

VI. INCREASED COST OF COMPLIANCE (ICC)

A. PRINCIPAL FEATURES OF ICC COVERAGE

The limit of liability for Increased Cost of Compliance (ICC) coverage was raised to \$30,000 on May 1, 2003. Any flood loss prior to May 2003 will be adjusted according to the previous limit of \$20,000.

When a building covered by a Standard Flood Insurance Policy (SFIP) sustains “repetitive losses” or “substantial damage” caused by a flood, the NFIP will pay up to \$30,000 for losses sustained on or after May 1, 2003, and up to \$20,000 for losses sustained prior to May 1, 2003, for the cost to elevate, floodproof (for nonresidential buildings only), demolish, or relocate the building, or any combination thereof, when any of these actions are undertaken to comply with the enforcement of state or local floodplain management laws or ordinances. ICC coverage is available on residential and nonresidential buildings (this category includes public and government buildings, such as schools, libraries, and municipal buildings) insured under the SFIP.

The National Flood Insurance Reform Act of 1994 authorizes ICC coverage only for flood-damaged buildings. Therefore, ICC coverage does not pay for the increased cost of repairing or altering buildings damaged by wind, fire, earthquake, or other perils.

ICC coverage was included as Coverage D in every SFIP written or renewed on and after June 1, 1997. The premium charged for ICC coverage varies depending on the type of building, whether the building is Pre-FIRM or Post-FIRM, the flood zone, and other factors.

The maximum amount collectible under the SFIP for both the ICC payment and the direct loss payment for flood cannot be greater than the maximum limits of coverage for that class of buildings authorized under the National Flood Insurance Act of 1968, as amended. The maximum limit available of flood insurance building coverage are \$250,000 for residential buildings and \$500,000 for nonresidential buildings. For a residential condominium building, the maximum limit available of flood insurance building coverage is \$250,000 times the number of insured units.

B. COVERAGE QUESTIONS AND ANSWERS

1. *Does ICC coverage extend beyond the building itself?*

No. ICC coverage is provided only on the building covered by an SFIP. Under the SFIP, a “building” is defined as a walled and roofed structure, other than a gas or liquid storage tank that is principally above ground and affixed to a permanent site. Land, land values, lawns, trees, shrubs, plants, and growing crops are not covered. In addition, items such as portions of walks, walkways, decks, driveways, patios, and other surfaces located outside the perimeter exterior walls of the insured building or units are not covered.

2. *Is ICC coverage available for appurtenant (accessory) buildings?*

Yes. ICC coverage is available for an appurtenant (accessory) building but only when a separate flood insurance policy is written on the appurtenant building. An appurtenant structure is one on the same parcel of property as the principal structure and the use of

which is incidental to the use of the principal structure. The SFIP does not provide coverage for direct physical loss from flood for an appurtenant structure except in the Dwelling Form. The Dwelling Form extends coverage for direct physical loss from flood to a detached garage located on the premises of a one- to four-family dwelling. However, ICC coverage does not apply to these or any other appurtenant buildings indicated in the "Exclusions" section of the ICC coverage. Therefore, a separate flood insurance policy must be written on any appurtenant structure to obtain ICC coverage.

3. *What buildings have ICC coverage?*

All buildings in Regular Program communities have ICC coverage except the following:

- a. Buildings insured under the Group Flood Insurance Policy, which covers recipients awarded an Individual and Family Grant for flood damage under §411 of the Stafford Act (42 U.S.C. § 5178) as a result of a Presidential major disaster declaration.
- b. Units insured under a condominium unit owner policy.

Buildings located in communities participating in the Emergency Program do not have ICC coverage.

C. ELIGIBILITY QUESTIONS AND ANSWERS

1. *When is an insured building eligible for an ICC claim payment?*

An insured building (note exceptions in 3, a, and b above) is eligible for an ICC claim payment when a new SFIP is issued or upon the renewal of an SFIP on or after June 1, 1997. Canceling a policy to obtain ICC coverage is prohibited.

2. *Will an ICC claim be paid on a building that is less than 50 percent damaged but must comply with a state or community floodplain management law or ordinance that has a substantial damage threshold below 50 percent of the market value of the building?*

No. Buildings must be damaged by flood to at least 50 percent of market value in order to be eligible for an ICC claim payment.

3. *Once an ICC claim for demolition is paid, can the insured, at a later date and once it is decided to rebuild on the same or at another site, make an additional ICC claim for elevation?*

Yes, but the total payment (demolition plus elevation) is limited to the ICC limit at the time of loss, currently \$30,000. Also, the elevation activity must be completed within 4 years of the community's original declaration of substantial damage (see below). The elevation activity may be accomplished at the original lot or at another lot where there is a requirement to elevate.

4. *What conditions must be met for a repetitively damaged building to be eligible for an ICC claim payment?*

A building is eligible for an ICC claim payment for repetitive damage if it is in an SFHA (A and V zones), is a repetitive loss structure, and is subject to state or community floodplain management laws or ordinances.

There are two additional conditions that must be met in order for an ICC claim to be paid under the SFIP for a repetitive loss structure.

- a. The state or community must have adopted and be currently enforcing a repetitive loss provision or a cumulative substantial damage provision requiring action by the property owner to comply with the state or community floodplain management laws or ordinances.

States and communities are not required to adopt a repetitive loss provision. Adoption of a cumulative substantial damage provision or a repetitive loss provision is voluntary. In the event that a state or community adopts a repetitive loss provision or a cumulative substantial damage provision, this provision must be enforced on all buildings in the community irrespective of whether the buildings are covered by flood insurance.

- b. The building must have a history of NFIP claim payments that satisfies the National Flood Insurance Reform Act of 1994 definition of a “repetitive loss structure”:

“a building covered by a contract for flood insurance that has incurred flood-related damages on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equaled or exceeded 25% of the market value of the building at the time of each such flood event.”

The date on which the first loss occurred, even if the loss occurred before June 1, 1997, is immaterial as to eligibility for an ICC claim payment, so long as the state or community enforced a repetitive loss or cumulative substantial damage requirement and the loss occurred within the 10-year period and the insured building satisfies the definition of “repetitive loss structure” under the National Flood Insurance Reform Act of 1994.

5. *What conditions must be met for a substantially damaged building to be eligible for an ICC claim payment?*

A building is eligible for an ICC claim payment for substantial damage if the community determines that it has been damaged by flood and the cost of restoring the building to its before-damaged condition would equal or exceed 50 percent of the market value of the building before damage occurred.

All states and communities participating in the NFIP must have a substantial damage provision in their floodplain management laws or Substantial Damage is deemed to have occurred when:

“damage of any origin is sustained by a building whereby the cost of restoring the building to its before damaged condition would equal or exceed 50 percent of the market value of the building before the damage occurred.”

The NFIP substantial damage definition applies to building damage from any origin, such as fire, wind, earthquake, etc. In cases where the damage is due to a combination of hazards, such as wind and flood, an ICC claim is paid only when the flood component of the damage equals or exceeds 50 percent of the market value of the building. In order for a payment to

be made under ICC, the claim representative must verify that the damage was caused solely by flood or that the cost to repair the flood component of the damage to the building equals or exceeds 50 percent of the market value of the building.

6. *How long does an insured have to complete the approved ICC mitigation measure(s) and what is the correct date of loss for an ICC claim?*

Note: FEMA Bulletin W-06019, March 14, 2006, waived the 2-year time limit for the completion of ICC activities for all claims on or after June 1, 2005, and extended the time to complete these activities to 4 years. The time limit found at paragraph 5.e. (2) will be changed to 4 years.

The date of loss for an ICC claim is the same as the date of loss for the underlying flood claim. However, the time limit for completing an ICC claim (4 years for claims on or after June 1, 2005) begins on the date of the declaration by the local community official that the insured structure has been substantially damaged by flood.

7. *Will a handicapped insured's ICC elevation claim that includes the cost of installing an elevator or chair lift to access the now elevated building be paid when a covered elevator or chairlift was not previously installed?*

No. If these items existed at the time of loss coverage would be afforded in the underlying direct physical damage claim subject to all SFIP policy limitations and exclusions that apply.

8. *If a building is compliant at the time of loss, but after the loss the community adopts a freeboard ordinance or the Advisory BFE, would the otherwise compliant building be eligible for ICC benefits?*

Yes, if the mitigation activity was taken after the community adopted and enforced the new ordinance and height requirement(s).

D. CLAIMS ADJUSTMENT QUESTIONS AND ANSWERS

1. *What is the process for adjusting a claim under ICC coverage?*

When a flood event has occurred, an adjuster is assigned to adjust the direct physical damages. The adjuster advises the policyholder of ICC coverage in the SFIP if it appears that damages may exceed 50 percent or more of the value of the structure and the building is in an SFHA.

Because ICC claims are paid only when the property owner is required to rebuild in compliance with a community's substantial damage or repetitive loss provision, a determination must be made by the community whether the flood damages to the building result in substantial damage or repetitive loss that requires compliance with state or community floodplain management laws or ordinances. The adjuster must obtain the substantial damage or repetitive loss determination in writing before adjusting the ICC claim. The policyholder and the community should discuss the floodplain management requirements and the mitigation options (elevation, floodproofing, demolition, or relocation of the building, or any combination of these) once a determination by the community has been made.

Once a determination has been made by the community that the building has been substantially or repetitively damaged by flooding, the policyholder notifies the insurer of the determination. The adjuster advises the property owner that a signed construction contract, one itemized cost breakdown of the work (see FEMA Bulletin W-04020, May 7, 2004, 1.), and a start and completion date for the work will be needed.

Once the policyholder has notified the insurer of the substantial damage or repetitive loss determination, the insurer creates a claim file and assignment to an adjuster. The adjuster must obtain information from the community regarding the community's substantial damage or repetitive loss determination. The adjuster uses this information to confirm that the flood-related damage for the current building claim (and prior claim, if it is a repetitive loss structure) supports the community's substantial damage or repetitive loss determination. In addition, the adjuster will verify whether the claim meets all other eligibility requirements for payment under ICC coverage.

