

WATERMARK

FEDERAL EMERGENCY MANAGEMENT AGENCY

Introducing The Final Flood Insurance Rules: Update on Lender Compliance

By Ed Connor, Federal Insurance Administration

New rules are now in effect for regulated lending institutions regarding "loans in areas having special flood hazards." The final rules were effective on Oct. 1, 1996, for regulated lending institutions that are supervised by the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision. The final rules for the Farm Credit Administration and the National

Credit Union Administration took effect on Oct. 4, and Nov. 1, 1996, respectively. The rules were jointly developed and issued by the six agencies listed above as mandated by the National Flood Insurance Reform Act of 1994.

To help you work with the lenders in your community, below is a summary of the changes made by this joint rule.

Added and revised definitions to make technically complex flood insurance rules more readily understood

The agencies revised several definitions, including "buildings," "designated loans," and "mobile homes," and added definitions of the terms "Director," "residential" *(continued on page 14)*

Full Speed Ahead: Update on the Cover America Campaign

It's been a little more than 1 year since we kicked off the Cover America campaign in October 1995. With your help, we have come a long way in accomplishing goals to increase awareness and motivate flood insurance sales. To let you know what we have accomplished and give you an update of the results we have seen so far, we have prepared this summary of the campaign from the beginning.

Cover America is a nationwide marketing, advertising, and awareness campaign. To implement the campaign, we hired Bozell Worldwide, Inc., the NFIP Marketing and Advertising Servicer, in

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FEMA Honors Private Sector Partners For Flood Insurance Achievements

Every year, the Federal Insurance Administration (FIA), part of the Federal Emergency Management Agency (FEMA), recognizes outstanding insurance industry partners and others with special awards for their contributions to the National Flood Insurance Program (NFIP).

In May 1996, then-Federal Insurance Administrator Elaine A. McReynolds presented the 1995 Arrangement Year awards at the 1996 National Flood Conference held in Nashville, Tenn. The 1996 conference focused on NFIP's commitment to increase flood insurance growth by 20 percent in 2

(continued on page 16)



Michael J. Moye (WNFIP radio announcer at the 1996 National Flood Conference), winner of the Donald L. Collins Partnership Award.



Message from the Executive Administrator

Welcome *Watermark* readers!

We are in a period of transition at the Federal Insurance Administration: Elaine McReynolds has departed for important responsibilities in the private sector, and in all likelihood, it will be some time before a new presidential appointee is named to head our directorate and the National Flood Insurance Program.

Meanwhile, FEMA Director James Lee Witt has asked me to tend the shop, and it is an honor to do so. Insurance has been a long-term theme in my own professional life—my first job out of law school was on the legal staff at Metropolitan Life in New York, and I spent some time earlier as a policy advisor in FIA. I have

always been interested in the field, and I have always been convinced that for most folks, insurance offers a vehicle for invaluable financial security.

Those of you who know the FIA staff know that they don't allow any dust to accumulate— even during interim periods, and that is how they are responding now.

Basically, we are working to accomplish four things pending the arrival of a new administrator:

- We want to run the best insurance company we can. We want to serve and help, and we want to be there for our insureds as well as our industry colleagues. Please, let us know how we are doing.
- We are building our FIA staff. There will be more training and hopefully, modest additions. We need to develop replacements for those of us who are gray or graying, to build an organization for the 21st century.
- We have begun a program of long-term research on issues of importance to the NFIP: subsidy, inappropriate construction stimulation, and others so a new leader will have the facts to make basic policy decisions in the years ahead.
- Our innovative and exciting Cover America program will continue at full strength, increasing consumer awareness and building sales.

We are keeping good watch and we find this time a good time—like all times—because we know what to do with it!

Sincerely,

Spence Perry, Executive Administrator
Federal Insurance Administration

McReynolds Returns to Private Sector, Perry Assigned to Head FIA

After 2 highly successful years serving as Federal Insurance Administrator, Elaine A. McReynolds decided to return to the private sector. During her tenure, McReynolds is credited with instituting a nationwide marketing campaign, implementing program simplification efforts, and improving lender compliance to help increase the number of Americans covered with flood insurance by 20 percent.

McReynolds accepted a position as vice president of American General Life and Accident Insurance Company, in Nashville, Tenn., where she had been employed earlier in her career. Here, she will be responsible for the Customer Ser-

vices Division, which includes Compensation Services, Contract Disbursements, New Business/Underwriting, and Policyowner Services Departments.

She began her career at National Life and Accident Insurance Company in 1970 as a computer programmer, and worked her way up to become an assistant vice president. In 1987, she was appointed to a 4-year term as the Commissioner of Commerce and Insurance for the State of Tennessee by Governor Ned Wherter and was reappointed in 1991 to a second 4-year term.

In January of 1994, McReynolds was nominated by President Clinton to serve as Federal Insurance Administrator for the

Federal flood and crime insurance programs. She was sworn into office by FEMA Director James L. Witt on Apr. 20, 1994. Soon after her appointment, Witt challenged her to increase the number of people covered with flood insurance by 20 percent in 2 years.

In May 1996, right before McReynolds left, FEMA Director Witt appointed Spence W. Perry as acting Deputy Administrator of the FIA. Perry has been with FEMA since 1985, and served in the FIA as Senior Policy Advisor from 1988-1993. Recently, Witt appointed Perry to serve as the Executive Administrator of FIA. In his new position, Perry will continue the efforts of McReynolds to ensure that more Americans are covered against the risk of flooding. **W**

Making it Easier to Buy and Sell Flood Insurance: An Update

About Program Simplification

In early 1995, the FIA formulated a committee to simplify the NFIP so buying and selling flood insurance would be more efficient and understandable.

Below is a summary of the initiatives taken to improve flood insurance sales and purchases for insurance companies and agents, as well as flood insurance customers.

Credit Card Payment of Flood Insurance Premiums

This new option to pay the flood insurance premium makes the purchase of flood insurance more affordable for customers who want to buy it but are reluctant to pay the full premium up front.

Provisional Rating of Flood Insurance Policies

Provisional rating allows prospective insureds to purchase flood insurance without an elevation certificate at the time of application with the understanding they are expected to obtain one within 30 days.

