



**FEMA**

W-16036

June 2, 2016

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

A handwritten signature in blue ink, appearing to read "David I. Maurstad".

FROM: David I. Maurstad  
Assistant Administrator for Federal Insurance  
Federal Insurance and Mitigation Administration

SUBJECT: Revised Accounting Procedures for HFIAA Section 28  
Premium Refund Procedures

Bulletin W-16021, issued March 29, 2016, described how FEMA will rate policies under HFIAA Section 28 and included specific reunderwriting procedures for insurers to follow as part of this effort.

### **HFIAA Section 28 Premium Refunds**

Page 3 of the Attachment to Bulletin W-16021 provided guidance for instances in which reunderwriting may result in a higher or lower premium for the insured. If reunderwriting results in the determination that a policyholder was charged a higher policy premium due to rating or endorsement changes, then the insurer must reform the policy for up to 5 policy years and issue the HFIAA Section 28 Prior-Term Refund.

### **Prior-Term Refunds**

The insurer is responsible for determination of the HFIAA Section 28 Prior-Term Refund for up to 5 policy years and for distribution of the resulting rating or endorsement prior-term refund for the same 5 policy years. This is a change from current practice.

If the insurer decides not to distribute the prior-term refund disbursement, the insurer will then be responsible for calculating the prior-term refund amount and for forwarding the required documentation to the NFIP Systems and Services contractor, iService. In these instances, iService will disburse the prior-term refund amount.

As also indicated on page 3 of the Attachment to Bulletin W-16021, FEMA will not charge back the WYO Expense Allowance and Agent Commissions for prior-term refunds related to HFIAA Section 28 reunderwriting.

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**Financial Reporting**

To ensure appropriate retention of the WYO Expense Allowance and the Agent Commissions, the HFIAA Section 28 prior-term refunds must be specifically identified with the HFIAA Indicator **Y** and Endorsement Transaction Code **20A**.

Financial reporting procedures are consistent with the HFIAA Refund Procedures in place and distributed in bulletin W-14035, issued June 26, 2014. Please see the attachment: Accounting Guidelines for October 2016, HFIAA Section-28 Reunderwriting Premium Refund Procedures.

Please contact Jacqueline Burks at [JHughes@nfipstat.fema.gov](mailto:JHughes@nfipstat.fema.gov) or Saritha Pilli at [spilli@nfipstat.fema.gov](mailto:spilli@nfipstat.fema.gov) if you have any questions.

Attachment

cc: IBHS, FIPNC, Government Technical Representative

Required Routing: Accounting, Data Processing, Marketing, Underwriting

## **Accounting Guidelines for October 2016 HFIAA Section 28 Reunderwriting Premium Refund Procedures**

HFIAA Section 28 reunderwriting applies to policies effective from October 1, 2013 through December 31, 2018.

If reunderwriting results in the determination that a policyholder was charged a higher policy premium due to rating or endorsement changes, then the insurer must reform the policy for up to 5 policy years and issue the Homeowner Flood Insurance Affordability Act (HFIAA) Section 28 Prior-Term Refund.

### **Insurer Prior-Term Refund Processing and Disbursement**

The insurer is responsible for determining the HFIAA Section 28 Prior-Term Refund for up to 5 policy years and for disbursing the resulting rating or endorsement prior-term refund. This is a change from current practice.

If the insured is eligible to receive up to 5 policy years of refunds, but the current insurer is not able to process all prior years because some were written by another insurer, the current insurer must inform the insured to contact the previous insurer to determine eligibility for additional prior term refunds. We recommend that the current insurer provides any assistance needed to the insured in order to obtain the additional prior-term refunds.

### **NFIP Systems and Services Contractor, iService**

If the insurer decides not to distribute the prior-term refund disbursement, the insurer will still be responsible for calculating the prior-term refund amount and for forwarding the required documentation to the NFIP Systems and Services contractor, iService. In these instances, iService will then disburse the prior-term refund on behalf of the insurer.

### **Retention of Write Your Own (WYO) Company Expense Allowance and Agent Commissions**

As also indicated on page 3 of the Attachment to Bulletin W-16021, FEMA will not charge back the WYO Expense Allowance and Agent Commissions for prior-term refunds related to HFIAA Section 28 reunderwriting.