The adjuster confirms that the damage meets the requirements for making an ICC claim payment and that the policyholder has provided a signed contract and one cost estimate for the mitigation measure. The adjuster provides the policyholder with the ICC Proof of Loss form. The adjuster also explains to the policyholder how payments will be made and advises the policyholder that, if the mitigation measure is not completed within the required time frame, any payments issued under the ICC claim must be returned to the insurer. In addition, the adjuster advises the policyholder that a permit issued by the community to undertake the work will be needed prior to making the initial ICC claim payment. For buildings that are to be elevated or floodproofed in SFHAs, the permit must indicate the level of protection to which the building is to be elevated or floodproofed.

After the ICC Proof of Loss form and a permit from the community have been returned to the adjuster, the adjuster advises the property owner that the request for initial payment toward the ICC claim will be submitted to the insurer for review and payment authorization.

When the mitigation measure is completed, the adjuster obtains an elevation certificate, (if warranted), a copy of the certificate of occupancy, letter, or written official notice from the community that the mitigation measure has been satisfactorily completed and that no variance was granted. The claim representative issues the final ICC claim payment after all documentation of satisfactory completion has been submitted.

2. *Can partial payment be issued on an ICC claim?*

Paragraph 5.e. of SFIP Coverage D – Increased Cost of Compliance provides that an ICC claim cannot be paid (1) until the building is elevated, floodproofed, demolished, or relocated on the same or to another premises, and (2) unless the building is elevated, flood proofed, demolished, or relocated as soon as reasonably possible after the loss, not to exceed 2 years. The question has arisen as to whether this provision precludes the issuance of partial payments for ICC claims.

The two conditions in SFIP paragraph 5.e. refer to the total payment of an ICC claim, which means partial payments are permitted. Partial payments may be issued in advance of completion of the mitigation activity but cannot exceed 50 percent of the total estimated reimbursable cost of the mitigation activity.

3. Should mortgagee name(s) be included on the ICC partial and final payment checks?

No. The SFIP Dwelling Form - Mortgagee Clause, Section VII, General Conditions. Q., states that any loss payable under Coverage A. will be paid to any mortgagee of whom the insurer has actual knowledge. ICC payments are subject to Coverage D and do not require naming a mortgagee.

4. What does “assignment of Coverage D” mean? What is the process involved?

If a community plans to pursue a FEMA-approved mitigation project, such as a project under the Hazard Mitigation Grant Program, the policyholder can assign the eligible portion of Coverage D (ICC) claim to the community. The insured must complete the Assignment of Coverage D form and return it to the community official. The community official will submit a copy of the completed form and a written Declaration of Substantial Damage to the NFIP Bureau and Statistical Agent. The Bureau and Statistical Agent will enter the data into a tracking system and send both documents to the insurer, with instructions.

Specific steps for assignment of the ICC claim benefit to the community are itemized below.

- a. Policyholder consents to assignment of the ICC claim payment.
- b. Community official provides the policyholder with an Assignment of Coverage D form.
- c. Policyholder completes the form and returns it to the community official.
- d. Community official sends a copy of the form, along with the community’s signed Declaration of Substantial Damage, to the NFIP Bureau and Statistical Agent at the following address:

NFIP Bureau and Statistical Agent
PO Box 310
Lanham MD 20706

Fax: (301) 577-3421
E-mail: iservice_claims@ostglobal.com

- e. Bureau and Statistical Agent enters the ICC information submitted by the community into a database. The Bureau then sends the documents to the appropriate WYO Company, with instructions. The company assigns an adjuster.
- f. Assigned adjuster contacts the policyholder to confirm receipt of the claim, and then contacts the community official to help coordinate the claim.
- g. Adjuster reviews the contract for demolition, elevation, relocation, or floodproofing to determine the covered cost.
- h. Adjuster has the community official sign the ICC Proof of Loss form once the claim value has been determined.
- i. Adjuster sends the NFIP Final Report form and the Proof of Loss to the insurance company for payment.

- j. Insurance company issues the check to the community and advises the NFIP Bureau and Statistical Agent of the amount of the claim payment.

E. OTHER FREQUENTLY ASKED QUESTIONS AND ANSWERS

1. *When an estimate for demolition of a dwelling includes the cost to demolish the garage, is coverage for the garage provided under ICC?*

The cost to demolish the home is covered. If the garage is detached, then coverage will not apply. The garage should have its own policy.

2. *Is ICC coverage provided for the slab, walkway, and driveway?*

Coverage is afforded for the slab. However, there is no coverage for the walkway and driveway.

3. *Fill dirt is required to stabilize the lot. Is this covered under ICC?*

If the cost is to grade the lot, then coverage will apply. The *Interim Guidance for ICC – Part 4, Demolition*, paragraph 2, states “Once the building is removed from the site, steps should be taken to clear the site of any remaining materials such as the foundation, remove any utility systems, and grade and stabilize the site in accordance with any State or local regulations.”

4. *If the lot is littered with trash such as tires, cans, etc., will this be considered ICC-covered debris?*

No coverage applies.

5. *The SFIP excludes coverage for septic systems. If the building is demolished under ICC, will the cost to remove the septic system be covered?*

Yes. First, all applicable permits to demolish the building must be obtained. Once the building is removed from the site, steps should be taken to clear the site of any remaining materials such as the foundation, remove any utility systems, and grade and stabilize the site in accordance with any State or local regulations.

6. *Are well water plugs covered under ICC?*

If the well water plug is part of the abandonment of on-site utilities, coverage will be afforded.

7. *What conditions must be met for a substantially damaged building to be eligible for an ICC claim ?*

A building is eligible for an ICC claim payment if it is in a Special Flood Hazard Area, and the community determines that the building has been damaged by flood to such an extent that the cost of restoring the building to its pre-damage condition would equal or exceed 50 percent of its pre-damage market value. At the time of loss, the building must be out of compliance with the local floodplain management construction guidelines (typically, the lowest floor for rating purposes is below the BFE).

8. ***A flood claim was processed in accordance with the policy provisions. In the interim, the policy expired and was not renewed. The community then declared the building substantially damaged by flood. Will an ICC claim be honored even though the policy expired?***

Yes. The date of loss for the ICC claim is the date of loss for the underlying flood claim.

9. ***Is a CBRA property that has been declared substantially damaged by the community eligible for ICC benefits?***

Yes, but once substantially damaged, the property is no longer eligible for flood insurance coverage in the CBRA and the policy must be cancelled.

10. ***Are Condominium Single-Family Detached Units eligible for ICC benefits under the SFIP program?***

Yes, ICC coverage is available on a Single-Family Detached Condominium Unit as long as the ICC premium was charged and insured paid for ICC coverage.

11. ***Is the cost to fill in a sub-grade basement area to grade covered under ICC?***

Yes, there is coverage for this type of mitigation if this activity is what is required by the community enforcing their floodplain management ordinance as it relates to elevation.

12. ***The community has deemed the insured risk substantially damaged. The insured is going to demolish the structure by burning it down. The cost incurred by the insured for this is a donation to the Fire Department to stand by and make sure there is no other damaged caused. Will the insured's cost be considered covered demolition cost under ICC?***

Yes, the insured's cost would be allowed as a covered mitigation expense, including possibly other costs incurred to haul away the remaining debris and capping off utilities.

13. ***Is an Elevation Certificate relating to ICC required before and after elevating a flood-damaged structure?***

There is only the need to provide the elevation certificate after the building has been elevated, unless the adjuster cannot determine that an existing elevated building is at or above the BFE. When the elevated floor is visible and recognizable, some written documentation from the local official stating that the elevation meets code is necessary to enable the insured to receive the final 50 percent payment. The letter from the building department should indicate that the elevation was completed in accordance with the local building Floodplain Management guidelines.

14. ***If the insured property is not located in a SFHA, but the community is adopting AFBE's, is the insured risk eligible for ICC benefits?***

Yes, coverage is available if the community is enforcing an elevation requirement based on FEMA provided ABFEs.

15. Can communities withdraw and reissue permits?

If a policyholder is provided a building permit, but does not start construction, and the community withdraws the permit and reissues after the ABFE is adopted and enforced, ICC benefits are allowable to comply with the new ABFE requirement.

16. Are historic building and buildings on the National Register eligible for ICC benefits?

Yes, historic structures can meet limited floodproofing guidelines established in their ordinances. The file must be fully documented.

17. Are ICC benefits available for properties relocated from a location within a SFHA to a non-SFHA?

Relocation expenses are covered under ICC to relocate a structure on the same site where the risk of flooding is less; to another site in the SFHA where the risk of flooding is less; or to a non SFHA.

18. What is considered covered incremental costs associated with elevating or floodproofing of the replacement building at the same or another site within a SFHA?

Incremental costs would include any additional height requirement concerning pilings; even if required to be driven deeper; plumbing, wiring, any additional charges for bracing and other costs directly associated with the required elevation. However, the ICC payment will be limited to the costs to mitigate the insured building as it was at the time of loss and there is no coverage for any additional costs associated with structural modifications, upgrades, or any change in size.

19. Would a policyholder have ICC coverage if their flood insurance policy was cancelled and not renewed applying for other programs available to them? After two years the policyholders decide they want to demolish the flood damaged structure using ICC funds from the lapsed policy and rebuild a new home on the same site.

The structure must have been covered by an NFIP policy on the date of loss, no eligibility for GFIP or Condo Unit Owner's policies. If all other eligibility requirements under Coverage D have been met, as long as the policy was in force on the date of the underlying flood claim and the time limit- authorized by the SFIP- from the date of the declaration has not expired, the claim can be made. If the time period for completing the mitigation measure has expired, the insurer may request a review by FEMA based upon the individual merits of the claim. These requests would be reviewed by FEMA on a case-by-case basis.