Reduction in Rate Tables

Rate tables were reduced by combining the rates and collapsing the flood zones where feasible. Rate tables have been revised in the NFIP Flood Insurance Manual to eliminate redundancies. Rarely used tables have been eliminated and replaced with submit-for-rate.

Standard Risk Premiums

Premiums for specified amounts of coverage on Pre-FIRM, single-family homes and their contents located in A and V zones are now available in the Rating Section of the Flood Insurance Manual (page Rate 11).

Directory of Rating Software for PCs

The NFIP maintains a list of flood insurance rating software vendors. The list is available by calling the FEMA Fax at 202-646-FEMA and requesting document 23014.

ACORD Flood Insurance Application

The Flood Insurance Application and the Flood Insurance General Change Endorsement forms are now available through ACORD. (See "Coast to Coast" page 4.)

Elevation Certificate Requirements

Properties in zones AO and AH can now be rated without an Elevation Certificate. Also see "Provisional Rating" above. Additionally, FIA is considering offering optional rating for Post-FIRM, 1- to 4-fam-

ily homes in Community Rating System (CRS) communities without elevation certification.

In addition to the above tasks, FIA is continuing to simplify the NFIP further by reformatting and rewording the Standard Flood Insurance Policy, making it easier to read and understand. FIA will continue to work with our insurance industry partners to determine ways to simplify the NFIP to help you sell more policies and motivate more people to buy. ■

New NFIP Coverage to be Effective May 1997

In May 1997, the new Increased Cost of Construction (ICC) coverage will be effective. The proposed rule for this new coverage, which was legislated by the National Flood Insurance Reform Act of 1994, was published in the Federal Register on Sept. 30, 1996. It will apply to all new and renewal business with effective date on or after May 1, 1997.

According to the proposed rule, the ICC provides coverage for structures in three categories. The first category consists of structures that have incurred "substantial damage." This is damage for which the cost of repairs for restoring the structure to its original state before flooding occurred, equals or exceeds 50 percent of the building's

value. The second category applies to repetitive loss structures. These are structures which have incurred flood-related damage on two occasions within a 10-year period, and where the costs, when combined, to repair the structure equals or exceeds 50 percent of the building's value. Third, ICC will provide coverage for structures damaged by flood on multiple occasions where the FEMA Director has determined it is in the best interest of the National Flood Insurance Fund to require compliance with land use and control measures. The ICC is limited to structures that have been damaged by flood only, and is not applicable to damage caused by other perils.

The following acronyms are used throughout *Watermark*.

BFE	Base Flood Elevation	NFIP	National Flood Insurance Program
CMP	Condominium Master Policy	PIF	Policies In Force
CRS	Community Rating System	RCBAP	Residential Condominium Building Association Policy
FEMA	Federal Emergency Management Agency	SFHA	Special Flood Hazard Area
FIA	Federal Insurance Administration	SFIP	Standard Flood Insurance Policy
FICO	Flood Insurance Claims Office	SR	Service Representative
FIRM	Flood Insurance Rate Map	TRC	Telephone Response Center
MPPP	Mortgage Portfolio Protection Program	WYO	Write Your Own Program

OAST TO COAST

New Facility for NFIP Materials

Looking for NFIP marketing and insurance materials? Well, look no further! FEMA's Map Service Center has it all! In addition to housing all the Flood Insurance Rate Maps, the Map Service Center (MSC) also houses all other NFIP materials, including flood insurance manuals, Cover America materials, policy jackets, stickers, brochures, elevation certificates, and more. To order materials, call the FEMA Fax at (202) 646-FEMA and follow the instructions to have three new order forms faxed right to your machine by requesting document 23024.

Three New Order Forms Now Available

The all new NFIP Public Awareness Materials, NFIP Supply (Underwriting and Claims), and the NFIP Flood Insurance Manual Order Forms have been revised to reflect the current materials available through the NFIP.

The **Public Awareness Materials Order Form** lists items to be used for promoting flood insurance, such as stickers, mailing inserts (stuffers), brochures, information sheets, posters, booklets, post-flood materials, and lender materials. The **Supply Order Form** lists materials that are frequently requested by claims and underwriting staff. The **NFIP Flood Insurance Manual Order Form** has also been revised and is now available.

Spanish materials are available and listed on both the Public Awareness and the Supply Order Forms. To get your copies of the above order forms, call the FEMA Fax at (202) 646-FEMA and request document 23024.

Never Say Never: The New NFIP Brochure

Want to tie in to the Cover America campaign? Order copies of the new brochure called "Never Say Never" and give them to your customers who don't have flood insurance. In June, we mailed this brochure to 200,000 homeowners who didn't have flood insurance in high-,

medium-, and low-risk areas. Get involved today! Use the Public Awareness Materials Order Form and order the "Never Say Never" brochure, inventory number 000023.

Flood Insurance Forms Now Available Through ACORD

In keeping with our commitment to make flood insurance easier to write, we have redesigned the Flood Insurance Application and the Flood Insurance General Change Endorsement forms and made them available through ACORD. ACORD is a private organization dedicated to supplying the insurance industry with forms that have been standardized in order to facilitate the processing of insurance coverage.

The new flood insurance forms are only available to ACORD subscribers. If you already subscribe to ACORD, you can get the new forms at no additional cost. If you would like to subscribe to ACORD, call 1-800-444-3341 or write to:

ACORD
1 Blue Hill Plaza
P.O. Box 1529
Pearl River, NY 10965-8529

The annual subscription fee is \$65, which entitles the subscriber to an unlimited supply of ACORD forms for 1 year. It is also important to note that ACORD forms, including the Flood Insurance Application and the Flood Insurance General Change Endorsement forms, are available to subscribers on CD ROM. Please note that the above forms will no longer be supplied by NFIP, FIA, or FEMA.

Workshops Help Agents Provide Accurate Information

Three years after the Midwest floods that caused \$17 billion in property and crop damage and disrupted the lives of more than 62,000 people throughout 9 states, we still hear that some insurance agents tell people that they cannot purchase flood insurance because they don't live in a floodplain, or that they can't buy flood insurance because they do live in a floodplain.

To help ensure that agents have the most accurate information to provide their customers, the NFIP schedules agent workshops and mini-conferences across the country.

