

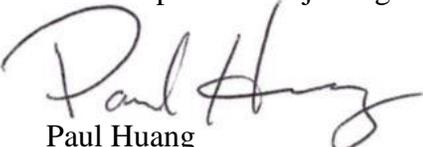


**FEMA**

W-18013

June 7, 2018

MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators,  
WYO Vendors, National Flood Insurance Program (NFIP) Direct,  
and Independent Adjusting Firms

FROM:   
Paul Huang  
Assistant Administrator for Federal Insurance  
Federal Insurance and Mitigation Administration

SUBJECT: Claims Enhancements and Claims Handling Reminders

FEMA implemented several enhancements to the NFIP's claims process in response to widespread flooding that occurred in 2017. These enhancements contributed to faster processing times and improved customer service. To ensure consistency in handling future claims, the following claims process enhancements and claims handling reminders apply to all claims with a date of loss of June 7, 2018 through December 31, 2018:

### **I. Advance Payments**

NFIP insurers (WYO Companies and NFIP Direct) may offer advance payments to policyholders in anticipation of future claim payments, as described below.

#### **A. Advance Payment Opportunity One: Pre-Adjuster Inspection**

NFIP insurers may offer policyholders an advance payment of up to \$5,000 if:

1. The policyholder provides the insurer with a notice of loss.
2. The insurer verifies that the subject property (building and/or contents) is covered by an active flood insurance policy and confirms current coverage amounts and deductibles.
3. The insurer verifies that a flood, as defined by the Standard Flood Insurance Policy (SFIP), impacted the insured property. NFIP insurers may verify that a flood caused damage to the insured property based on statements from a policyholder or other available evidence. NFIP insurers may support verification by asking policyholders to confirm the following before issuing a pre-inspection advance payment:
  - a. What was the source of the flood waters?
  - b. How did the water enter the building?
  - c. Did the flood water cause damage to the building and/or contents?
  - d. How high was the interior water depth?
  - e. Did the flood water affect neighbors and/or was flood water in the street?

An NFIP insurer may offer an advance payment of up to \$20,000 if, in addition to verifying the property was damaged by flood as described above, the policyholder also provides photographs depicting flood damage to the insured property and either:

1. Documentation verifying out-of-pocket expenses related to the repair or replacement of covered property such as receipts or canceled checks; or
2. An itemized estimate for the necessary repair or replacement of the insured property.

### **B. Advance Payment Opportunity Two: Payment for Significant Damage**

NFIP insurers may offer an advance payment of up to 50 percent of a contractor's estimate if the policyholder provides the insurer with:

1. An itemized estimate for the necessary repair or replacement of the insured property prepared by a contractor; and
2. A flood insurance adjuster retained by the insurer has inspected the insured property and verified a covered flood loss.

### **C. Procedures for Issuing Advance Payments**

An NFIP insurer may offer an advance payment upon written, verbal, or electronic request by the policyholder. Advance payments must be accompanied by a written notice conditioning the advance payment on the policyholder's acknowledgment that:

1. The advance payment is not a payment for Additional Living Expenses (ALE). The SFIP specifically excludes ALE.
2. The issuance and acceptance of an advance payment does not prejudice or waive any claim or defense available to either the insured or insurer.
3. The issuance and acceptance of an advance payment does not constitute an admission of coverage under the policy.
4. To the best of the insured's knowledge, the insured property suffered a covered loss.
5. If the loss is determined not to be a covered loss or if the advance payment exceeds the amount of the actual covered loss, the insured is not eligible for the payment and agrees to repay the advanced payment (or portion thereof).
6. Acceptance of an advance payment will not affect the insured's right to seek additional payment under the terms and conditions of the SFIP.
7. After the claim is settled, the insurer will reduce the final payment by the amount of any advance(s) payment made to the insured.
8. The insurer must include as co-payee any mortgagee shown on the Declaration Page of the policy or any known mortgagee on any advance payment for building coverage.
9. To finalize the claim, the insured must execute a proof of loss meeting the requirements of the SFIP for all amounts received, including the amount of the advance payment, except as may otherwise be authorized by the administrator under any applicable waiver.

### **D. Advance Payments exceeding the Covered Loss**

NFIP insurers must take reasonable steps to avoid making advance payments that exceed the final total claim payment by tailoring advance payment amounts to the characteristics of the claim. NFIP insurers should consider the following factors when determining the amount of an advance payment:

- Amount of deductible
- Interior water depth

- Multiple peril loss (wind vs. flood, etc.)
- If the flood water was limited to the basement only
- If the flood water was limited to an enclosure of a post-FIRM elevated building
- Use of flood avoidance measures, such as sandbags or property removed to safety.

If an NFIP insurer makes an advance payment in accordance with this bulletin that exceeds the total claim payment, FEMA will not hold the NFIP insurer responsible for the deficit remaining after the NFIP insurer makes its best efforts to recoup the funds. An NFIP insurer's best efforts to recoup the overpayment must at a minimum include the following:

1. The insurer must send a letter via certified mail or equivalent trackable delivery service to the policyholder containing the following information:
  - a. The amount due.
  - b. A description of the charges.
  - c. A description of the remedies available to the NFIP upon failure to repay the amount due by the deadline, including but not limited to Federal Debt Collection pursuant to 44 CFR Part 11, Subpart A.
  - d. The deadline for either submitting payment or disputing the validity of the overpayment, which must be at least 30 days from the date of the letter.
  - e. Contact information for an individual representing the insurer that the policyholder can contact directly to dispute the validity of the overpayment or seek more information.
2. If the policyholder does not pay the amount due by the stated deadline, the insurer must attempt to contact the policyholder via phone and then send a follow-up letter via certified mail or equivalent trackable delivery service to the policyholder's last known address.