20. What ICC benefit is payable for a structure that is demolished and the property owner chooses to build a replacement building outside the SFHA?

Demolition costs only. Since there would be no requirement to reduce the risk of flooding, ICC would not be paid for the replacement building unless the community enforces elevations in non-SFHA. A copy of the ordinance would need to be provided to document the ICC claim.

21. *Is a claim eligible for ICC benefits if the substantial damage declaration from the community does not state that the substantial damage was caused solely by flood?*

If the letter from the local official is not sufficient, the carrier, through the adjuster, insured or other reasonable means should contact the local official to determine the market value used to determine the structure was substantially damaged; once obtained, the carrier can compare the total flood damage to the market value and determine if the flood damage is 50 percent or more. If this is the case, they can proceed with the normal ICC claim procedures. The claim file should ascertain damage from other perils.

If the structure has been washed off its foundation, the carrier can assume it is substantially damaged by flood. (Refer to FEMA Bulletin W-06067, issued September 20, 2006).

22. *Can an ICC claim be assigned?*

The SFIP does not provide for the assignment of a claim but will allow for the assignment of the policy when the title to the property is transferred to a new property owner. The only time an ICC claim can be transferred is when it is conjunction with a FEMA project. (Refer to FEMA Bulletin W-07003, issued January 16, 2007).

VII. BASIC ADJUSTMENT ISSUES

A. ACTUAL CASH VALUE (ACV)

The NFIP defines ACV as the replacement cost of an insured item at the time of loss, less the value of physical depreciation.

B. ADDITIONS AND EXTENSIONS

Buildings that are connected by a rigid exterior wall, a solid load-bearing interior wall, a stairway, an elevated walkway, or a roof can be insured as part of the dwelling. The insured has the option of obtaining separate coverage for these building items.

C. ADJUSTER PRELIMINARY DAMAGE ASSESSMENT (APDA)

Capturing claims data on buildings that will probably be substantially damaged has become increasingly important to FEMA and to the officials of affected communities. Adjusters should report as soon as possible after it appears that the building is substantially damaged (50 percent of the building's value). After the adjuster conducts the inspection of the risk, the APDA form must be completed and faxed to iServices claims department at (301) 577-3421.

D. ADVANCE PAYMENTS

FEMA has always encouraged advance payments. Typically, such payments are made after the physical inspection of the property reveals flood damage (less the amounts of estimated depreciation and the deductible) is greater than the advance payment. Advance payments are generally made against the Personal Property claim, but if the advance is to be made against the Building Property claim, the mortgagee must be named on the advance payment check.

To the extent that any advance payment exceeds the payable flood damage (after depreciation and policy deductible), it will not be reimbursed.

E. BASEMENTS

Exterior Windows and Doors – In “daylight” basements or basements with exterior windows and/or doors, the windows and doors that are installed in exterior foundation walls are covered. However, they can be painted or otherwise finished on the exterior surfaces only.

Baseboard Heaters – Baseboard heaters installed in basements are not covered. Only building items listed in SFIP Section III.A.8.a. (1)- (17) are covered.

F. CONTENTS MANIPULATION

If the policyholder has not purchased Personal Property (Contents) Coverage, there is no coverage for contents manipulation.

FEMA recognizes that in certain instances manipulation of undamaged insured contents may be necessary to perform covered building repair. These charges are often included in the contractor's unit cost(s) for items being repaired or replaced and not as a separate charge to the insured. FEMA also recognizes that, in some instances, a contractor may present a more

detailed breakdown of their charges and bill contents manipulation as a separate line-item. In these instances, an adjuster may allow for contents manipulation separately in the estimate subject to the conditions below.

Adjusters may no longer make lump sum allowances or room-by-room allowances in the estimate for contents manipulation without providing supporting documentation of these costs. FEMA does not expect to see estimated allowances for contents manipulation. All reasonable and necessary costs for contents manipulation will need to be supported by an invoice or receipt clearly indicating the actual incurred expense.

These documented expenses may be included under the building coverage, even when contents coverage is available when they are a function of the covered building repair.

This coverage does not include the removal and/or storage of the contents away from the insured location.

When contents manipulation is allowed under Coverage A - Building Property, the insured must also carry contents coverage on the policy and the contents items being manipulated must be covered by the SFIP. Coverage for manipulation of tenant's personal property and non-covered personal property located in a post-FIRM elevated building enclosure or basement remains unchanged and is not allowed under the building or contents coverage of the SFIP.

G. DEPRECIATION

To accurately determine the ACV of an item, the adjuster must consider the replacement cost along with the depreciation, as well as the average useful life of the item. The condition of the item prior to loss must also be considered. The NFIP will not accept lump-sum depreciation figures. Replacement costs on contents items need to be validated with a reliable source when they appear to be inaccurate.

1. Building Physical Depreciation

If an adjuster is removing and replacing a building item that is not new, appropriate depreciation must be applied.

2. Contents Physical Depreciation

Contents depreciation must be line by line and item by item. Each item is considered on its own merit. Things to consider include replacement cost of the item, age of the item, and condition of the item prior to the flood, and anticipated useful life.

H. EVIDENCE OF LOSS

1. Insured's Responsibilities

The insured's responsibilities in the event of loss (which adjusters should remind the policyholder of) are as follows:

- a.** Immediately notify the agent or the company of the flood loss.

- b. As soon as reasonably possible, separate the damaged and undamaged property, putting it in the best possible order so that the adjuster can examine it and properly substantiate the loss.
- c. Place all account books, financial records, receipts, and other loss verification material in a safe place for examination and evaluation by the adjuster.
- d. Within 60 days after the loss, submit an NFIP Proof of Loss form to the WYO Company or the NFIP Servicing Agent.

2. Adjuster's Responsibilities

The adjuster's responsibilities in the event of a loss are as follows:

- a. Determine whether there was a general condition of flooding as defined by the policy.
- b. Determine how the water entered the building.
- c. Check for exterior and interior waterlines and provide the height of each in the report as well as photographs.
- d. Investigate and document all other evidence of loss.
- e. Document that prior flood damage has been repaired in the event that previous flood damage was sustained to the building.

I. FLOOD DEFINITION

Refer to the SFIP, II. Definitions A. The definition of a Flood requires that there be an inundation of two or more acres or two or more properties (at least one of which is the policyholder's property). If flooding is limited to the policyholder's property, and the policyholder's property is less than two acres, but includes within its property line two flood damaged properties (structures), coverage applies. Coverage will apply only to insured buildings, but the second affected structure (property) does not have to be insured nor does it have to be a building as defined in the policy. The second structure need not be adjacent to the insured property, but should be in reasonable proximity. Street flooding at the insured location can be considered a second location.

J. IMPROVEMENTS AND BETTERMENTS

If the insured is a tenant and has personal property coverage (Coverage B) under the Dwelling Form, the coverage extends to the insured's cooking stove, range, and refrigerator. Also, improvements made or acquired solely at the insured's expense are covered for up to 10 percent of the limit of liability for personal property. Improvements do not include cooking stoves, ranges, or refrigerators.

K. LEASE AGREEMENTS/INSURABLE INTEREST

If the policy holder is the tenant and is carrying building coverage under a General Property Form for non-residential property, the adjuster must obtain the lease agreement. The requirements of the lease agreement requires the tenant policy holder to:

- 1. Purchase the flood insurance (building)
- 2. Be financially responsible for any flood damage (building)
- 3. State that the property must be returned to the owner at the end of the lease with all flood damage repaired

These lease provisions can establish the tenant policyholder's insurable interest in the building. The building owner should be named as an additional payee on the building check. Only one policy may be written on any one building in the maximum amount, in the aggregate of \$500,000 regardless of the number of interested parties.

L. NON-WAIVER AGREEMENT

When the adjuster identifies a problem that could affect coverage or result in denial, a non-waiver agreement must be secured from the insured. Failure to secure a non-waiver agreement might hinder the company from denial of claim when denial would be in order.

Examples of circumstances that require a non-waiver agreement include the following:

1. The policy has lapsed in coverage.
2. By action of the insured, the policy has become void.
3. More than one building is on a policy (except when scheduled), or there is more than one building at the property address. (Blanket coverage is not provided under the SFIP.)
4. The address of the risk is different from that listed on the policy.
5. The insured has not complied with the policy requirements.
6. Possibility of fraud.
7. Late reporting.
8. Any other situation for which the adjuster believes that a non-waiver agreement is needed.

In the event a non-waiver cannot be obtained in a timely manner, a detailed Reservation of Rights letter must be sent to the policyholder.

M. OTHER INSURANCE CLAUSE

1. Introduction

Where there is another insurance policy that covers flood damage and that is not an NFIP SFIP, and the other policy has a provision stating that it is excess insurance, the SFIP will be primary.

In all other cases where there is another insurance policy covering flood and an SFIP, the SFIP will be primary (subject to its deductible) up to the deductible of the other policy covering flood. Once the other deductible is reached, the NFIP policy will pay in the same proportion that the amount of SFIP insurance covering the loss bears to the total amount of insurance covering the loss. For large losses, when the SFIP's prorata share equals or exceeds the SFIP limit plus the deductible, the SFIP limit is paid.

Note: Duplicate NFIP policies are not allowed. Therefore, except in the case of an RCBAP and a Building Property SFIP naming a condominium unit owner, the other insurance should never be another SFIP. In the instance of commercial properties under the General Property Policy, both the property owner and tenant may purchase building coverage,

if the tenant can demonstrate insurable interest in the building, as may be required in the lease agreement.

If the SFIP covers a condominium association and there is an insurance policy that covers flood in the name of a unit owner and both policies cover the same loss, the policy naming the condominium association will be primary.

2. Examples

- a. Where there is another insurance policy in addition to the SFIP and the other policy has a provision stating it is excess insurance, the SFIP will be primary.

Loss: \$ 35,000			
SFIP Coverage	\$ 50,000	Deductible	\$ 1,000
Other Insurance	\$250,000	Deductible	\$50,000

The SFIP is primary and the other insurance is excess. The NFIP will pay \$35,000 loss minus the \$1,000 deductible.