It is also because of situations such as this that the Missouri Insurance Commissioner, Jay Angoff, recently issued the following statement to be included in workshop announcements throughout the State of Missouri, encouraging agents to attend workshops held in their areas. The message reads:

"The floods of 1993 taught a valuable, but painful, lesson to many Missourians; Standard homeowner's policies usually exclude coverage for damages due to floods. The National Flood Insurance Program provides this protection to many Missourians, but as we've gotten further away in time from this disaster, the demand for such policies has decreased. I urge Missourians, including insurance agents, to attend this workshop to gain a better understanding of what's needed to protect your property against losses due to flooding."

For the workshop nearest you, see "Just Around the Bend" on page 10.

Mini-Conferences for each FEMA/NFIP Region

For the past 2 years, FIA has been conducting 1-day mini-conferences to provide FEMA/FIA, WYO companies, insurance agents, lenders, and state and local officials the opportunity to come together to educate and inform community members about the importance of flood insurance. It also gives these groups a chance to exchange ideas about how they can work together more effectively to reduce future flood risks.

For more information about the mini-conferences, call (301) 731-5300.

Address Change

The office for the NFIP Bureau and Statistical Agent, Region IX, has moved to a new location. Note the new address and telephone number is:

Bureau and Statistical Agent
Region IX
5777 Madison Avenue, Suite 810
Sacramento, California 95841.

Phone (916) 334-1720
Fax (916) 334-1676 ■

New Group Looks to Avert Disaster for Lenders and Servicers

By Michael J. Moye
NationsBanc Insurance, Inc.

Washington, D.C. — A growing concern in the lending industry over disaster insurance legislation and regulation has resulted in the formation of a non-profit organization dedicated to serving and protecting the lending industry's interests in insurance matters. The National Lenders' Insurance Council (NLIC) recently incorporated as a not-for-profit corporation and held its first board meeting.

For the past 2 years, core members of the new group have worked together to involve the lending and servicing industry in providing input and perspective to the federal regulators as they sought to translate the National Flood Insurance Reform Act of 1994 into regulation. Additionally, the group rallied its industry to attend the National Flood Insurance Conference in 1995 and 1996. In 1995, over 75 lending industry representatives attended, and in 1996 nearly 100 turned out. In prior years, that conference attracted only a handful of lenders and servicers.

According to Mr. Ed Connor, Lender Compliance Officer with the Federal Insurance Administration (FIA), "The FIA is excited about the formation of the National Lender's Insurance Council, and wholeheartedly supports its mission. We are inspired by the sense of urgency the Council has shown as an advisory group to the Federal Government for consideration of every major issue relating to the National Flood Insurance Reform Act. Serving as a conduit among the Federal Insurance Agency, Lenders and Servicers, and other interested organi-

zations, the Council has, and will contribute greatly toward clarification and resolution of regulatory matters relating to the NFIP. We firmly believe that the Lenders and Associations that participate on the National Lender's Insurance Council are absolutely essential to the success of the NFIP, and the successful implementation of the Reform Act."

Following encouragement and support primarily from outside their own industry, the organizers of NLIC decided to make it permanent. According to newly elected President of NLIC, Michael J. Moye of NationsBanc Insurance Services, Inc., "We originally intended to provide a temporary platform for lender involvement in the National Flood Insurance Program, and to become a source of information for regulated lenders regardless of their trade affiliation."

Other elected officers and board members include Vice President, Roy T. Short (Commonwealth General Services Agency, Houston, Tex.); Secretary, Dana K. Smith (AgriBank, St. Paul, Minn.); Treasurer, Rosalie Douglas (Real Data Delivered, Burbank, Calif.); Board Members, J. Mark DeLoach (Chase Insurance Agency, Wilmington, N.C.); Richard Laumann (Citicorp Mortgage, St. Louis, Mo.); and George Soule (Bank America, Cypress, Calif.).

"Our efforts in the flood insurance arena opened up conversations about other insurance challenges," adds Short. "It focused our group on the critical role insurance plays in our industry on several fronts. We are concerned about the continuing availability of property and casualty insurance for our collateral in the years ahead."

NLIC welcomes membership from not only lenders and servicers and their affiliates, but from any individual or organization that shares its concerns and interests. NLIC has established four standing committees to begin shaping its future and service.

- Legislative Committee— Research and report on federal and state legislation affecting insurance and lenders.

- Insurance Technical Committee— Research and interpret specific insurance policy issues for educational materials or newsletter articles to assist members in better understanding insurance.
- Flood Committee— Interact with FIA, Flood insurance carriers, National Flood Zone Determination Association (NFZDA), investors, and other interested organizations and report to membership.
- Membership Committee— Expand membership to fuel Council objectives and provide expertise for standing committee and special project committee tasks.

"We are convinced that the Council is the best vehicle for the lending industry to address insurance matters important to us all, regardless of whether a member is a bank, a mortgage company, a thrift, a credit union or other lending entity. We are not in competition with the national trades. We want to work with them to benefit all lending institutions," says Mark DeLoach of Chase.

NLIC is making a "Flood Guide for Lenders & Servicers" available at a nominal cost and intends to follow with other educational publications.

For more information on the National Lender's Council, write to P.O. Box 10874, Burbank, CA 91510-0874 or call 1-800-388-5511. ■

Getting Your Name Out Front

Since January 1996, more than 200 insurance industry partners have gotten their names in front of their prospects by taking advantage of the NFIP co-op advertising program.

Starting in January, 1997, we will continue the 50/50 cost share option for any flood insurance print and yellow pages display ads. We will be sending information about this offer soon, so watch your mail. For more information, you can call an NFIP co-op advertising manager at 1-800-564-8236. ■

N HIGH GROUND

Don't Sell Flood Insurance....Offer Protection and Peace of Mind!

by Larry A. Hollada, CPCU, CIC
The Insurance Professionals, Inc.

Why should an agent sell flood insurance? After all, do we sell fire insurance? Lightning insurance? Smoke insurance? How about weight of ice and snow insurance? Of course not! We offer a package of protection to our clients that is intended to protect them against the majority of bad things that can happen to their businesses, homes, and belongings. Often our insurance companies have put together a neat package that includes many of the most common perils. Is that convenient little package enough? Maybe, but probably not!

