Federal Emergency Management Agency

Washington, D.C. 20472

W-02027

April 15, 2002

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

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

SUBJECT: Strategies for Achieving Policy Growth and Improving Policy Retention

I'm pleased to share with you an overview of FIMA's strategies for accomplishing policy growth in FY 2002 and beyond. FIMA developed these with input from our stakeholders, most recently at a brainstorming meeting in November 2001, and through related discussions over the past few years. After analyzing program statistical data, carefully reviewing our resources, and ensuring that the strategies are in keeping with FEMA's overall strategic plan, we have decided to pursue these activities.

WYO companies and agents are essential to achieving the objectives of many of the strategies outlined here. The attachments provide details to assist you in accomplishing these objectives.

I am confident that these strategies will enable FIMA and our stakeholders to continue to attract new customers to the National Flood Insurance Program and retain the policyholders we have.

<u>Dual Focus to Achieve Net Growth in FY 2002 and Beyond</u>

Last fiscal year, through the work of our stakeholders, new business increased nearly 15% with the addition of 630,944 new policies to the NFIP's books. These gains in flood insurance policies, however, were offset by attrition (552,783 policies) from the previous year's total number of policies-in-force (PIF). Our net PIF gain for last fiscal year was 78,161 policies, which represents a growth rate of only 1.8%.

The Administration has set again for this fiscal year a goal of 5% policy growth for the NFIP. Without a concerted focus on keeping policyholders already on the NFIP's books, the annual losses from the NFIP policy base will undercut the significant gains we have been making in new policy sales. Therefore, our dual approach to achieving 5% net growth is to:

A. Continue to attract new business at the rate we did last year, and
B. Improve the retention rate among current policyholders by 3 percentage points.

With active participation by all NFIP stakeholders, 5% net growth can become reality.

New Business Strategies

Several strategies employed during the past few years have proven successful in attracting new business. Therefore, FIMA will continue to dedicate its resources to:

- Provide financial incentives to WYO companies for new business;
- Conduct the national marketing and public awareness campaign to promote flood insurance benefits so as to reduce denial and resistance and increase demand;
- Foster lender compliance with flood insurance requirements through training, guidance materials, regular communication with lending regulators and the lending community;
- Conduct NFIP training for insurance agents via live seminars, on-line training modules, and other vehicles; and
- Seek opportunities to simplify NFIP processes to make it easier for agents to sell and consumers to buy.

Retention Strategies

The following strategies involving various stakeholders are aimed at achieving retention rate improvements by as much as 3 percentage points in FY 2002 and beyond. FIMA is working jointly with other FEMA offices, Federal lending regulators, Government Sponsored Enterprises (GSE's), and the WYO companies and agents to accomplish these objectives.

A. Market Research

To better guide our strategies we need current information regarding customers' views of our products. FIMA is in the process of contracting for research to determine why policyholders do or do not renew their policies. Another research project will assess the relationship of customers' perception of risk to the pricing and structure of the flood insurance product. The target date for the results of these studies is May 2003.

B. Mortgage Servicing and Escrow Law Research

Lending industry participants at the November 2001 brainstorming meeting suggested that tracking systems used by the mortgage servicing industry may be allowing flood insurance coverage to "fall through the cracks". Therefore, FIMA plans to enlist the Federal lending regulators, Government Sponsored Enterprises, and lending trade associations in researching mortgage servicing and compliance software to determine if deficiencies exist in tracking flood coverage and where improvements can be made.

Additionally, we plan to assess State escrow laws and systems to determine whether any obstacles to flood insurance escrow may exist and, where necessary, work with the States on amendments. Meetings with the Federal lending regulators, GSE's and lender trade associations are being planned for the coming months.

C. Retention Push in Connection with Map Changes

FIMA is working to ensure that all our messages relating to map changes encourage policy retention. We are in the process of revising all such correspondence and messages to stress this policy retention theme: while property may have been removed from a special flood hazard area and policyholders may no longer be required by law to keep their flood insurance policy, it is in their best interest to do so – and sometimes at a much lower premium. We are also working to improve the timing of notification to stakeholders regarding upcoming major map revisions, to allow ample lead time for WYO companies and lenders to plan and implement a retention push and provide the best service to customers. The target date for issuing the final procedures is July 1, 2002.