Note: The above example could be a non-NFIP policy that covers flood and names the condominium association, plus an NFIP SFIP that names a unit owner. If the other policy is excess, the unit owner's SFIP would be primary. In such cases, the condominium association's by-laws should be reviewed to determine what the unit owner owns.

- b. For any other flood insurance policy, the SFIP will be primary (subject to its own deductible) up to the other flood policy's deductible. When the other deductible amount is reached, the SFIP will pro-rate for the remainder of the loss.

Loss: \$480,000			
SFIP Coverage	\$250,000	Deductible	\$ 5,000
Other Insurance	\$500,000	Deductible	\$15,000

The SFIP is primary up to \$15,000 of the loss. The SFIP \$5,000 deductible will be deducted from the amount for which the SFIP is primary. In this case, the result of the calculation is \$10,000. We will pro-rate the loss that exceeds the amount for which the SFIP is primary (\$15,000). The other insurance equation will be used to pro-rate the remainder of the loss (i.e., \$480,000 - \$15,000 = \$465,000).

SFIP Coverage	$\$250,000/\$750,000 = .3333 \times \$465,000 = \$154,984.50$		
Other Insurance	$\$500,000/\$750,000 = .6667 \times \$465,000 = \$310,015.50$		
SFIP Pays	$\$154,984.50 + \$10,000 =$ \$164,984.50		
Total	\$475,000.00		

- c. The limit of liability under the Residential Condominium Building Association Policy (RCBAP) depends upon the coinsurance calculation..

Value of Building	\$1,500,000	
Other Insurance	\$1,000,000	Deductible \$200,000
SFIP Coverage	\$ 500,000	Deductible \$ 5,000
Insurance Required	\$1,200,000	(80% of \$1,500,000)
Loss	\$ 625,000	

The RCBAP coinsurance calculation is as follows:

$$\frac{\text{Insurance Carried}}{\text{Insurance Required}} \times \text{the amount of the loss} = \text{RCBAP available limit}$$

$$\frac{\$500,000}{\$1,200,000} = .4167 \times \$625,000 = \$260,437.50$$

\$260,437.50 is the available RCBAP limit of liability.

The RCBAP will be primary (subject to its deductible) up to the deductible amount of the other flood insurance, or: \$200,000 - \$5,000 (RCBAP deductible) = \$195,000.

The remaining loss will be prorated

$$\frac{\$500,000}{\$1,500,000} = .3333 \times \$425,000 (\$625,000 - \$200,000) = \$141,652.$$

The RCBAP will not pay \$336,652.50 (\$195,000 + \$141,652.50), but will pay up to \$260,437.50, which is its available limit of liability after the coinsurance calculation. If the loss exceeds the combined policy limits, the RCBAP deductible will disappear.

N. OVERHEAD AND PROFIT

The overhead and profit percentage must be applied to the depreciation total and reflected in the ACV loss figure. Overhead and profit is not applied to the following items:

1. Carpeting
2. Insured's own labor
3. Outside service charges such as plumber, electrician, or appliance service calls
4. Repairs made by the insured (However, an allowance can be made for the insured's time and expense in purchasing materials, not to exceed 10 percent.)

Overhead and profit is warranted only if a general contractor has been hired to make repairs. The adjuster must document the general contractor's involvement. The NFIP Servicing Agent or the WYO Company has the option of withholding the overhead and profit until the repairs are completed or until a contract is signed.

In the event the policyholder functions as general contractor, a reasonable allowance may be added for the policyholder's time and effort in coordinating subcontracted repairs.

O. POLLUTION DAMAGE

The SFIP covers direct physical loss by or from flood. Therefore, when flood waters contain pollutants or cause release of pollutants that damage insured property, the cleanup, repair, and mitigation costs associated with such pollutants are covered under the General Property Form up to \$10,000.

If vinyl tile containing asbestos is damaged by flood (the asbestos does not damage insured property), the claim for removal and replacement of the flood-damaged tile is limited only by the Building Property policy limit less the deductible.

See FEMA Bulletin W-10065a, June 7, 2010 regarding basic claims procedures with handling claims involving oil in water.

P. PROOF OF LOSS REQUIREMENTS AND WAIVER

The NFIP Proof of Loss form is required on all advance payments, as well as on any paid claim. However, the Proof of Loss may be waived on claims under \$7,500. When a Proof of Loss is waived, the insured's signature must be obtained on the NFIP Final Report form after the loss and the claim have been determined. A copy of the signed Final Report must be left with the insured. In the absence of a local witness, the adjuster may witness the form. If the loss is over \$7,500, the Final Report must still be completed and a Proof of Loss must be obtained.

Two forms are used for documenting losses. The Proof of Loss form is used for actual cash value claims. The Statement as to Full Cost of Repair or Replacement is used for replacement cost claims.

All signatures obtained on a Proof of Loss or NFIP Final Report should be signed and sworn by the insured.

Q. REPAIR VS. REPLACEMENT

This is an area where adjuster improvement is needed. Everything that becomes wet is not necessarily a total loss. In these instances, the expertise of the adjuster is essential. Consideration must be given to the type of floodwaters involved (clear, muddy, fresh, salt, contaminated) and to the length of time the water remained in the building. Many buildings and contents items will respond to cleaning and need not be replaced. Some examples of "repair vs. replacement" are presented below.

1. Appliances

Always consider having the item checked and serviced rather than replaced. Even if a service technician states that the appliance will break down in the future, do not total the unit out if it is working. Advise the insured that a supplemental claim can be presented within a reasonable period of time (30-60 days) if the insured can prove that the flood caused the breakdown.

2. Furniture

Refinish, rather than replace, when possible.

On reinspections conducted weeks and months after losses, NFIP General Adjusters have discovered appliances and furniture that were still being used after they had been declared total losses in the adjustment.

Remediation, drying, emergency service contractors

Water remediation, drying charges, emergency service charges should be reviewed to limit their scope to repairing only direct loss from flooding. This would include charges to properly dry the salvageable building materials. Particular care should be taken to exclude charges to dry material that is non-salvageable. Charges not considered a direct loss from flood should not be allowed.

Additionally, the effort put forth by the restoration company to salvage the flood-damaged items should preclude the need to replace those salvageable items. If repair or restoration cost is incurred for an item, an additional claim for replacement of that item will not be considered.

The SFIP provides up to three loss settlement methods, depending on the policy form under which the risk is insured. See Dwelling Form and General Property Form VII.V. Loss Settlement and RCBAP VIII.V. Loss Settlement.

R. REPLACEMENT COST COVERAGE (RCC) AND HOLD BACK

For single-family residences, including doublewide manufactured (mobile) homes, RCC is applicable only to building coverage. Under the Residential Condominium Building Association Policy, a coinsurance clause requires the condominium association to insure its building to at least 80 percent of the replacement cost value, in order to avoid suffering uninsured losses and charging assessments to members.

When insured property is eligible for replacement cost loss settlement, it is no longer required to hold back the recoverable depreciation (see FEMA Bulletin W-04020, May 7, 2004). Any amounts that would have currently been held back should be paid as part of the claim. The Bulletin, however, does not preclude the need to support the allowable depreciation. While RCC is paid up front, adjusters should continue to indicate line-by-line depreciation on all estimates, and the ACV amount should continue to be referenced in reports and included in the Proof of Loss. The allowable depreciation amount may continue to be reflected in the signed Statement as to full cost of repair or replacement under the replacement cost coverage and the signed Final Report; however, if you do not choose to utilize these methods, you may include the allowable depreciation amount in the signed ACV Proof of Loss.

S. RESERVATION OF RIGHTS LETTER

A Reservation of Rights letter from the insurer to the insured is a notice that, even though the company is investigating the claim, certain losses might not be covered by the SFIP. By means of this letter, the company reserves its legal right to deny coverage later, as additional information about the loss becomes available.

T. RESERVES

The reserving system mandates that reports must be timely and reflect true reserves. The initial case loss reserve may be a system generated amount based on criteria established by the WYO Company or it may be an individually set reserve based on the best knowledge of the loss

at the time the reserve is set. A company may also set a bulk catastrophe reserve. The NFIP Preliminary Report and each subsequent adjuster report should refine the case loss reserve amount as the company becomes aware of additional facts, inspections, and estimates. The goal is that this knowledge along with any reductions of partial or advance payments will result a case loss reserve that closely reflects the value of all future payments and ultimately the value of the final payment. See FEMA Bulletin W-08095, December 22, 2008.

U. SALVAGE

On residential and small mercantile losses, adequate salvage credit is taken when the insured retains possession of totally damaged items. The contents inventory must specifically denote those items that have been considered salvageable and left with the insured. A professional salvor must be used to handle items of significant value.

Salvage on large commercial losses must be promptly identified and inventoried by an approved professional salvor. Salvage agreements are executed in all cases where the stock has been taken over by a salvage company.

Permission to secure the services of a salvor must be authorized by the WYO Company or NFIP Servicing Agent.

V. SELF-PROPELLED VEHICLES

Coverage is provided for self-propelled vehicles that service the described location and for self-propelled vehicles used to assist handicapped persons, so long as the vehicles are inside the building at the described location. Such vehicles below the lowest elevated floor of a Post-FIRM elevated building are not covered.

W. SPECIAL LOSS SETTLEMENT

Replacement cost applies to manufactured (mobile) homes or travel trailers if the dwelling is at least 16 feet wide and has an area of at least 600 square feet within its walls. The structure must also be the principal residence. If a single-family dwelling that is a manufactured (mobile) home or travel trailer and that qualifies for replacement cost is a total loss or is not economically feasible to repair, then the adjustment of the property will be the lesser of:

1. The replacement cost of the dwelling or 1.5 times the actual cash value, or
2. The building limit of liability.

Loss Settlement paragraph 1.a. (2) does not apply to manufactured (mobile) homes or travel trailers under Special Loss Settlement.