As professional insurance agents, whether at the urging of inner altruism or outside competition, we are becoming accustomed to helping our clients identify as many potential sources of loss as possible and then finding ways to deal with them. Yes, we may first begin talking because the client is required to buy "fire insurance," but that doesn't mean we write a policy on fire only. At a minimum we will offer the homeowners package or some form of business owners package. Does the protection cover more than "fire"? Yes. Does the protection cover more than the client needs? Probably not. Does the protection include everything the client needs? Again, probably not!

It is quite likely that our homeowner client will have more jewelry than the policy covers for theft, or a gun collection, or fine art that has values greater than anticipated by the average policy. Likewise, our commercial client will probably have portable tools, mobile equipment, or a computer system that is subject to a greater loss than that anticipated by the average commercial package. When we discover this gap, isn't it the responsibility of a professional insurance agent to make it known to

the client? Yes. Should we offer additional coverage? Yes! Will the client always buy what we offer? No! However, at least the client had the option to say "Yes" or "No" prior to the loss. Our client could deal from a basis of knowledge, not ignorance.

By now you're probably saying, "Ok! Ok! I can see we have an iron clad grip on the obvious! What's the point?" The point is, "Do all of our clients know that flood is not covered under most of their property policies?" "If they knew when we wrote the coverage initially, have we reminded them again this year?" "Do our clients even know what 'flood' is?" "Have we explained that 'flood' includes the damage from the broken water main, the collapsed wall of a neighbor's above ground pool, the runoff water from that new shopping center that was just built behind our development?" In short, "have we done as good a job identifying the flood exposure so the client can make an informed decision?" "Have we done our jobs as professional insurance agents?" Some point!!

But wait! Don't decide to scrap the insurance business and buy a bean sprout ranch in Oregon! The problem isn't that tough! The answer is that we need to incorporate "flood insurance" into the same protection process that we work with every day! With a few specific steps, we can become as comfortable with this exposure as with the coverage on computers or jewelry. Commitment and knowledge are the keys!

The commitment has to be as basic as the agency mission statement. If the agency

is committed to serving the clients and helping to identify and protect against exposure to loss, then we must recognize that flood is a peril to be dealt with, just like fire, smoke, and wind.

Just as we would with any other peril, we must become knowledgeable about flood. We need to recognize all the places that it is not covered by other policies and then try to fill those gaps. This may mean additional training for all staff. However, when haven't we had to learn more about a new exposure, a new product, or just the multitude of changes in the industry? Our training should include both a knowledge of the exposure, the extent to which the popular products will cover it and the most effective ways, to communicate this knowledge to our clients.

The final step is to put your plans into action. All staff should think and talk about flood as they would any other peril. Find ways to offer flood along with the other perils in all proposals. Use the free NFIP stickers on all policies to warn the client when other policies do not cover flood. And during the renewal process, as part of the "monitor and revise" portion of normal client service, remember to include flood insurance as you would any other uncovered exposure to loss.

Don't sell flood insurance. Sell service! Sell protection! Help your clients identify all their exposures to loss and remember that flood is just as likely to happen as any other peril! **W**

Editor's Note

Watermark is a publication intended primarily for insurance agents who write flood insurance, but it contains information about the NFIP that may be helpful to other groups involved with the program. We want to make sure that we are providing information that meets your needs. We welcome your comments and suggestions, as well as submissions for articles and departments. Additionally, we encourage you to reproduce articles and departments contained in the *Watermark* and include them in your own newsletter or other communication.

Send your questions, comments, suggestions, and submissions to Amie Coxon Ware:

Federal Emergency Management Agency
Federal Insurance Administration • Room 441
500 C Street, SW
Washington, D.C. 20472
Fax (202) 646-3689

Members of Congress with questions about the National Flood Insurance Program, please write to:

Federal Emergency Management Agency
Office of Congressional Affairs • Room 820
500 C Street, SW
Washington, D.C. 20472

PERSPECTIVES

FIA welcomes your questions and concerns about the National Flood Insurance Program. Below are definitions for many items about which we frequently receive questions.

Coverage for Appurtenant Structures

Insurance coverage written under the Dwelling Form for a 1- to 4-family dwelling will extend to detached garages or carports located on the premises and that serve the insured dwelling. Ten percent of the total building coverage limits can be applied to the Appurtenant Structures and does not constitute an additional amount of insurance.

Buildings in the Course of Construction

Buildings in the course of construction are buildings that have yet to be walled and roofed. Such buildings are eligible for coverage, except when construction has been stopped for more than 90 days and/or if the lowest floor is below the Base Flood Elevation (BFE). Building materials are also covered, but only if they are contained in an enclosed building on the premises or in a building immediately adjacent to the premises. The deductible is doubled.

Single Building

In order for a building to qualify for coverage as a single building structure, the building must be separated from other structures by intervening clear space or a solid, vertical, load-bearing division wall. The wall must extend from the lowest level to the highest ceiling. The wall, however, does not have to extend through to the roof. A building separated into divisions by solid, vertical, load-bearing walls may have each division insured as a separate building.

Townhouse/Rowhouse

A townhouse or rowhouse is defined

as a residential unit of a multiple unit complex provided that it is self-contained; it is a separately titled single-family dwelling unit contiguous to the ground; it has a separate legal description; and it is regarded as property that can be deeded, conveyed, and taxed separately.

An individual dwelling unit may be separately insured in the name of the unit owner; or if purchased by the association in the name of the "owner of record unit number and (name of) association as their interests may appear." The maximum coverage limits are \$250,000 for building and \$100,000 for contents.

Non-Residential Condominiums

Building and Contents - Under the General Property Form, non-residential or commercial buildings and their commonly owned contents may be insured in the name of the association. The applicable coverage limits are listed below.

- Building: Actual cash value to a maximum of \$500,000
- Contents: Actual cash value to a maximum of \$500,000

Unit Owner's Coverage - The unit owner of a non-residential condominium unit may only purchase contents coverage for that unit. Building coverage may not be purchased in the name of the unit owner. Only contents coverage is available at actual cash value to a maximum of \$500,000.

30-Day Waiting Period

The waiting period before a new flood insurance contract can become effective was increased from 5 to 30 days on Mar. 1, 1995. Implementation of the 30-day waiting period created a lot of confusion, especially for lenders when making mortgage and/or home equity loans. Because of the many questions, FIA issued the following policy statements to eliminate some of the confusion.