WYO companies and agents should implement special efforts to retain policyholders impacted by map changes. Attachment A provides sample messages companies and agents can use in these situations.

D. Post-Disaster Marketing

In connection with the first anniversary of major flood events, FIMA wants to put special emphasis on encouraging policyholders to renew their coverage. Tropical Storm Allison struck in June 2001 and many voluntary policies were purchased in Texas and Louisiana between May and October of that year. We intend to work closely with FEMA's Office of Public Affairs on news releases and other activities to disseminate the retention message in these areas. We are also working with the WYO Marketing Committee and FISCAA to foster retention of these new policyholders. In addition, we plan to remind the public of the benefits of flood insurance in connection with other events such as the 5-year anniversary of El Nino, the 10-year anniversary of Hurricane Andrew, and the 10-year anniversary of the Great Midwest Flood of 1993.

WYO companies and agents can amplify this and make a strong, direct impact. Through a combination of direct mailings, telephone follow-up, advertising, public relations, or other methods, WYO companies and agents should remind their customers of the continuing threat of flood damage and the benefits of flood insurance protection. See Attachment B for suggested retention messages applicable to the June 2002 one-year anniversary of Tropical Storm Allison. These can be adapted for other flood event follow-up activities, as well.

E. WYO Company Marketing of Non-renewed Policies

The NFIP Bureau and Statistical Agent is helping WYO companies identify their policies that have not renewed for 90 days so that companies and agents can target these customers. After pilot testing the data with a few WYO companies, each company will receive a file in July 2002 containing a list of policies lost by their company and not picked up by another WYO company or the NFIP Servicing Agent. The file will include the following data for each record:

- Policy Number
- Effective Date
- Rating Symbol (policy type)
- Flood Zone
- Policyholder Name

It's important for WYO companies and agents to use this resource and quickly contact these customers while the data is still fresh. Encourage them to protect themselves against uninsured flood losses.

F. Facilitating Renewal Payments

Participants at the November brainstorming meeting recommended various means that could foster renewal payments, e.g., offering discounts for longevity, credit card payment or electronic funds transfer. FIMA will assess these to see if there is an appropriate way to provide such discounts. Additionally, we will re-analyze the pros and cons of multiple year policy terms. The target date for completion of these activities is September 30, 2002.

In the meantime, it was also suggested that some customers may prefer flood insurance policy effective dates to be co-terminus with their other insurance coverage, and that this could facilitate renewal payments. We encourage WYO companies and agents to do this if customers believe it will serve them better. See Attachment C for details.

G. Financial Incentives for Policy Retention

FIMA will continue to provide WYO companies with financial incentives for policy retention as well as for new business. We recognize the efforts required to ensure customers renew annually and believe companies should be rewarded for their good results.

In closing, we look forward to working with all NFIP stakeholders on the dual approach to achieving 5% growth in Fiscal Year 2002 and beyond. These strategies, combined with FIMA's Blueprint for the Future, and the Federal Emergency Management Agency's new strategic plan clearly define the paths we must take. With your active participation, we can achieve the NFIP's vision: a program that efficiently delivers insurance products that are accessible, desired, and seamlessly provided to our customers and partners.

Attachment A – Retention Message for Map Changes
Attachment B – Retention Message for Tropical Storm Allison Anniversary
Attachment C – Co-terminus Policy Dating and Alternative Payment Options

cc: Vendors, IBHS, FIPNC, WYO Marketing Committee, Government Technical Representative

Suggested Routing: Marketing, Underwriting

ATTACHMENT A

SAMPLE RETENTION MESSAGE
FLOOD MAP CHANGES

Dear :

What if you could keep your flood insurance protection for much less than you're now paying—in some cases cutting the cost of your coverage by half?

As a result of changes to your community's flood map, you may be eligible to do just that depending on where your property is located in NAME OF COMMUNITY.

Changes to your community's flood map may have changed the flood zone for your property. These changes may also mean that you no longer have to maintain your flood insurance policy.

But there's a big difference between *having* to buy flood insurance because the law says you must and *choosing* to keep your flood coverage because it's in your best interests to do so.

