Federal Emergency Management Agency

Washington, D.C. 20472

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MEMORANDUM FOR: WYO Company Principal Coordinators, NFIP Servicing Agent, Vendors

FROM: Howard Leikin
Deputy Administrator for Insurance
Federal Insurance and Mitigation Administration

SUBJECT: Best Practices for Policy Growth and Retention

The Federal Insurance and Mitigation Administration's (FIMA's) strategies for policy growth and retention in FY 2002 and beyond were outlined in my April 15 memo. Today's follow-up memo provides material to assist WYO companies and others in emphasizing the importance of these strategies and tactics to their agents and relevant staff.

FIMA appreciates the expertise of the NFIP producing agents. We recognize that agents are professionals providing important assistance to consumers in identifying and understanding their flood insurance needs. It is this professional guidance that helps to retain the business on the books. Flood insurance purchased to fill a consumer's perceived need is more likely to be continued than insurance that is mandated and misunderstood. Flood insurance renewal premiums, just like renewal premiums for homeowners insurance, can provide steady, long-term income for agents.

We encourage WYO companies and others to share the attached "National Flood Insurance Program Best Practices for Growth and Retention" with all their insurance agents and relevant staff.

Attachment

cc: FEMA Regional Offices, FIPNC, FISCAA, Government Technical Representative, IBHS, NFIP State Coordinators, WYO Marketing Committee

Suggested Routing: Marketing, Underwriting

National Flood Insurance Program
Best Practices for Growth and Retention

1. Use a needs-based approach.

Focus attention on the customer's need for flood insurance protection, even when flood insurance is required in connection with a mortgage. Borrowers are often confused by the lender's insistence that flood insurance must be purchased before a loan closing. By assisting the borrower to understand that all areas are susceptible to flooding, although to varying degrees, the agent provides valuable guidance.

Directing consumers to flood insurance coverage as an alternative to taxpayer funded, minimal disaster assistance, and Small Business Administration loans, is by far the best way an agent can assist his or her clients to lessen the financial devastation and disruption caused by flood losses. Agents can be educators, dispelling many of the misconceptions that consumers may have about the NFIP. Many property owners are eligible for low-cost flood insurance under the Preferred Risk Policy, because they live in low-to-moderate risk areas and have an acceptable loss history; but not all eligible property owners are aware of this option.

Agents can easily obtain useful information to share with clients online at www.fema.gov/nfip/infoa.htm, www.fema.gov/nfip/infol.htm, and www.fema.gov/nfip/qanda.htm. For example, the limitations of Federal disaster assistance can be explained with a brochure entitled "Here's What to Tell Your Clients About the Benefits of Flood Insurance." The added effort by agents will solidify the sale and provide referral business for the agent. Property owners who truly understand their flood insurance needs are likely to inform their neighbors about the valuable information provided to them by their agent.

2. Monitor renewals and take action.

Agents are asked to invest a small amount of time in monitoring flood insurance policy renewals. Nonrenewed policies often become lender-placed flood insurance, which may provide only limited coverage for the property owner and is more costly to that lost client. It is certainly easier and more cost effective to remind the client about their flood insurance needs in order to reinforce the sale, than to replace that lost client. Continued flood insurance protection and avoidance of possible problems with regard to uncovered flood losses is the result.

3. Offer co-terminus policy dating.

Consider, where practical, whether an insured would benefit by co-terminus policy dating to obtain a common effective date with other lines of insurance. Policyholders who are able to pay their homeowners and their flood insurance premiums on an annual basis may find that co-terminus policy dating simplifies their record keeping as well as that of the WYO company. Escrowed premium payments, when co-terminus with hazard insurance payments, could simplify lender/servicer processing. Operational costs savings for all partners (WYO companies and lenders) and improved flood insurance policy retention should result. In addition, there would be less of an opportunity for misplaced premium bills. Policy Cancellation Reason #3 is used to cancel the existing NFIP policy after the coverage has been rewritten within the same company to establish a common expiration date with other insurance coverage.

4. Offer payment options.

Co-terminus payments may not be possible for some policyholders who need to stagger hazard and flood insurance premium payments. For these clients:

- Discuss escrowing of voluntary flood insurance where lenders are agreeable.

- Utilize the option of flood insurance premium payments by credit card. This mechanism gives the insured the ability to extend their annual premium over several months. Although there are finance charges associated with credit cards, they do not appear to be burdensome for the typical flood insurance policyholder. As an example, an annual premium of $600 and an annual interest rate of 18 percent results in an estimated monthly charge of $5.00 on the outstanding balance.

5. Be alert to flood map changes in your territory.

Agents should be aware of Legal Notices printed in local papers that pertain to FEMA Flood Insurance Rate Map changes. Additional information is available from the community, usually at the planning and zoning office, where permits are obtained. The web site of FEMA's Map Service Center (www.fema.gov/msc) also provides useful information.

Even if the mapping change for a particular community is limited, it has important implications to the property owners impacted. As FEMA maps are updated, some areas that were shown to be Special Flood Hazard Areas (SFHAs) may be reclassified as areas of moderate or minimal flood risk. In such circumstances, the mandatory flood insurance purchase requirements, placed on loans from Federally regulated lenders, would end. However, the need to protect buildings in moderate or minimal flood risk areas continues, and the property owner is then eligible for lower premiums.

When map revisions identify properties to be in high flood risk areas, grandfathering rules may apply, depending on existing conditions. Under the NFIP grandfathering rules, the map information used to determine rates will remain the same for policyholders who (1) have maintained continuous coverage without a lapse in coverage and (2) originally built in compliance with NFIP risk data. Grandfathering permits policyholders under the NFIP to retain a more favorable premium on the basis of flood zone or elevation information at the time the first policy was bought or when the building was constructed, rather than higher premiums that might result from changes in the Base Flood Elevation or flood risk zone resulting from a restudy of the area at a later date. Please review the NFIP *Flood Insurance Manual*, available online at http://www.fema.gov/nfip/manual.htm, for additional information.

Whether the map change results in the availability of lower rates or whether it means that a property owner is required for the first time to purchase flood insurance, the informed agent will be of great value to that property owner.

6. Be alert to community eligibility changes in your territory.

Agents should be aware of the variety of potential changes in a community's NFIP status. For example, communities that were not previously participating in the NFIP may become newly enrolled, making residents eligible for flood insurance. Further, communities may be placed on probation, suspension, or be reinstated in the NFIP. Each circumstance presents an opportunity to educate prospects about their flood insurance needs. See page GR 1 in the NFIP *Flood Insurance Manual* for general rules about NFIP eligibility. The status of communities that participate in the NFIP is available online in the Community Status Book at http://www.fema.gov/fema/csb.htm.

Communities may also participate in the NFIP's Community Rating System (CRS), which rewards their floodplain management efforts that exceed the NFIP's minimum standards. Policyholders in CRS communities qualify for flood insurance premium discounts ranging from 5 to 45 percent. The NFIP *Flood Insurance Manual* lists and updates all CRS communities. See pages CRS 1-27 and DEF 2 for information about the CRS. Agents can obtain information about the Community Rating System (CRS) online at http://www.fema.gov/nfip/crs.htm.