The 30-day waiting period **does not** apply in the following instances:

- When there is an existing insurance policy and an additional amount of insurance is required in connection with the making, increasing, extending, or renewing of a loan, such as a second mortgage, home equity loan, or refinancing.
- When an additional amount of insurance is required as a result of a map revision.
- When flood insurance is required as a result of lender determination that a loan not having flood insurance coverage should be protected by flood insurance.
- When an additional amount of insurance is being obtained in connection with the renewal of a policy.

For the circumstances above, there is no waiting period. The 30-day waiting period does apply in all other cases.

Basement

"Basement," as defined in the General Property and the Dwelling Forms, means any area of the building, including any sunken room or sunken portion of a room, having its floor subgrade (below ground level) on all sides.

Elevated Building/Lowest Floor

An elevated building is a building with no basement and has its lowest elevated floor raised above the ground level by foundation walls, shear walls, posts, piers, pilings, or columns.

If you have questions you would like addressed here, please mail them to:

Amie Coxon Ware
Federal Emergency Management
Agency
Federal Insurance Administration
Room 441
500 C Street, SW
Washington, D.C. 20472

CONFLUENCE

Confluence was first introduced in the 1996 Spring/Summer *Watermark*. This section reports on the flood insurance issues raised at the annual National Flood Conferences.

The 1996 National Flood Conference was held last May in Nashville, Tenn. Presented below are reports of three major topics discussed there.

RCBAP - Does it Work?

Reported by Thomas Lalley
NFIP Bureau and Statistical Agent

Freddie Mac, one of the country's leading mortgage institutions, is insisting on 100-percent replacement cost coverage on all condominium buildings that are in a lender's portfolio when being assumed by Freddie Mac. This requirement is a matter of concern to many insurance agents and condominium associations because of the amount of premium required for these risks. Of course, Freddie Mac is enforcing the requirements in the National Flood Insurance Reform Act of 1994, and its interpretation of the Act requires insistence of 100-percent replacement cost.

The discussion of availability in relation to affordability created some lively discussion. The consensus was that the Residential Condominium Building Association Policy (RCBAP) has settled the availability issue. Not only is the coverage available, it is available at limits that provide insurance to value, i.e., replacement cost. It was stated that because of the cost, some condominium associations are going without coverage.

Below are some suggested solutions and approaches to other items that were discussed.

- Consider offering coverage for co-insurance percentages other than 80 percent and adjust the rate accordingly.
- Solicit input from the Community Association Institute (CAI) about the effectiveness of the RCBAP.
- Ask Freddie Mac to consider allowing the individual unit owners to buy

coverage based on the rationale that the mortgage is in the name of the association.

- Consider writing interpretations, via policy statements or in the Flood Insurance Manual, concerning eligibility for the RCBAP, e.g., hotel operation in a residential condominium makes the building ineligible for the RCBAP.
- Extend the eligibility rule to include time shares within the RCBAP program (little interest was shown in extending it to cooperatives).
- Direct either the insurance agent or the insurance company to send a copy of the elevation certificate to the lender.
- Allow the unit owners to buy unit owner policies to bring the coverage to the 80-percent replacement cost level.

Some of the issues that were discussed are under consideration by FIA at this time. The affordability of the product continues to be a big issue with many condominium associations. However, it was felt that the initial shock has about worn off and the associations have made business decisions about how to protect the buildings from losses caused by floods.

Lender Compliance - Flood Zone Determinations

Reported by Michael J. Moye
NationsBanc Insurance, Inc.

The following topics were addressed during this workshop.

Servicing Alternatives— In-house Determinations

If a lender decides to do some or all determinations in-house, the lender should ask the questions below to get assurance that the Flood Zone Determination (FZD) will be satisfactory.

- Does servicing receive equal time?
- Can the appraiser get all map revisions?
- Are there systems to perform the determination correctly?
- Is the appraiser able to train staff?
- Is the appraiser knowledgeable

about statutes and regulations?

Vendor Standards

Is the FZD vendor developing standards for accurate determinations? Are controls in place?

Communication Between Origination/Servicer

It is very important that the servicing and origination sides of the business communicate. It is preferable for both to sign the FZD company contract to ensure joint ownership of the relationship with the vendor. Contact persons should be named for the vendor from both the servicing and origination part of the business.

An issue was identified regarding the original vendor referencing an application number and the servicer side referencing the loan number. One lender said it sends a tape to the vendor monthly replacing application numbers with loan numbers.

Origination/Servicing Coordination

The origination side may want a speedy determination, whereas the servicing side may be more concerned about whether systems for transfer of information are compatible.

FZD Vendor Audits

Rick Lauman stressed the need to visit the vendor periodically, preferably quarterly, to assess performance, consistency, and continuing staff expertise. If issues surface, it is important to give the vendor time to apply corrective action, rather than to abruptly terminate the relationship.

During a periodic audit, the lender should get updated financial information and an E & O coverage certificate. Understand the process the vendor uses to arrive at the conclusion of whether the property is in a Special Flood Hazard Area (SFHA) or out. Learn the vendor's philosophy about properties that are partially in a SFHA and partially out. Does the vendor have a tendency to place properties in or out of the SFHA? Spell out the desired process in the contract. Some lenders use a second FZD company to spot check the primary vendor's work.

Fees

(continued on page 11)

ENHANCEMENTS

The 1995 Agency of the Year Award Winners

Each year at the National Flood Conference, the FIA recognizes those agencies that excel in promoting the NFIP. Insurance agencies are nominated by WYO companies, insurance trade associations, lenders, NFIP contractors, state and local officials, and other agencies.

All nominations are reviewed by a Selection Committee consisting of one member each from the Flood Insurance Producers National Committee, the Write Your Own Marketing Committee, and the Insurance Institute for Property Loss Reduction's flood committee. They select the top three nominations based on steps the agency has taken to implement innovative marketing strategies, achieve superior policy growth, adhere to the established underwriting guidelines, and participate in flood awareness activities. Below is a brief description of the winning agencies and why they deserve this honor.

Aparicio, Walker & Seeling, (AWS) Inc., of Metairie, La. There are 19 employees, all of whom play a vital part in promoting flood insurance. All are well-versed and knowledgeable about the NFIP as a result of attending flood insurance seminars.



TERRENCE WALKER
Aparicio, Walker & Seeling, Inc.