Only manufactured (mobile) homes and travel trailers as described in paragraphs 3.a. (2) and (3) qualify for Special Loss Settlement. All other manufactured (mobile) homes and travel trailers require Actual Cash Value Loss Settlement.

If we determine that the building is repairable, the loss will be settled according to the replacement cost conditions stated in Dwelling Form VII.V.2. and RCBAP VIII.V.2.

X. SUBROGATION

The identification of subrogation lies initially with the adjuster assigned to the flood loss and, ultimately, with the claims representative responsible for the file. The adjuster must identify on the NFIP Preliminary Report, in the "Origin" section, the cause of loss, whether the loss was associated with failure of a dam, pumps, storm drain system, or other flood control measure, and whether a non-natural cause contributed to the loss. The Cause of Loss and Subrogation Report then must be completed.

VIII. SPECIAL ADJUSTMENT ISSUES

A. AIR CONDITIONING CONDENSERS AND SOLAR HEATING ELEMENTS

Building coverage extends to the insured building and additions and extensions attached to and in contact with it by means of a common wall. Air conditioning condensers and solar heating panels are considered building property even if they are located apart from the structure and are not attached in accordance with the policy definition. Condensers are eligible for replacement cost coverage if the structures they service are eligible for it.

Coverage does not apply to other equipment, such as generators, air compressors, and substation transformers owned by the policyholder that may service the building, but are located apart from the structure and are not attached. If a generator or other such equipment is attached in accordance with the policy definition or are in a fully-enclosed structure, coverage would apply. If generators and other such equipment not listed in the coverage are in a basement, they are not covered.

B. BAILEE GOODS

Bailee Goods are the result of a bailment, which is the delivery of personal property by one person (the bailor) to another (the bailee) who holds the property for a certain purpose under an express or implied-in-fact contract.

Example: When the bailor takes a pair of shoes to the cobbler (the bailee) for repair, a bailment is established while the bailee has the shoes. The shoes while in the possession of the bailee are bailee goods. Note: a bailment involves a change in possession but not in title.

Real property, by definition can never be bailee goods. In addition, property that is sold (title changes) cannot be bailee goods. Therefore, real property that is sold cannot be bailee goods after the sale or before the sale.

C. BOATHOUSES: COVERAGE FOR NON-BOATHOUSE PARTS OF BUILDING INTO WHICH BOATS ARE FLOATED

FEMA has determined that non-boathouse parts of a building into which boats are floated are not excluded from coverage. This means that, with respect to a building, a part of which is used for boathouse purposes and a part of which is used for other than boathouse purposes (e.g., residential, commercial, or municipal), non-covered items are limited to the following:

1. The ceiling and roof over the boathouse portion of the building into which boats are floated (unless there is an area above the boathouse used for purposes unrelated to the boathouse use, e.g., residential, in which case the upper area is covered, from the floor joists to and including the upper area walls and roof)
2. Floors, walkways, etc., within the boathouse area, or outside the area but pertaining to the boathouse use
3. Exterior walls and doors of the boathouse area not common to the rest of the building

4. Interior walls and coverings within the boathouse area (although a common wall between the boathouse area and the other part of the building is covered)
5. Contents located with the boathouse area, including furnishings and equipment, relating to the operation and storage of boats and other boathouse uses.

However, when the building is entirely in, on, or over water, there is no coverage at all if it was constructed or substantially improved after September 30, 1982.

D. CARPETING AND DRAPES

Carpeting is considered building property if it is installed over an unfinished floor surface. Carpeting over finished floors is considered personal property (contents), even if it is wall to wall or affixed to the floor. All carpet losses, whether building property coverage or personal property coverage, are adjusted on an ACV basis. When a carpet loss is paid, overhead and profit is not allowed, unless a general contractor is responsible for installation and such responsibility is documented for the claim file. ■

Drapes are always treated as contents items, even if they are custom-made and fit only a specific window. However, window blinds of all kinds are considered building property (See Dwelling Form III.A.7.b.).

E. CISTERNS

In certain communities, especially in the Virgin Islands, cisterns are fundamental parts of residential buildings. These are often the only source for storing water. Methods of construction of cisterns include beneath the structure, on the roof, above ground and physically attached to a side of a structure by a common wall or as a separate unit detached from the structure. The SFIP provides coverage only if the cistern is an integral part of the insured building, such as above ground and connected by a common wall, on the roof, or within the perimeter walls. There is no coverage if the cistern is under ground unless it is contained in the basement. If the cistern is covered by the SFIP, the water in it also is covered.

F. CLOSED BASIN LAKES AND CONTINUOUS LAKE FLOODING

1. Closed Basin Lakes

A closed basin lake is a natural lake from which water leaves primarily through evaporation and whose surface area now exceeds or has exceeded 1 square mile at any time in the past. If an insured building is subject to closed basin lake flooding, a total loss claim can be paid if lake flood waters damage or imminently threaten to damage the building and an eventual total loss appears likely.

2. Continuous Lake Flooding

In a few areas of the United States, lake waters have risen to long-term record levels. Devil's Lake, North Dakota, is a primary example of this condition. The insured building must be inundated by rising lake waters continuously for 90 days or more, and it must appear reasonably certain that the loss and damage will reach or exceed the policy building limits including the deductible, or the maximum amount payable under the policy for any one building loss.

The current position of the National Flood Insurance Program (NFIP) is that occurrences of long-term, continuous lake flooding, loss, and damage to property will be settled on a one-time basis by paying the lesser of the two amounts mentioned above, if the insured signs a release agreeing to the following:

- a. To make no further claim under the SFIP
- b. Not to seek renewal of the policy
- c. Not to apply for any NFIP flood insurance for the property at the property location of the insured building

G. COASTAL BARRIER RESOURCES SYSTEM (CBRS)

1. Introduction

To determine whether a building (the insurable property) is eligible for flood insurance coverage when the building appears to be located in a Coastal Barrier Resources System (CBRS) area, the adjuster should consult the community's Flood Insurance Rate Map (FIRM) panel or a community code office (for example, the Tax Assessor's Office or the Building and Zoning Office) to determine which coastal barriers act applies to the property in question. In CBRS areas, eligibility for flood insurance coverage depends on this determination. (See IV. Property Not Covered, 15. in the SFIP.)

When handling any claim that may be in a CBRS area, the adjuster should:

- a. Identify the location of the risk on the FIRM;
- b. Determine when the risk was constructed;
- c. Comment on substantial improvement; and
- d. Provide photographs of all sides of the risk.

If any building you are adjusting appears to be subject to one of the laws discussed below, write a brief summary of your findings on the NFIP Narrative Report form and send it to the NFIP Servicing Agent or the WYO company for the claims examiners to evaluate.

2. Coastal Barrier Resources Act

Congress passed the Coastal Barrier Resources Act (CBRA) on October 1, 1982. The act became effective on October 1, 1983. Congress's intent was to reduce or restrict the federal government's direct involvement in encouraging development of certain undeveloped "coastal barriers." The act defined a coastal barrier as "a naturally occurring island, sandbar, or other strip of land, including coastal mainland that protects the coast from severe wave wash."

CBRA does not prohibit development of designated undeveloped coastal barrier islands; nor does it affect private funding or investment for development of such areas. Instead, the act attempts to eliminate the use of "federal funds" (specifically, loans) for such development.

Under the terms of the Act, FEMA is prohibited from providing NFIP flood insurance protection for structures built or substantially improved after October 1, 1983, in any area designated an undeveloped coastal barrier. However, structures in such areas that were built (walled and roofed) before October 1, 1983, remain eligible for coverage until such time as they are substantially damaged or substantially improved.

3. Coastal Barrier Improvement Act

The Coastal Barrier Improvement Act (CBIA) was enacted and made effective on November 16, 1990. The CBIA greatly expanded the identified land in the Coastal Barrier Resources System established pursuant to the CBRA of 1982.

4. Substantial Improvement: The 50 Percent Rule

Substantial improvement, as defined in public law (44 Code of Federal Regulations 59.1) means:

“any reconstruction, rehabilitation, addition, or other improvement of a structure, the cost of which requires or exceeds 50 percent of the market value of the structure before the ‘start of construction’ of the improvement. This term includes structures which have incurred ‘substantial damage,’ regardless of the value of or actual cost of repair work performed. The term does not, however, include either (1) any project for improvement of a structure to correct existing violations of state or local health, sanitary, or safety code specifications which have been identified by the local code enforcement official and which are the minimum necessary to assure safe living conditions or (2) any alterations of a ‘historical structure,’ provided that the alteration will not preclude the structure’s continued designation as a historical structure.”

In other words, if the damage or improvement equals 50 percent of the market value of the structure before damage, the insured building could be considered substantially damaged. If any building you are adjusting appears to be subject to the 50 percent rule, write a brief summary of your findings on the NFIP Narrative Report form and send it to the NFIP Servicing Agent or the WYO company for the underwriters to evaluate. In your report, use the replacement cost of the building less fair depreciation to obtain actual cash value (market value). Land values and outside improvements are not considered in the determination of market value.

The community that has jurisdiction over the area is the only authority that can make the final determination as to substantial improvement or substantial damage.

H. COMMERCIAL LOSSES

When you encounter an unusual commodity or type of business, with which you are not familiar, notify the examiner or claims management immediately for assistance and guidance.

On commercial stock losses, the quantity and insured’s cost must be established and documented for the claim file. Adjusters should not assume that all stock and business property on the premises is owned by the insured. The adjuster must verify ownership, especially for manufacturing, repairing, and high-end sales businesses. The SFIP insures only property owned solely by the insured. There is no bailee, consignment, or floor plan coverage. The SFIP does not provide coverage for property of others in the care, custody, and control of the insured under any policy form. The use of a CPA and/or other expert(s) is highly encouraged for large and/or complex claims.