### **Financial Reporting**

To ensure appropriate retention of the WYO Expense Allowance and the Agent Commissions, the HFIAA Section 28 prior-term refunds must be specifically identified with the HFIAA Indicator **Y** and Endorsement Transaction Code **20A**.

## **Accounting Guidance**

The WYO Companies expense allowance and the Direct Servicing Agent (DSA) agent commissions previously earned will be retained when premium refunds are issued subject to HFIAA Section 28 reunderwriting. For this reason, the WYO Companies will not receive additional expense allowance to review and obtain the additional information required under the HFIAA Section 28 Reunderwriting Requirements.

In those cases where the policy premium increases due to change in coverage or policy rating corrections, the WYO Companies will be entitled to receive the appropriate Expense Allowance and the DSA agents will receive their commissions.

## **Write Your Own Companies**

WYO Companies will process premium refunds required by HFIAA Section 28 as they would normally process premium refunds. HFIAA Section 28 premium refunds will be included on Line 415/Cancellation Premium Refund Adjustment Base on the monthly National Flood Insurance Program (NFIP) financial statement Exhibit IV/Expense Allowance Calculation, along with non-HFIAA Section 28 premium refunds.

To determine the WYO HFIAA Section 28 Expense Allowance to be recaptured and retained, WYO Companies must submit the attached **HFIAA Section 28 WYO Retained Expense Allowance: Worksheet A** with the required monthly financial Exhibit IV submission. This worksheet will determine the Total HFIAA Section 28 Retained Expense Allowance for the HFIAA Section 28 premium refunds issued for the current reporting period and disclose the year-to-date HFIAA Section 28 net retained expense allowance before the adjustment for the premium refund commission allowance.

The WYO Companies will then complete the **HFIAA Section 28 WYO Retained Expense Allowance: Worksheet B** to calculate and record the **Net Retained Expense Allowance** on Line 427 of Exhibit IV/Rating Org. Expense and Retained Expense Allowance.

## **Direct Servicing Agent**

The Direct Servicing Agent will process premium refunds required by HFIAA Section 28 as they would normally process premium refunds. HFIAA Section 28 premium refunds will be reported on Line 2120 Premium Refund, with non-HFIAA Section 28 premium refunds on the DSA Exhibit II Income Statement.

To determine the DSA HFIAA Section 28 agent commissions to be retained by the agents and not recovered, the DSA will be responsible for programming and editing the respective DSA Agent Commission System and other integrated systems to process HFIAA Section 28 policy premium refund transactions.

The DSA-required programming and editing will also disallow payment of an agent commission when the HFIAA Section 28 rewritten premium has the HFIAA transaction indicator of “Y”. The HFIAA Section 28 policy premium refund-related agent commissions will not be recovered from the agents and the DSA will not increase or recapture the agent commission on Line 2231 Commission Expense with non-HFIAA premium refunds Section 28 on the DSA Exhibit II Income Statement.

For financial control and audit compliance, the DSA is required to develop and submit a monthly activity report consistent with the attached **DSA HFIAA Section 28 Retained Agent Commission: Worksheet C**, with the monthly DSA financial statements that will disclose the following minimum information for HFIAA premium refunds Section 28 and HFIAA rewritten policy premium Section 28:

- 1) Total count of HFIAA Section 28 policy premium refunds;
- 2) Total dollar amount of HFIAA Section 28 policy premium refunds;
- 3) Total dollar amount of HFIAA Section 28 agent commissions retained and not retained
- 4) The HFIAA Section 28 activity for the current month, and year to date.

#### **Process HFIAA Policy Premium Refunds Section 28 by Endorsement**

WYOs and the DSA may begin processing HFIAA Section 28 policy premium refunds by endorsement beginning **April 1, 2016**.

Insurers must use the endorsement transaction to process HFIAA Section 28 qualified premium refunds for current and five (5) prior years. The HFIAA Section 28 **indicator value of “Y”** is required to be added to any HFIAA Section 28 **20A endorsement** to indicate the HFIAA Section 28 refund endorsement transaction. See the attached HFIAA Section 28 **WYO Retained Expense Allowance: Worksheet A** or disclose the period HFIAA premium refund activity on the **example DSA HFIAA Section 28 Retained Agent Commission: Worksheet C**.