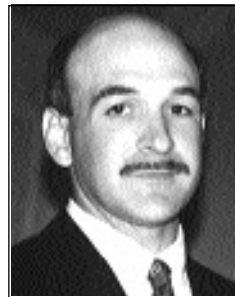
Marketing strategies include: letters that are generated and mailed to insureds requesting them to consider a

review and increase of their flood insurance coverage; a "Where's Your Flood Coverage?" insert that is included in all commercial account proposals; a flood insurance "tips" notice that is mailed to insureds; and a mass marketing mailer of excess flood coverage consideration that is mailed to any insured currently holding the maximum flood coverage available through the NFIP.

In addition, all producers and Customer Service Representatives (CSRs) are required to suggest flood coverage on all buildings and contents owned by their insureds. In May 1995, AWS, Inc., sponsored a community awareness program designed to increase flood awareness and minimize future flood losses. AWS, Inc., has also established underwriting guidelines that are adhered to by each employee. Files are reviewed at renewal for limits, coverage, etc., and flood insurance is offered when the necessary information needed to quote is available.

AWS, Inc., has demonstrated its commitment to educating its insureds and the community about flood coverage available through the NFIP.

Bruce Clayton Insurance Agency of Bayton, Tex., nominated by Omaha Property and Casualty Insurance Company.



BRUCE CLAYTON
Bruce Clayton Insurance Agency

The Bruce Clayton Agency is a 2-person agency that began operations in 1987. Bruce first became involved in flood insurance shortly after his home town, which sustained flood damage from Hurricane Carla, entered the flood program. A Boy Scout at the time, he distributed information in Baytown that explained the benefits offered by the NFIP. After opening his agency in 1987, Bruce focused on developing standard lines of insurance. In 1995 he decided to

aggressively market flood insurance, adding it to his existing policy base. With the help of employee Sue Neal, he developed a mailing campaign that highlighted the benefits of purchasing a low-cost policy. The campaign targeted existing homeowner customers living in B and C flood zones.

Each week the agency mailed out letters to 10 clients. Each mailing contained a preferred risk quote, a brochure describing flood insurance coverage, and a flood insurance rejection form. One week following a mailing, Bruce would place a follow-up call to each client on the list. That way an application or a flood insurance rejection notice was obtained.

The agency continues its momentum into 1996, having placed 14 policies in the months of January and February alone. It is important to note that 89 policies were sold based on a total mailing of only 212 letters, a sales ratio of 42 percent. Of the 89 policies sold, 74 were for first-time flood insurance policies.

This marketing program mirrors the goals of the NFIP. This small agency is committed to a marketing program that so far has brought 74 new policyholders into the NFIP and is continuing to promote the program within its community.

Comegys Insurance Corner Agency of St. Petersburg, Fla. Comegys Insurance has been serving the St. Petersburg and Tampa area since 1939. There are six sales agents and



MARK S. BERSET
Comegys Insurance Corner

three CSRs who proudly represent more than 20 different companies, insuring over 5,000 individuals and families, and 2,000 professional and business firms. The agency is very active in the community. It sponsors

(continued on page 10)

JUST AROUND THE BEND...

	MEETING	DATES		
January 1997	Agent & Lender	1/7-1/8	Raleigh, NC	
	Agent & Lender	1/15	Pueblo, CO	
	Agent & Lender	1/15	Lawrence, KS	
	Agent & Lender	1/21-1/22	Dunwoody, GA	
	Agent & Lender	1/22	Lynnwood, WA	
	Agent & Lender	1/28-1/29	Kill Devil Hills, NC	
	Agent & Lender	1/28-1/29	Hampton, VA	
	Agent & Lender	1/30-1/31	Richmond, VA	
February 1997	Agent & Lender	2/6	Independence, MO	
	Agent & Lender	2/11	Warrenton, OR	
	Agent & Lender	2/11-2/12	Florence, SC	
	Agent & Lender	2/13	Portland, OR	
	Agent & Lender	2/12-2/13	Salisbury, MD	
	Agent & Lender	2/13	St. George, UT	
	Agent & Lender	2/25-2/26	Orangeburg, SC	
	Agent & Lender	2/26	Grand Junction, CO	
March 1997	Agent & Lender	2/27	Lenexa, KS	
	Agent & Lender	3/4-3/5	Marathon, FL	
	Agent & Lender	3/11-3/12	Brookville, FL	
	Agent & Lender	3/11	Port Angeles, WA	
	Agent & Lender	3/11	Salt Lake City, UT	
	Agent & Lender	3/12	Great Falls, MT	
	Agent & Lender	3/12-1/13	Roanoke, VA	
	Agent & Lender	3/13	Missoula, MT	
	NAIC Meeting	3/15-3/19	Orlando, FL	
	Agent & Lender	3/18-3/19	Gainesville, FL	
	Agent & Lender	3/20	Vancouver, WA	
	Agent & Lender	3/25-3/26	Dunwoody, GA	
	Agent & Lender	3/25-3/26	Frederick, MD	
	Agent & Lender	3/27-3/28	Baltimore, MD	
April 1997	Agent & Lender	4/2	Liberal, KS	
	Agent & Lender	4/3	Dodge City, KS	
	Agent & Lender	4/8	Grand Forks, ND	
	Agent & Lender	4/9	Jamestown, ND	
	Agent & Lender	4/9	Concordia, KS	
	Agent & Lender	4/10	Oberlin, KS	
	Agent & Lender	4/10	Bismarck, ND	
	Agent & Lender	4/16	Yakima, WA	
	Agent & Lender	4/23	El Dorado, KS	
	Agent & Lender	4/24	Emporia, KS	
	Agent & Lender	4/25	Topeka, KS	
	Agent & Lender	4/30	Coeur D'alene, ID	
	May 1997	Agent & Lender	5/7	Abilene, KS
		Agent & Lender	5/8	Manhattan, KS
Agent & Lender		5/14	Glendive, MT	
Agent & Lender		5/15	Billings, MT	
June 1997	Agent & Lender	6/3	Casper, WY	
	Agent & Lender	6/4	Cheyenne, WY	
	Agent & Lender	6/5	Rock Springs, WY	

The 1995 Agency of the Year Award Winners

continued from page 9

many local organizations: the Girls Club, Inc.; Great Explorations; the Jr. League of St. Petersburg; and the Ronald McDonald House, to name a few. Comegys also schedules speaking engagements at local business and civic organizations. Earlier in the year it co-sponsored a flood seminar for Florida insurance agents.