The A and V zones on FEMA's flood maps are the high-risk, special flood hazard areas where the law requires property owners to buy and maintain flood insurance. But floods often occur beyond these areas.

Floods occur, with all too tragic frequency, in areas of so-called moderate or minimal flood risk, too. In fact, about 25% of all flood insurance claims occur in these zones. That's not a commentary on FEMA's flood maps. It's just a recognition that Congress limited requirements for flood insurance on mortgage loans and Federal financing to certain zones.

If the map changes described below affect you and you no longer have to carry flood insurance coverage, you would do well to retain your flood insurance policy anyway. For one thing, in most cases, you will pay a lower flood insurance premium *and* there is no added waiting period—provided there's no break in coverage.

Keeping your flood coverage at a much lower rate will provide worry-free protection against flood loss no matter what flood zone your property is in.

Regardless of how the map changes affect you, *all* property owners need flood insurance—even if by law you no longer have to maintain the coverage. So why not discuss flood insurance with your insurance agent? And if you're looking for an agent in your area who is familiar with flood insurance, call 1-800-427-4661. We'll be glad to refer you to one.

The following explains why the maps in your community have been changed, who is affected by the map changes, when they will become effective, and, for eligible policyholders, how to take advantage of the lower rates for flood coverage.

ATTACHMENT B

SAMPLE RETENTION MESSAGE
TROPICAL STORM ALLISON RENEWALS

Dear :

Property owners like yourself know very well what tropical storms can do and what Tropical Storm Allison did last year.

As your flood insurance policy comes up for renewal, I encourage you to keep the flood coverage you bought in the wake of Tropical Storm Allison.

Of course, you may be required to keep your flood coverage if you had to buy flood insurance as a condition for Federal disaster funds or repair assistance from your bank. But if you bought the coverage on your own as protection for your property—not as a requirement of the law or your bank—I urge you to consider keeping your flood insurance protection.

There's a big difference between *having* to buy flood insurance because the law says you must and *choosing* to keep your flood coverage because it's in your best interests to do so.

The A and V zones on FEMA's flood maps are the high-risk, special flood hazard areas where the law requires property owners to buy and maintain flood insurance. But as we saw from Tropical Storm Allison, flood damage occurs *beyond* these areas—often with devastating results.

In fact, about 25% of all flood claims occur in so-called moderate or minimal flood risk zones. That's not a commentary on FEMA's flood maps. It's just a recognition that Congress limited requirements for flood insurance on mortgage loans and Federal financing to certain zones.

So as your flood insurance policy comes up for renewal, I urge you to keep your flood insurance protection. Keep the peace of mind in knowing that your property will be protected from loss from the next storm. It may not be another Allison next time, but then again who cares what the name is if the storm damages your property and you're left to cover the losses yourself?

Keeping your flood coverage will provide worry-free protection against flood loss regardless of what flood zone your property is in or how big the next storm.

Be flood alert and renew your coverage. Don't let the next unexpected storm catch you unprepared.

Discuss flood insurance with your insurance agent. And if you're looking for an agent in your area who is familiar with flood insurance, call 1-800-427-4661. We'll be glad to refer you to one.

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ATTACHMENT C

Co-terminus Policy Dating and Alternative Payment Options

Co-terminus dating of flood insurance policies to obtain a common effective date with other lines of insurance

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

Alternative payment options

Co-terminus payments may not be possible for some policyholders who need to stagger hazard and flood insurance premium payments. In such cases, we recommend the following:

- Discuss escrowing of voluntary flood insurance where lenders are agreeable.
- Utilize the option of flood insurance premium payments by credit card. This mechanism gives the insured the ability to extend their annual premium over several months. Although there are finance charges associated with credit cards, they do not appear to be burdensome for the typical flood insurance policyholder. As an example, an annual premium of $600 and an annual interest rate of 18% results in an estimated monthly charge of $5.00 on the outstanding balance.
- Offer premium financing when it may be more convenient for the policyholder. The premium financing arrangement should be established prior to the policy inception or renewal date, because cancellation for the purpose of premium financing is not an eligible cancellation reason.