I. CONDEMNATION OF PROPERTY

Communities may condemn flood-damaged properties as the result of ordinance enforcement or for loss mitigation. The SFIP covers only direct physical damage caused by flood and not loss of use or access. A flood claim for a structure with less than total damage but not repairable due to a condemnation order or ordinance receives coverage only for the direct physical loss by or from flood.

J. CONDOMINIUM UNIT OWNER – DWELLING FORM

Personal Property – If direct physical damage by or from flood is limited to the first floor of the condominium building, and a unit owner's insured personal property on an upper floor has sustained no covered loss, the personal property is not covered even if access to the personal property is denied by local officials or by damage to the first floor (see Section V. Exclusions. A.2. &3.).

Assessment Coverage – Assessment coverage applies only to building property that is covered by the SFIP. Assessments for swimming pools and their equipment, hot tubs and spas that are not bathroom fixtures, parking lots, landscaping, etc. cannot be covered.

Association assessments to unit owners representing a co-insurance penalty made because the association was not insured to at least 80% of the replacement cost of the RCBAP insured building, cannot be covered. Assessments made because the association was not insured from 80% to 100% of the building's replacement cost are covered, but only to the extent of that underinsurance (for example, if insured to 90% of value, then only 10% is covered). If the association has purchased insurance only to 50% of the building's replacement cost and assesses unit owners for the remaining 50%, only an amount equal to 20% (80%-100%) would be covered. The statutory limit of \$250,000 per unit would apply to the combination of RCBAP and unit owner (Dwelling Form) payments.

Association assessments to unit owners made to recover the RCBAP deductible are not covered.

K. CONSTRUCTIVE TOTAL LOSS

Sometimes, when a flood-damaged building is less than a total loss, the insured will ask to be paid on the basis that a constructive total loss has occurred, so as to use the loss proceeds to move the insured building away from the peril of flood. FEMA has concluded that the SFIP does not and should not provide for such payments.

L. DECKS

Since 1994, the SFIP has specifically excluded coverage for decks. However, stairways and staircases are still covered, if they are attached directly to the insured building. We also cover stairways or staircases attached to decks or walkways for the purpose of ingress and egress. If there are two staircases attached to the same deck or walkway, then there is coverage for only one of the staircases. The SFIP allows for payment of steps and a landing. The maximum allowable area is 16 square feet.

M. ELEVATED BUILDINGS

1. Coverage Restrictions

An “elevated building” is defined as a non-basement building in which the lowest elevated floor is raised above ground level by foundation walls, shear walls, posts, piers, pilings, or columns. post-FIRM elevated buildings in certain SFHAs are subject to coverage restrictions specified in the Standard Flood Insurance Policy. A manufactured (mobile) home may be an elevated building.

Determination of the Lowest Elevated Floor – Full coverage for post-FIRM elevated buildings begins at the lowest elevated floor. This is the lowest floor raised above the ground, even if the pilings extend above it (see FEMA Bulletin W-04020, May 7, 2004, page 2 included in Appendix 2).

Some confusion has been reported about the applicability of the elevated building coverage restrictions to a non-elevated post-FIRM building located in an SFHA and constructed with its lowest floor below the Base Flood Elevation. Such a building is not subject to the elevated building coverage restrictions. The rating of any structure must be based on the correct elevation difference between the lowest floor and the Base Flood Elevation. Structures that are misrated should be reported to the company’s underwriting department as soon as possible after the potential error is discovered.

The restrictions apply only to post-FIRM, Regular Program, elevated buildings in Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/AH, AR/A1-A30, V1-V30, or VE. “post-FIRM” means that a building was constructed or substantially improved on or after the community’s initial FIRM date or after December 31, 1974, whichever is later. The coverage restrictions apply to any area of an elevated building that is lower than the lowest elevated floor.

Coverage will respond for the building and personal property items listed in the policy, provided that these items are connected to a power source and installed in their functioning locations and that the insured has purchased appropriate coverage.

Floor insulation and the underpinning material used to hold it in place against the underside of the lowest elevated floor of a post-FIRM elevated building is covered. No finish of the underpinning material is allowed.

2. Coverage for Garages and Contents

a. Attached Garage

If a post-FIRM elevated building located in zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/AH, AR/A1-A30, V1-V30, or VE has an attached garage with a floor lower than the lowest elevated floor, the coverage restrictions apply to that area. Any contents located above the level of the lowest elevated floor (such as hanging from the ceiling or on the garage walls) are covered.

b. Detached Garage

If a dwelling is post-FIRM elevated and there is a detached garage present with a floor lower than the lowest elevated floor of the insured dwelling, the garage is fully covered. Also, contents inside the garage are covered, subject to all other policy provisions (such as the requirement that they be secured against flotation if the structure is not fully enclosed).

No coverage will apply to any detached garage used or held for use for residential (i.e., dwelling), business, or farming purposes. The ordinary dictionary meanings of the words “residential” (e.g. suitable for or used as a residence or dwelling) and “dwelling” (e.g., a place to live in, abode) when applying coverage to detached garages. These words should no longer be broadly applied to limit coverage. However, for the purpose of this limitation, kitchen facilities are not required for the space to qualify as residential use or a place to live in. If any space is rented or held for rental, the contents owned by the policyholder and related to the rental would be limited to the \$2,500 contents used in any business. Otherwise covered contents in such detached garages are covered.

The General Property Form and RCBAP do not provide coverage for appurtenant private structures. Coverage for a detached garage responds only in the case of 1-4 family residential buildings insured under the Dwelling Form. The insured may elect to apply up to 10 percent of the building coverage limit for a detached garage. This is not an additional amount of insurance.

As indicated in the “Exclusions” section of the ICC coverage (Coverage D), ICC coverage does not apply to a garage. To obtain ICC coverage on an appurtenant structure, a separate flood insurance policy must be written. For example, a detached garage that has been converted for residential purposes, receives no ICC coverage unless it is insured under a separate policy.

3. Coverage for Building Property in a Building Enclosure below the Lowest Elevated Floor or in a Basement

Paragraph III.A.8. of the SFIP provides coverage for certain items of building property (and related clean-up) in an enclosure below the lowest elevated floor of an elevated post-FIRM building in any of Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/AH, AR/A1-A30, V1-V30, or VE, or in a basement regardless of zone. Coverage is limited to:

- a.** Clean-up expenses
- b.** Any of the following items, if installed in their functioning locations and, if necessary for operation, connected to a power source:
 - Central air conditioners
 - Cisterns and the water in them
 - Drywall for walls and ceilings in a basement and the cost of labor to nail it, unfinished and unfloated and not taped, to the framing
 - Electrical junction and circuit breaker boxes
 - Electrical outlets and switches

- Elevators, dumbwaiters, and related equipment, except for related equipment installed below the Base Flood Elevation after September 30, 1987
- Fuel tanks and the fuel in them
- Furnaces and hot water heaters
- Heat pumps
- Nonflammable insulation in a basement
- Pumps and tanks used in solar energy systems
- Stairways and staircases attached to the building, not separated from it by elevated walkways
- Sump pumps
- Water softeners and the chemicals in them, water filters, and faucets installed as an integral part of the plumbing system
- Well water tanks and pumps
- Required utility connections for any item in this list
- Footings, foundations, posts, pilings, piers, or other foundation walls and anchorage systems required to support a building

If an area below grade on all sides is within a room, such as a living room, then coverage is not provided for the “finished walls” of the area below grade. When the area extends above grade, or if there are contents located in the sunken area, coverage limitations will apply. When the entire room is below grade, even if the walls extend above grade, as in a daylight basement, there is no coverage for contents on the floor or coverage for the walls except those listed in the policy. The coverage limitations apply to the whole area, including the “finished walls.”

If an elevated building, subject to the coverage limitations, has an attached garage with a floor lower than the lowest elevated floor of the building, the coverage restrictions apply to that area. Any contents located above the level of the lowest elevated floor (such as hanging from the ceiling or on garage walls) are covered.

N. ELEVATORS

The SFIP provides coverage for elevators, dumbwaiters, and related equipment. When these items are located in a basement or the enclosed area below an elevated building, there is no coverage for the related equipment below the Base Flood Elevation unless it was installed on or before September 30, 1987.

Elevators and chairlifts installed outside of the perimeter of the insured building are not covered.

O. EROSION AND WAVE WASH

The SFIP states that loss and damage from wave action along a lake or other body of water is considered direct physical loss by flood. Loss and damage from spray consequent to wash-over, whether wind driven or not, is not covered. Loss and damage to structures arising from ongoing erosion is not covered under the SFIP. However, collapse or subsidence of land along

the shore of a lake or other body of water as a result of erosion or undermining caused by waves or currents of water exceeding cyclical levels which result in flooding is included in the definition of "flood" (SFIP II.A.2.) and, thus, is covered.

Replacement of soil lost through erosion is covered only when the erosion results from an overflow of inland or tidal waters and not from the unusual and rapid accumulation or runoff of surface waters from any source. Soil replacement must be confined to within the perimeter of, and related to the support of, the building. Soil replacement beyond this perimeter is not payable under the SFIP. Rip-rap, armoring, and retaining walls are not covered.

P. FIBERBOARD SHEATHING/BLACKBOARD

When the flooding of buildings consisting of wood frame construction and brick veneer occurs, complete demolition is not always required. There are alternative methods of repair or replacement of fiberboard sheathing.

Q. FOOD IN FREEZERS

When food is located in a post-FIRM building enclosure below the lowest elevated floor or in a basement and subject to restrictive coverage outlined in Section III.B.3. of the SFIP, coverage is only provided for food located in food freezers. Damage to food in refrigerator/freezers is excluded from coverage.

R. FOUNDATIONS

Floods can cause significant foundation damage, but so can settlement, improper construction, earth movement, tree roots, and sinkholes. Many times an insured will claim normal settlement cracks in slabs and foundations as flood related. The insured will indicate that he or she never noticed the foundation and slab damage until after the flood. This neither proves nor disproves that the damage resulted from flood.