If an NFIP insurer is not able to recoup the overpayment after making its best efforts, the NFIP insurer must provide FEMA with the following documentation:

1. A short narrative explaining the basis of the overpayment determination and identifying the insurer's efforts to recoup the funds.
2. Copies of all written correspondence with the policyholder regarding the overpayment.
3. A copy of the claim file.

## **II. Handling Claims with Prior Losses**

The SFIP does not cover damage to insured property that occurred prior to the covered loss, including unrepaired damage from a prior flood. In general, NFIP insurers must verify that damages from any prior loss have been repaired before the subject loss occurred and must exclude from the adjustment any unrepaired prior damages. This normally requires the NFIP insurer to obtain and review prior flood claim files prior to adjusting the loss.

To expedite the handling of claims, an NFIP insurer may adjust a claim without obtaining a prior flood claim file if there is substantial evidence of completed repairs following a prior flood loss. Substantial evidence that repairs have been completed include, but are not limited to, an inspection of the property that clearly shows repairs to or replacement of prior damage and a review of available documentation, such as paid contractor invoices and receipts.

FEMA relies on the flood adjuster and insurer personnel to evaluate and document in the claim file the evidence demonstrating prior repairs. If the adjuster cannot substantiate repairs based on his

preliminary assessment, the adjuster should recommend obtaining and reviewing the prior loss file to the insurer. The adjuster should provide the insurer with adequate documentation and photographs of any unrepaired prior damage and take a non-waiver agreement where necessary.

### **III. Wind vs. Flood Loss**

FEMA provided wind and flood investigative tips and a logical approach in addressing claims that involve both perils. There is no requirement for the flood adjuster to estimate the wind damage.

When adjusting wind/water losses, the adjuster should use established and proven investigative methods to document flood and wind damage to buildings and/or contents occurring during hurricane or storm events. "Wind/Water Investigative Tips" attached to bulletin W-17042 can be helpful.

The adjuster is asked to record the process they use when approaching a wind/water claim. In addition to looking for signs of flood damage and/or a general condition of flood and documenting the exterior water line, the adjusters should note any exterior wind damage, such as missing shingles, turbine or fascia damage. The adjuster should also photograph this damage and mention what was observed in the narrative report.

The SFIP only pays for direct physical loss by or from flood to insured property. Once inside the building, the adjuster should always document the flood water line. Damage below this line is typically flood damage (exceptions like wicking should be noted in the narrative report). Damage above the flood water line is typically wind damage, such as water-stained ceilings or water damage at broken windows or exterior doors. This damage should also be photographed and mentioned in the narrative report.

### **IV. Substantial Damage**

It is imperative that adjusters submit timely Adjuster Preliminary Damage Assessments (APDA) on probable substantially damaged structures following the initial inspection.

- Substantial damage is damage from any origin in which the cost to repair equals or exceeds 50 percent of the market value of the structure at the time of the flood. However, communities may choose to adopt a lower percentage. Flood, as well as other perils like wind and fire or health and safety violations can also cause substantial damage.
- If, after inspecting the building, a claims adjuster determines that it possibly meets the requirements for being substantially damaged, the adjuster must submit a completed APDA form. An interactive version of this form and supporting information is available on the NFIP Bureau & Statistical Agent's (NFIP BSA) website, [nfipservices.floodsmart.gov](http://nfipservices.floodsmart.gov).
- The ADPA form contains space for up to three separate policies. However, claims adjusters should not wait to submit the form and should submit the form as soon as information for one policy is available.
- Claims adjusters must submit ADPA forms to the NFIP BSA through one of the following means:
  - i. Email ADPA form to [NFIPClaimsMailbox@fema.dhs.gov](mailto:NFIPClaimsMailbox@fema.dhs.gov). The subject line of the email should read "APDA Enclosed."
  - ii. Fax ADPA forms to (301) 577-3421.

## **V. Claim Handling Reminder**

Adjusters should prioritize claim assignments as efficiently as possible and offer policyholders an opportunity to request a pre-inspection advance payment.

Before adjusting losses, adjusters should ensure software is properly calibrated for the geographic area where the loss occurred, and accounts for post-disaster pricing factors, and property-specific issues. The claim file should document the most accurate scope of loss, provide notations for exceptional scope, quantity, and quality, and the adjuster must take or obtain meaningful photographs of the loss. The adjuster should consistently document all state and local sales tax on applicable goods or services, subject to applicable depreciation.

Prior to an inspection, adjusters should refer to information provided directly by FEMA (e.g., GIS products), from state or county government websites (e.g., online community building property assessor pages), from publicly available information (e.g., online real estate listings), and/or from open-source map products that show the property in its pre-disaster condition.

Please direct all questions or comments about this bulletin to FIMA Claims at [FEMA-FIDClaimsMailbox@fema.dhs.gov](mailto:FEMA-FIDClaimsMailbox@fema.dhs.gov).

Please note that this bulletin will be superseded on December 31, 2018. All appropriate claims handling procedures will be documented in the release of the next NFIP *Claims Manual* which will be located on FEMA.gov at <https://www.fema.gov/claims-manual>.

cc: Vendors, IBHS, FIPNC, Government Technical Representative

Required Routing: Claims, Underwriting