



FEMA

W-08095

December 22, 2008

MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators,
NFIP Servicing Agent, and Selected Adjusting Firms

FROM: 
James A. Sadler, CPCU, AIC
Director of Claims
National Flood Insurance Program

SUBJECT: NFIP Case Loss Reserving Procedures

Each year KPMG conducts a Department of Homeland Security (DHS) review of internal control processes within various Agencies that are under the DHS umbrella. For 2008, this review included the National Flood Insurance Program (NFIP) claims and policy files of several WYO Companies and the NFIP Servicing Agent.

The KPMG findings this year indicated that some insurers were not complying with the NFIP case-reserving procedures. Therefore, in response to this review, FEMA's Claims & Appeals Branch has determined that the *NFIP Adjuster Claims Manual*, which KPMG cited as the source of the requirement, incorrectly characterized case reserves and the reserving process that is common throughout the insurance industry and is intended to be followed by the NFIP. The Manual is currently being revised.

This bulletin will serve as a correction and clarification of the reserving process to be used going forward until the revised Manual is published. In addition, reserving practices will be an area of concern during future Operation Reviews. Case loss reserves have little or no effect on the NFIP's balance sheet; therefore, any findings will not be considered critical. Also, we will review other NFIP publications and plans to determine if any reference to case reserving can be clarified to provide KPMG and other auditors of the NFIP with the correct NFIP case reserve procedure.

Case Loss Reserves

The case loss reserve (case reserve) is the Company's estimate of the value of future payments for an individual claim. The incurred loss is the sum of all payments plus any outstanding case reserve.

NFIP case reserves do not include reserves for Allocated Loss Adjustment Expenses (ALAE), Unallocated Loss Adjustment Expenses (ULAE), or reserves for losses that have been Incurred But Not Reported (IBNR).

The initial case reserve may be a system-generated amount based on criteria established by the Company or it may be an individually set case reserve based on the best knowledge of the loss at the time the initial reserve is set. Subsequent adjuster reports should refine the case reserve amount (increase or decrease) as the Company becomes aware of additional facts, inspections, and estimates of damage.

Advance payments and other partial payments will decrease the case reserve. However, at the time an advance payment or other partial payment is made, the Company's estimate of the value of future payments should be reevaluated and the case reserve revised. The goal is that the Company's knowledge of the claim along with any advance or other partial payments will result in a case loss reserve that closely reflects the value of future payments. For example, when the final payment is made it should be in an amount close to the outstanding case reserve just before payment.

cc: Vendors, IBHS, FIPNC, Government Technical Representative

Suggested Routing: Accounting, Claims, Data Processing

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