Most slab and foundation damage occurs because of a lack of moisture in the ground. The soil shrinks away from the foundation, allowing the grade beams to settle downward under the supported weight. This results in a bowing effect and cracks. Excess water in the ground exerts upward pressure on the slab floor and inward pressure on the subgrade foundation walls. This also results in cracks and displacement. Damage of this kind is considered the result of hydrostatic pressure and is not covered under the SFIP, unless there is a general condition of flooding in the area.

Flooding with sufficient water movement to carry the subsoil away (scouring) from the slab or foundation walls generally leaves visible signs. Claims for foundation damage without any visible indication of scouring or land subsidence bear close scrutiny. Most foundation and slab damage that occurs without any visible signs of soil displacement may have resulted from causes other than flooding and is not covered by the SFIP. The adjuster must carefully check the perimeter and underneath the building for soil washout from velocity water flow. When finding no indication, the adjuster must resist a claim for foundation damage. The insured then has the responsibility to prove that the damage was caused by flood. Use of structural engineers must be limited to losses with visible indications of flood damage or of floodwaters' having exacerbated preexisting damage.

There is limited coverage for slabs under post-FIRM elevated buildings. Coverage provided at SFIP III. A.8.a. (17) is limited to "footings, foundations, posts, pilings, piers, or other foundation

walls and anchorage systems required to support the building.” These slabs are covered only if they are part of the foundation. To be part of the foundation, a slab must be at least 6” thick containing rebar and tied into the posts, pilings, piers, or other foundation walls and anchorage systems required to support the building (see FEMA Bulletin W-04091, November 19, 2004).

S. FREEZERS

Walk-in freezers attached to the building are considered part of the building.

T. GARAGES

If a garage is in contact with the insured dwelling (elevated or not) by means of rigid exterior wall, a solid load-bearing interior wall, a stairway, an elevated walkway, or a roof, the policyholder has the option of insuring the garage separately. However, if connected by a common interior wall that is not a solid load-bearing wall; the addition is always considered part of the building and cannot be separately insured. (See SFIP Dwelling Form III.A.2 and 3.) Otherwise, the garage will be considered detached and subject to the 10% of Coverage A (Dwelling) limit. The General Property Form and RCBAP do not cover detached garages or other appurtenant structures, but do provide coverage for qualifying additions and extensions. *See, also, “M. Elevated Buildings” above.*

U. HYDROSTATIC PRESSURE

The SFIP excludes damages resulting from hydrostatic pressure unless there is surface flooding in the area and the flood is the proximate cause of the damage from the pressure of water against the insured structure.

V. ICE AND DEBRIS IMPACT DAMAGE

Damage sustained from freezing or thawing of water, along with damage sustained from and by the weight and pressure of ice, is not covered unless the property itself is under direct contact by flood as defined in the SFIP. Damage to property elements by freeze or thaw after the surface water has receded from the property is not covered.

W. LOMA AND LOMR

A Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) effectively removes a post-FIRM elevated building from the Special Flood Hazard Area (SFHA). If the LOMA or LOMR is obtained after the loss, its effective date is as of the loss. This means that the coverage limitations to areas beneath the lowest elevated floor do not apply.

A LOMA or LOMR may not be issued if the lowest adjacent grade of the property is below the Base Flood Elevation (BFE). But, if such a property has its lowest floor (enclosure floor) above the BFE, the property may comply with the NFIP Floodplain Management Regulations. Claims involving such buildings should be sent to FEMA with a request for a waiver of the elevated building coverage limitation (See FEMA Bulletin W-04091, November 19, 2004 2).

X. MANUFACTURED (MOBILE) HOMES AND TRAVEL TRAILERS

The replacement cost for a manufactured (mobile) home will not exceed 1.5 times its actual cash value (see Special Loss Settlement – SFIP Dwelling Form, Section VII (VIII RCBAP) V.3.).

Unless the manufactured home meets the requirement of this section, settlement is limited to its Actual Cash Value.

Only community-compliant travel trailers without wheels are covered, even if the community ordinance allows wheels to be installed (see Section II. Definitions 6. c.). For the purpose of coverage determination, “without wheels” means with no wheels.

Y. MUDFLOW

Mudflow is the only form of earth movement covered by the SFIP. (The word “mudslide” no longer is used in the SFIP.) A mudflow is a “river of liquid and flowing mud on the surfaces of normally dry land areas, as when earth is carried by a current of water.”

Mudflow is unforeseeable, is less common than earth movement from landslide or erosion, and has characteristics markedly similar to those of a flood. Landslide and slope failure are not covered under the policy. However, coverage is provided for subsidence of land along the shore of a lake or similar body of water which results from the erosion or undermining of the shoreline caused by waves or currents of water which results in a flood.

Z. PROPERTY REMOVED TO SAFETY

If coverage has been purchased both for personal property (contents) and for the building, the SFIP covers direct physical loss by flood to each while the property is located at the property address shown on the application or endorsement. Coverage is available for 45 days at another place above ground or outside of a Special Flood Hazard Area to which any insured property (including a moveable building) is removed in order to protect and preserve it from a flood or from the imminent danger of flood. Personal property that has been removed must be placed in a fully enclosed building or otherwise reasonably protected from the elements to be insured against loss. The reasonable expense incurred by the insured, including the value of the insured’s own labor at prevailing federal minimum wage in moving the insured property away from the peril of flood and storing the property at the temporary location, will be reimbursed to the insured, up to \$1,000.

AA. REFORMATION OF COVERAGE

If at the time of loss it is discovered that the premium collected is insufficient to provide the coverage originally purchased because the policy was misrated, after May 19,2005, retrospective (looking back) collection of additional premium will no longer be required. Prospective (looking forward) additional premium will be required to be paid, but the time required to collect information to calculate the additional premium will not delay the claims process (see FEMA Bulletin W-05021, May 23, 2006, that includes FEMA Policy Issuance 1-2005, May 19,2005).

BB. REPETITIVE LOSS STRUCTURES AND PREVIOUS CLAIMS

1. Repetitive Loss Structures

A repetitive loss structure is one that has sustained flood damage on two occasions during a 10-year period ending on the date of the event for which a second claim is made, and for which the cost of repairing the flood damage, on the average, equaled or exceeded 25 percent of the market value of the structure at the time of each such flood event. Repetitive

losses are a major challenge to the NFIP. Since 1980, \$1.2 billion has been paid on risks with a repetitive loss history.

2. Previous Claims

It is imperative for the adjuster to be alert to the possibility that any loss property may have been involved in previous claim activity. Where there is evidence of repetitive flood loss, the adjuster must request the prior loss file from the WYO company or the NFIP Servicing Agent. To identify the previous carrier, the adjuster should call the NFIP Bureau and Statistical Agent.

In such cases, analyze prior loss file photographs and compare previous data to current conditions. Photographs from different dates of loss that show the same paneling, appliances, fixtures, machinery, and equipment indicating non-replacement for the prior flood event should be brought to the attention of the claims examiner. When investigating possible repetitive loss, always:

- a. Look for similarities in furniture color and style.
- b. Look for the same design, pattern, and texture in paneling.
- c. Check appliances and mechanical apparatuses for manufacturer names, model classifications, and serial numbers. (The same serial numbers between two events show non-replacement of these items after a previous flood.)

CC. SCRIP AND STORED VALUE CARDS

Coverage is specifically excluded for these items.

DD. SEEPAGE AND HIGH WATER TABLE

The SFIP does not provide coverage for losses related to high water tables or seepage unless there was a general condition of flooding in the area.

EE. STOCK (PERSONAL PROPERTY) LOSSES – GENERAL PROPERTY FORM

Once the insured declares personal property as “other than household personal property,” Stock, which is defined in the General Property Form at II. 27, is covered. However, Stock is subject to the Special Limits at III.B.5. a.-d. This means that jewelry and other listed items qualifying as Stock are covered only up to the special limit of \$2,500. Dealers of such items typically have separate property coverage for stock that includes flood as a covered peril.

Similarly, bait intended to be sold alive (i.e., worms, crickets, minnows, etc.) by bait and tackle shops and others is not covered as stock since animals are excluded (see SFIP General Property Form IV.6.). However, bait that is to be sold frozen, preserved, or otherwise not alive may be covered as stock.

FF. SWIMMING POOLS, HOT TUBS, AND SPAS

Coverage for swimming pools, hot tubs, spas, and their equipment is excluded, except that spas and hot tubs are covered if they are bathroom fixtures. Spas and hot tubs are covered under the General Property Form if they are bathroom fixtures or stock and inventory held for sale.

GG. TRAVEL TRAILERS

Travel trailers without wheels, built on a chassis, affixed to a permanent foundation, and regulated under the community's floodplain management and building ordinances or laws are covered.

HH. BLINDS

The SFIP covers all types of window blinds. Blinds are covered under SFIP Coverage A. only.

II. WATER, MOISTURE, MILDEW, OR MOLD DAMAGE

The SFIP covers reasonable costs for remediation of mold damage except when the damage results from a condition "confined to the insured building" or "within [the insured's] control," such as "failure to inspect and maintain the property after a flood recedes." Four examples of SFIP coverage are provided below. If such damage is caused by "wicking," it is covered.

1. If a building was inundated but not evacuated, the SFIP will pay reasonable expenses for water extraction, dehumidifier and fan rental, and mildicide and anti-microbial application.
2. If, after the insured has taken the mitigation measures in example 1 above, mold reappears and causes damage to the upper portions of walls, ceilings, etc., the NFIP will honor such claims if the insured can show that mitigation attempts were made.
3. If a local official requires testing for mold, and has legal authority to do so, the SFIP will pay reasonable costs for the test. No other testing is necessary because the SFIP pays for reasonable remediation of mold damage (except as noted above). Therefore, the cost of other testing, except as described here and in example 4 below, will not be covered.
4. If, during inspection of a claim for mold damage, the adjuster believes that such damage is not the result of the recent flood but is a long-term, recurring problem, it may be necessary to obtain a testing report from a Certified or Licensed Hygienist or Microbiologist. The report must be specific as to whether the mold is a recent problem or a long-term, recurring problem.