Comegys Insurance Corner employees have adopted a policy of sending out letters explaining the value of flood insurance to the insured on canceled policies, new homeowners, mono-line homeowners, and new clients. Agents and CSRs are required to take continuing education hours offered by FAIA on the NFIP. In the last 10 years, seven out of eight producers received the "Agent of the Year" award from the Independent Insurers of St. Petersburg, and six of the producers have served as President of the local Independent Insurance Agent Association. JoAnne Small, commercial lines manager, is a member of the **NAIW** - Insurance Women of St. Petersburg as well as past President of the same organization. She is also a recipient of the "Women of the Year" award.

The agency also insures many condominiums and solicits approval from the directors/officers to conduct flood insurance seminars for the unit owners. Comegys Insurance Corner is committed to providing superior professional services. Its success is recognized throughout Florida.

Congratulations to this year's winners! And, start preparing your nominations for Agency of the Year now so you will be ready when we ask for them early next year! To receive a copy of the nominating form for nominating your favorite insurance agency, fax a request to (301) 918-1479. ■

Confluence

continued from page 8

There was a discussion about the transfer of life-of-loan coverage on a loan between FZD vendors. Some vendors make the transfer at no cost and others charge a fee. The FZD industry recognizes this as a problem and is working on a solution.

That led into a discussion of FZD fees and disclosure to the borrower. Some think there is a risk under the Real Estate Settlement Procedures Act (RESPA) if the FZD company offers a free portfolio review, especially if that results in a higher fee for a basic determination. People need to be alert to this issue if the contract includes concessions on exclusivity or contract term if it increases the basic fee.

Litigation

None of the participants mentioned any ongoing borrower litigation related to determination errors.

Low Value Building

Where the buildings are a small part of the collateral, such as with some farm properties, some lenders are rewriting loans to exclude the buildings in SFHAs to avoid having to require or force place coverage. (NOTE: *Farm Credit Administration said there is no authority for a lender to exclude low value buildings.*)

Map Change/Force Place

The lender force place notice should not cancel the borrower's coverage because it is at an inadequate amount. The borrower's notice should give the borrower the choice to keep, drop, or change coverage. Premium would be prorated from the date of the map change.

Community Rating System: The Road Ahead

Reported by Howard Leiken, FIA

This session presented recent developments and new initiatives in the Community Rating System (CRS). Frank Reilly, former Deputy Federal Insurance Administrator, moderated the panel. He presented an overview of the NFIP's history and put the implementation of the CRS in the context of the NFIP's development of floodplain management and actuarial plans.

Jerry Foster, ISO, talked about recent

RCBAP Fills Flood Insurance Need

By Bob Ross, Florida Association of Independent Agents

The RCBAP has been developed specifically for legally constituted condominium buildings...not cooperatives, not rental apartments, not other multi-residential occupancies. It's a good policy, but there are numerous special features that make it different from the Dwelling and General Property policies.

Any condominium association with one or more residential units is eligible for coverage under the RCBAP. At least 75 percent of the total floor area must be residential, and the building must be located in an NFIP Regular Program community.

For rating purposes, there are two types of condominium buildings: low-rise and high-rise, recognizing that low-rise buildings generally have a greater percentage of their value at risk than do high-rise buildings, thus requiring higher premiums for the first dollars of coverage. Low-rise condominium buildings are those containing less than five units regardless of the number of floors, or having five or more units with less than three floors, including basement. High-rise condo buildings contain at least five units and have at least three floors, excluding enclosures.

With the exception of those condominium buildings of extremely high value, the RCBAP will provide an adequate amount of flood insurance protection (when we say "value" we mean the cost of construction, not the selling price of the units). Building coverage is on a replacement cost basis, unlike the General Property Form, which is on an actual cash value (ACV) basis.

The maximum amount of building insurance is either the replacement cost of the building or the number of units times \$250,000, whichever is less. The maximum amount of insurance for condominium association contents is \$100,000, calculated on an ACV basis, not replacement cost.

(continued on page 15)

Jerry Foster, ISO, talked about recent changes to CRS operations, including the streamlining of the application process for communities. Applications will now be accepted throughout the year with no deadline, and communities will have a much simpler application to fill out prior to the verification visits required to determine CRS classification.

David Stroud, ISO, presented the new requirements for obtaining credit for floodplain management plans. These new requirements are oriented towards ensuring that a comprehensive planning process is followed so that plans properly reflect what communities should be doing in regard to their particular flood problems.

Howard Leiken and Bret Gates, both with FEMA, discussed efforts to evaluate how well the CRS is accomplishing its stated goals. The presentation included information about how the CRS is to be evaluated and preliminary results of a survey of local officials involved with the CRS. In general, the survey results were very positive and reinforce the notion that

CRS is on track to achieve its goals over the long term.

Dennis Gage, ISO, brought the group up to date on the insurance industry's Building Code Effectiveness Grading System. He also presented preliminary information from that system's communities that was collected in response to floodplain management-oriented questions. This is a good example of how the government and industry can support each other in achieving loss mitigation.

Attendees of the session expressed interest in how digital map products, like Q3, could be used, particularly in CRS communities. Also, there was consensus support for expanding the FEMA Web site to include information about the CRS.

More than 650 people attended the 1996 National Flood Conference, the highest attendance ever. If you are interested in attending future conferences to learn about issues such as those above and to help improve the National Flood Insurance Program, please see pages 17 and 18. ■

WATER FLOODS AND FIELD NOTES

Figures as of November 14, 1996

EVENT AND DATE	STATES/TERRITORIES AFFECTED	POLICIES IN FORCE (STATEWIDE)	POLICIES IN FORCE (AFFECTED AREAS)	LOSSES PAID	DOLLARS PAID IN LOSSES	% OF LOSSES CLOSED
Winter Storm						
Feb. 6, 1996 — Feb. 12, 1996	Oregon	12,091	8,936	944	\$ 27,038,805	97.7%
	Washington	17,577	9,899	1,242	\$ 29,973,014	98.3%
	Idaho	2,744	629	72	\$ 1,577,373	98.8%
Summer Storm						
July 12, 1996	North Carolina	62,360	52,726	682	\$ 5,567,806	66.0%
Summer Storm						
July 17, 1996	Illinois	39,778	27,270	1,100	\$ 15,020,634	88.1%
July 19, 1996	Pennsylvania	58,860	2,277	163	\$ 2,732,502	68.7%
Hurricane Fran						
Sept. 5, 1996 — Sept. 26, 1996	North Carolina	63,420	63,420	167	\$ 2,037,332	4.8%
	Virginia	58,009	58,009	21	\$ 179,553	4.1%
	South Carolina	96,696	91,887	5	\$ 22,275	3.8%
Hurricane Hortense						
Sept. 9, 1996 — Sept. 12, 1996	Puerto Rico	29,913	29,913	28	\$ 228,066	3.4%

Tell Your Customers About Contents Coverage!

