriting process applies to Phases 1 and 2.

Reunderwriting Process

Beginning no less than 180 days prior to renewal, NFIP insurers must review their existing policies to determine if they used the current Flood Insurance Rate Map (FIRM) or a prior FIRM to rate a policy.

- If an insurer used a prior FIRM to rate a policy, the insurer must update the grandfather indicator, the Risk Rating Method, if applicable, and the current map information fields on the policy records at the first renewal.
- Insurers must report all elevation data with the same datum as the current Base Flood Elevation (BFE).

After the initial reunderwriting and for subsequent renewals, insurer must only validate the current map information for policies covering properties located on a map panel that changed more than 180 days before the next renewal date.

FEMA will validate the following.

- Insurer reported current flood zone and FIRM information by comparing the rated and current map information fields to the Community Master File before issuing the renewal offer.
- For policies not using the grandfathering or the Newly Mapped rating procedure, that the rated flood zone and community map information come from the current FIRM.
- For policies using the grandfathering procedure, the rated and current map information are different and must not be the same.

The insurer completes the reunderwriting process by validating the zone and BFE, determining a valid rate, and applying the appropriate Risk Rating Method and Grandfather Type codes. The insurer does not have to revalidate other rating information unless there is indication of potential errors or changes to those rating elements.

Validating Map Information

Distinguishing Grandfathered Policies - Insurers must use the following guidance to distinguish grandfathered policies from other policies.

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- For non-grandfathered policies issued with the grandfathering indicator of “1”, insurers must update the current map information and the rated map information. Where the grandfather indicator is “1”, the rated flood zone and rated map information must come from the current FIRM, and the current map information must match the rated map information.
- For policies grandfathered for built-in-compliance (grandfathering indicator “2”) or continuous coverage (grandfathering indicator “3”), the rated flood zone and/or BFE will come from a prior map panel and will not match the current map information fields.

Newly Mapped Policies - The current map information will not match the rated map information for policies issued under the Newly Mapped procedure (Risk Rating Method “R”). Insurers must update the grandfathering indicator with a “2” or a “3” for policies issued with Risk Rating Method “R”.

Once newly mapped into the Special Flood Hazard Area (SFHA), a property is always eligible for the newly mapped procedure even if the hazard increases. To track the transition to full-risk rates under the Newly Mapped procedure, insurers will capture the date of the first map indicating the property is in the SFHA in a separate Newly Mapped date field. Insurers will continue to update the current map fields with the current map information subsequently. The rated map information for a policy using the Newly Mapped procedure is the last map that shows the property location outside of the SFHA.

The current map information must reflect the current panel number and suffix. The underwriting file must always contain documentation of the current map information. FEMA accepts any of the following documentation for the current map information, including the current zone and/or BFE.

- A Letter of Map Amendment (LOMA) or Letter of Map Revision referencing the property;
- A copy of the current FIRM or DFIRM with the property location clearly indicated;
- A letter from a local community official indicating the property address and zone for the property;
- An Elevation Certificate for Flood Insurance referencing the current map; or
- A guaranteed Standard Flood Hazard Determination Form

Except for a LOMA, if documents referencing the same map provide conflicting information, the insurer should use the more hazardous zone. For conflicting BFEs, the insurer should use the higher BFE.

Previous Transfers and Rollovers - FEMA did not require insurers to report grandfathering for transfers and rollovers of policies from one WYO insurer to another that occurred prior to October 1, 2009. As a result, the current insurer may not have the information to validate the zone and BFE in effect at the time the transferring insurer issued the policy. For these policies, the insurer may assume continuous coverage grandfathering, if coverage did not lapse since the transfer or rollover occurred. Insurers may assume continuous coverage grandfathering for all policies covering pre-FIRM buildings in this group.

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Pre-FIRM Buildings - For Pre-FIRM buildings only, the insurer may assume grandfathering if the original application was on or before October 1, 2009 and the historic map at the time of application is not available.

Notice Requirements

When reunderwriting results in a change to the zone or BFE, insurers must notify policyholders at renewal that the reunderwriting process resulted in a change to their policy rating. The notice must explain the reason for the rate correction. Insurers must provide the notice regardless of whether the rating change resulted in a higher or lower premium for the insured.

Refunds - If an insurer discovers it rated the policy with the incorrect zone or BFE, which resulted in charging the policyholder a higher amount than would be determined using the correct zone or BFE, the insurer must reform the policy for up to five policy years. If the insurer wrote the policy correctly and the zone or BFE changed, the insurer must reform the policy up to no more than five years prior to the date of the endorsement request, but also no earlier than the date of the map revision.

Insurers should submit prior-term refund requests for reunderwriting changes, including the required documentation, to the NFIP Systems and Services contractor (iService) for processing. FEMA will not charge-back WYO Expense Allowance and agent commissions for the Direct Servicing Agent on these prior-term refunds only if it is related to the Section 28 reunderwriting. FEMA will provide additional instructions at a later date to ensure that prior-term refunds and the expense allowance are processed correctly.

Underpayments - Insurers will apply any increase in premium rates resulting from HFIAA Section 28 reunderwriting prospectively. When the insurer discovers a misrating resulting in additional premium due, the insurer will correct the premium at the next renewal date. At renewal, Insurers must notify the policyholder of changes to the policy rating elements that caused the premium increase.

Note that this exception, i.e., applying the increase to the next renewal, only applies to policies subject to the reunderwriting associated with the HFIAA Section 28, Clear Communications of Risk requirements. Insurers must otherwise apply corrections retroactively to the beginning of the current policy year. For corrections involving zone or BFE, the insurer should calculate the additional premium prospectively from the date of discovery.

TRRP Plan Reporting

Once completed, Insurers must report the results of reunderwriting through the TRRP Plan. FEMA will provide a new data element for insurers to use as part of the October 2016 program changes.

If an insurer fails to update the current map information fields prior to the renewal, the insurer will receive a critical error with no tolerance on the Invalid Policy report. This failure will delay FEMA's letter to the insured until the insurer completes the reunderwriting.

FEMA Letter to Policyholders

As required by HFIAA Section 28, FEMA will send a letter to policyholders to fulfill the requirement to clearly communicate a policyholder's flood risk. FEMA will use the data reported through the TRRP Plan to prepare these letters. The letter will provide information on the current policy rating and whether or not additional information, such as elevation data from an Elevation Certificate, could result in a different rate or a clearer understanding of the property's flood risk.

FEMA will provide a sample of the letter before mailing it to policyholders.

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