Obviously, there can be other scenarios: situations where waist-deep water has inundated the building and remained for several days or situations where the insured was not allowed to return to the building for an extended period of time. In such cases, apply common sense and good adjusting principles. Use these examples as a guide in the handling of the more complex cases.

JJ. WATER SOFTENERS

If the water softener is installed at the described location and connected to a power source, coverage is provided for the water softener and the chemicals in it.

KK. WELL WATER PUMPS

The Dwelling Form provides coverage for well pumps located below the lowest elevated floor of an elevated building and in basements. Well pumps are described as building items and therefore cannot be construed as content items. If the well pump is located in an unattached shed or building, then there is no coverage.

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IX. WIND VS. FLOOD ISSUES

Hurricanes and other severe storms may result in damage caused by both wind and flood. When handling these claims, adjusters should use proven investigative methods.

The NFIP provides adjuster specific guidance in the form of wind or water investigative tips as a tool to help determine the damage was caused by wind or water or a combination of both. The adjuster should use the proven methods to document windstorm damage to buildings or contents. See FEMA Bulletin W-08008, dated February 25, 2008, for a discussion of Wind/Water Investigative Tips; this document can be obtained at www.nfipiservice.com.

In those instances where wind is coupled with the flood loss, the adjuster typically has little difficulty when scoping the loss in separating the flood from the wind damage. A flood leaves a clearly visible watermark and/or debris line on the exterior and in the interior of buildings. Damage at and below that watermark is attributable to flood. Damage above that watermark is attributable to wind, in this example.

As the line of separation between the losses caused by wind and flood narrows, and particularly when they overlap, it becomes increasingly challenging for the adjuster to estimate the flood damage at the margins. In these cases, expert engineers are often hired by the insurer and at times by the policyholder to make the determination. In the extreme, such as in coastal Mississippi, all that may be left of a policyholder's home or business is a slab or other foundation elements. The flood adjuster is trained in recognizing signs of flood versus wind damage. When, like in coastal Mississippi, the storm surge depth and its intensity is sufficient to cause the observed damage and there is no evidence of pre-surge wind damage, the flood adjuster will determine the pre-loss value of the building and recommend payment as a total loss limited by this value and the flood policy limit.

The NFIP requires the WYO Companies and the NFIP Servicing Agent to investigate and adjust each claim by hiring flood certified independent adjusters. WYO Companies may use their staff adjusters, but due to the specialized nature of both the flood claims and also Federal requirements, this is not widely practiced.

The adjuster should contact the policyholder within 24 hours after receiving the assignment from the insurer and set a date to meet with the policyholder to "scope" the loss or to discuss the claims process with the policyholder, take photographs, measurements, and note the type and severity of the damage caused by flood.

Once the estimate is prepared it is delivered to the policyholder with the required Proof of Loss. As a courtesy, the adjuster may assist the policyholder in preparing the Proof of Loss; the policyholder should submit their statement of the amount they are claiming. The adjuster has no authority to indicate to the policyholder what will and won't be covered or what will be paid. The adjuster's recommendation is reviewed by the insurer and when the agreed upon Proof of Loss is received, payment is made.

The NFIP only pays for direct physical loss by or from flood as defined in the Standard Flood Insurance Policy (SFIP). The scoping process described, records the information needed to prepare a line-by-line and room-by-room detailed estimate using unit costs to value the damage, for instance, in a typical room so many square feet of drywall may be removed and replaced at a unit cost per square foot. This unit-cost includes the cost of labor and materials, as well as any applicable taxes.

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X. MAINTAINING THE INTEGRITY OF THE NFIP

A. QUALITY ASSURANCE REINSPECTIONS

The purpose of reinspections is to maintain the high quality of claims processing in the WYO program. There are two types of reinspections:

- Routine
- Special Assist

1. Routine Reinspections

Routine reinspections are conducted principally on open claim files. During a flooding event, the NFIP Bureau and Statistical Agent will select a WYO Company for reinspections, determine the number of claims, and select the claims to be reinspected.

The General Adjuster uses the three-part Reinspection Report form. The form is completed in full and signed by both the WYO Company representative and the General Adjuster. If the WYO Company representative disagrees with the reinspection results, the representative must indicate the reasons for disagreement at the bottom of the form.

The General Adjuster then forwards copies of the Reinspection Report for review by FEMA's Government Technical Monitor in the offices of the NFIP Bureau and Statistical Agent. If overpayments are noted, the Monitor will correspond with the WYO Company for collection. If, over time, patterns of adjustment errors or oversights are noted, Bureau and Statistical Agent staff will determine what additional training is needed.

2. Special Assist Reinspections

Special assist reinspections are precipitated by a written request from the WYO Company claim coordinator or direction (oral or written) from FIMA. These involve specific claim situations that require a General Adjuster's intervention.

B. FRAUD PREVENTION

Fraud or misrepresentation is a continuing problem in the National Flood Insurance Program. Any case where it is reasonably believed that there is the possibility of fraud, the adjuster is responsible for immediately reporting fraud to NFIP Servicing Agent or WYO Company.

1. Detecting Possible Fraud

The following are common indications of possible fraud:

- a. Changes of dates or amounts on receipts
- b. Dated receipts or invoices that have their printed serial numbers out of sequence
- c. Recent, multiple changes of ownership of real property (Check for relationship of parties involved.)
- d. Repeated changing of policies by insured

- e. Multiple waterlines in a building (This possible indicator of previous flooding may demonstrate that the insured is trying to collect for repairs not completed from a prior flood.)
- f. Bringing in damaged property not owned by the insured to be submitted in the claim
- g. Fraudulent cause of loss
- h. Deliberate misrating
- i. Photocopied receipts
- j. Price quotes rather than receipts of purchase

2. Reporting Possible Fraud

As noted above, all instances of possible fraud must immediately be reported to the NFIP Servicing Agent or the WYO Company.

Other improper or wasteful practices should be reported to FEMA's Waste and Abuse Hotline at 1-800-323-8603.

C. FLOOD INSURANCE REFORM ACT OF 2004 (FIRA)

The FIRA provisions inform policyholders about the claims process and what to expect from adjusters. In addition, the *Flood Insurance Claims Handbook* outlines the FEMA Claims Appeal Process and instructs the policyholder on the 4 steps required to appeal their claim after the WYO Company has made the final determination and the insured refutes their decision. In addition, policyholders will receive the Summary of Coverage that provides assistance for policyholders in determining what will be covered and what will not be covered by the SFIP.

Since Adjusters may receive questions from policyholders regarding these documents, they should be familiar with their provisions. The *Flood Insurance Claims Handbook* can be obtained via the FEMA web at: <http://www.fema.gov/library/viewRecord.do?id=2184>

D. AUDITS

WYO Companies and the NFIP Servicing Agent are responsible for handling and processing NFIP claims. Since the NFIP is a Federal program, it is subject to the scrutiny of the Department of Homeland Security (DHS) and other Federal agencies, including the Government Accountability Office (GAO), the DHS Office of Inspector General (OIG), and the Office of Management and Budget (OMB). In addition, FEMA conducts claims and underwriting Operation Reviews and claims reinspections. WYO Companies engage CPA firms to perform biennial audits that include a claims section.

It is in the interest of the all stakeholders including adjusters to be aware of findings from the following audits: DHS Improper Payment Information Act (IPIA) Audit, DHS Financial Audit, various GAO studies and reports, as well as the Operation Reviews, reinspections and biennial audits.

Many of the findings can be avoided simply by adherence to good claims handling practices and knowing the terms and provisions of the Standard Flood Insurance Policy (SFIP). Best practice tips will be included with the findings.

The following will identify findings and best practices when indicated:

1. Incorrect Estimate/Worksheet Calculation

- Estimates are line-by-line, room-by-room using unit costs
- Depreciation to both building and contents are taken on a line-by-line basis
- Rooms should be described and identified and the adjuster should verify that the estimate/worksheet and the building diagram match.
- Typically overhead and profit is not applied unless there is a general contractor supervising at least three trades. Exceptions to this general rule should be fully explained by the adjuster.
- The adjuster should be careful to include only building items on the building estimate/worksheet; for instance, clothes washers and dryers are always contents and should not be included as building items.
- Qualifications for Replacement Cost Loss Settlement should be clearly documented, including single family residence, principal residence, insurance to at least 80% of full replacement cost or maximum available.

2. Insufficient Damage documentation

- Invoices may be needed to adequately support a commercial inventory or other complicated claim. A salvor or CPA may be required and must be approved by the WYO Company or the NFIP Servicing Agent.
- Photographs should adequately document the claimed damage – photographs of undamaged building elements and contents are also important.

3. Payment Processing Errors

The adjuster should make all payment recommendations clear. Other claim documents including the estimate/worksheet, Final Report, and the Proof of Loss should support the recommendations.

4. Covered loss exceeded the value of certain items

- Care is taken when items with Special Limits are claimed, not to exceed the amount of special limits in the aggregate.
- Loss Avoidance Measures should be supported with invoices or other documentation.
- Property Removed to Safety claims should be supported with invoices or other documentation.

5. Case Loss Reserving

The reserving system mandates that reports must be timely and reflect true reserves. The initial case loss reserve may be a system generated amount based on criteria established by the Company or it may be an individually set reserve based on the best knowledge of the loss at the time the reserve is established. A company may also set a bulk catastrophe reserve. The NFIP Preliminary Report and each subsequent adjuster report should refine the case loss reserve amount as the company becomes aware of additional facts, inspections, and estimates. The goal is that this knowledge along with any reductions of partial or advance payments will result in a case loss reserve that closely reflects the value of all future payments and ultimately the value of the final payment. See FEMA Bulletin W-08095, December 22, 2008 included on page B-29.