Input the HFIAA Section 28 endorsement premium refund activity on the designated worksheet and calculate the retained WYO expense allowance or DSA agent commission as indicated above.

## HFIAA SECTION -28 WYO RETAINED EXPENSE ALLOWANCE : WORKSHEET A

### ADJUSTMENT TO FINANCIAL STATEMENT EXHIBIT IV - EXPENSE ALLOWANCE CALCULATION

	Description	Current Month	Fiscal Year To Date
	HFIAA Section -28 Premium Refunds		
	HFIAA Section - 28 Codes		
1	<b>Total HFIAA Section -28 Premium Refunds</b>	\$ 100	\$ 500
2	Expense Allowance Rate	30.9%	30.9%
3	<b>Total HFIAA Section - 28 Retained Expense Allowance</b>	\$ 31	\$ 155

## HFIAA SECTION -28 WYO RETAINED EXPENSE ALLOWANCE : WORKSHEET B

### ADJUSTMENT TO FINANCIAL STATEMENT EXHIBIT IV - EXPENSE ALLOWANCE CALCULATION

	Description	Current Month	Fiscal Year To Date
1	<b>Total HFIAA Section -28 Retained Expense Allowance</b> (From Worksheet A)	<u>\$ 31</u>	<u>\$ 155</u>
<b>WYO Exhibit IV Refund Commission Allowance</b>			
2	HFIAA Section -28 Premium Refunds (From Worksheet A)	\$ 100	\$ 500
3	Cancellation Commission Allowance Rate (WYO only)	<u>-15%</u>	<u>-15%</u>
4	<b>Premium Refund Commission Allowance Not retained (WYO only)</b>	<u>(15)</u>	<u>(75)</u>
5	<b>Net HFIAA Section -28 Retained Expense Allowance</b>	<u>\$ 16</u>	<u>\$ 80</u>

Record on EXHIBIT IV Line #427 (1 + 2)

Example Disclosure

**DSA HFIAA SECTION -28 RETAINED AGENT COMMISSION : WORKSHEET C**

		<b>HFIAA Sec -28 Policy Premium Refund Summary</b>					
Description		Current Month		Fiscal YTD			
		Count	Amount	Count	Amount		
		HFIAA Section -28 Codes					
2	<b>Total HFIAA Section -28 Premium Refunds</b>		<b>20A: Indicator Y</b>	15	\$ 100	30	\$ 200
3	<b>HFIAA Section -28 Premium Refund Agent Commission Retained</b>		<b>20A: Indicator Y</b>	\$ 15		\$ 30	
	Not recovered from agents						

DSA HFIAA Sec -28 activity reported in the DSA Financial Statements

**EXHIBIT IV**  
**EXPENSE ALLOWANCE CALCULATION**

COMPANY NAME :  
COMPANY NUMBER :  
PERIOD ENDING :

EXPENSE ALLOWANCE	CURRENT MONTH	FISCAL YEAR-TO-DATE
400. NET WRITTEN PREMIUM	0	0
<b>(Do Not Use for Premium)</b>		
405. EXPENSE ALLOWANCE % A	0.0%	0.0%
410. EXPENSE ALLOWANCE FOR NET WRITTEN PREMIUM .	0	0
* 411. NET WRITTEN PREMIUM	0	0
<b>(Use 10/1/2008 data month and later)</b>	<b>0</b>	<b>0</b>
412. EXPENSE ALLOWANCE % B	30.9%	30.9%
413. EXPENSE ALLOWANCE FOR NET WRITTEN PREMIUM B	0	0
414. SUBTOTAL EXPENSE ALLOWANCE	0	0
415. CANCELLATION PREMIUM REFUND ADJUSTMENT BASE	0	0
420. COMMISSION ALLOWANCE %	15%	15%
425. CANCELLATION COMMISSION RETENTION	0	0
426. EXPENSE ALLOWANCE ADJUSTMENT FOR BONUS COMMISSION	0	0
<b>427. RATING ORG. EXPENSE AND RETAINED EXPENSE ALLOWANCE</b>	<b>0</b>	<b>0</b>
428. STATE SALES TAX ON INSURANCE SERVICES	0	0
429. PRIOR TERM REFUND EXPENSE ALLOWANCE DUE THE NFIP	0	0
430. TOTAL EXPENSE ALLOWANCE \$	0	\$ 0