In mid-June, thunderous rain clouds converged on northern Maryland, dumping as much as 11 inches of rain in 5 hours and transforming gentle creeks into raging rivers, which caused severe flooding throughout the area. Floodwaters forced the evacuation of several families living along the Tom's River, which borders the town of Emmitsburg, Md.

Among those evacuated were Guy Baker and his family. The Bakers have lived at 13 First Avenue in Emmitsburg for over 30 years. Because the Baker's single family home is located close to the river, Guy had purchased flood insurance. "After Hurricane Agnes back in 1972, I knew I needed flood insurance," Baker said. "Back then we couldn't get flood insurance and we were nearly wiped out. When coverage became available, I contacted my insurance agent and specifically requested full coverage; I wanted no loopholes."

On the morning after the worst storm to hit the area in 25 years, Guy called his insurance agent to report a loss to a portion of his home. Later that same morning he was informed by the adjuster handling the claim that he was not fully covered. He had proper flood insurance coverage on his building, but his agent had not informed him that contents coverage is sold separately. Therefore, the carpeting, furniture, and other belongings that were in the flooded room adjacent to the kitchen were not covered.

Unfortunately this situation happens too often. Homeowners and insurance agents share the responsibility to ensure that home and belongings are covered. Communication is the key to complete coverage and full recovery. ■

Tear-out Poster

A Public Awareness Poster promoting the purchase of flood insurance is bound in the center of this issue of the *Watermark*. The poster encourages home and business owners to purchase flood insurance. You can hang the poster in your place of business or in another prominent location where clients will be most likely to see it.

Additional copies of the poster are available by using the Public Awareness Materials Order Form.

Co-op Plan Reinforces Cover America Program

By Larry Widlowski, Marketing Manager
Special Markets
Omaha Property and Casualty Insurance Company

Since Cover America was introduced to the general public in October 1995, Omaha Property and Casualty Insurance Company (OPAC) has taken an active part in the program. The purpose of Cover America is to increase public awareness of the value of flood insurance offered under the National Flood Insurance Program and to promote the purchase of such coverage. As one of 95 companies marketing the NFIP, we totally support the need to send the Cover America message to the American public: It could happen to you!

Government statistics state that there are just 3 million flood insurance policies in force, but 7.5 million pieces of property located in floodplains and not protected by flood insurance.¹ Flood is the most common of natural disasters. During an average 30-year mortgage for a home in a special flood hazard area, the chance of fire occurring is 1 percent, while the probability of flood damage is as high as 26 percent.²

Unfortunately, the America public is generally ignorant of the devastating impact of these statistics. Many people do not realize that most homeowner and renter policies do not provide coverage for flood damage, or that you don't have to live near water to become a flood victim. Their lack of knowledge is reflected time after time, as agents hear prospects state objections like these:

- "My homeowners policy covers flood."
- "My home is not in a floodplain. I don't need flood insurance."

Footnotes

1. Fact Sheet (FEMA/NFIP)
2. Mandatory Purchase of Flood Insurance Guidelines

- "We had a flood 2 years ago. It will be 98 years before another flood occurs because we are in a 100-year floodplain."

Misinformation statements like these dramatically underscore the need to educate the public and spread the true word regarding flood insurance.

As part of our company's strategy to share Cover America with our contracted flood agents, we developed a print co-op advertising plan that helps agents take advantage of Cover America materials by sharing the costs two ways (agent/OPAC). Our action plan included the following steps:

- Develop a three column by seven inch print ad.

- Target key agencies throughout the United States.
- Contact newspapers for advertising rates.
- Have marketing representatives call on targeted agencies, asking for their commitment.
- Set an 8-week minimum frequency for the ads.

This 2-way co-op plan helps ease the cost of print advertising for local flood agents. By working at the grass roots level in their communities, agents enhance the awareness of the Cover America message and therefore increase the sale of flood policies. ■

October 1996 Program Changes Help Prepare for Year 2000

Programmers and statisticians in financial institutions all across the country have been attacking the year 2000 date change in their data bases for a while now. Other companies that have contracts for services extending into the year 2000 and beyond have been gearing up and preparing for the right time to implement the changes. NFIP has been preparing for this, as you may have seen in the Oct. 1, 1996, program changes. See below for more information about the Oct. 1, 1996, program changes.

Year 2000

Effective Oct. 1, 1996, the NFIP will expand the date data elements when issuing new and renewing policies. The new date format expands the date field by two characters. The date field as recorded on most documents is depicted as YYMMDD. The new date field is YYYYMMDD, where YYYY is the full year, MM is the month designation, and DD is the day. This change is being implemented at this time in order to accommodate the year 2000 changes for 3-year policies renewing on or after Jan. 1, 1997.

Property Address "Beginning Street Numbers"

Property address information accuracy is becoming more and more critical because it is used for matching policy data maintained by the NFIP with data received from various state windpool associations. For property having a range of street numbers, such as townhouses/ rowhouses and condominiums, the WYO companies will be required to report the "Property Beginning Street Number" in a new data element field on all policy transactions submitted to the NFIP. The "Ending Street Number," thus completing the address number range, is to be reported in the property address line 2 with the street name.

There are other programming changes that have been identified for implementation effective Oct. 1, 1996. These changes will not affect how many of you conduct business. The changes are primarily systems changes that will improve overall processing and reporting of NFIP policy data. ■

Update on Lender Compliance, *continued from page 1*

improved real estate,” and “special flood hazard areas.”

Clarified the responsibilities of loan servicers with respect to Federal flood insurance requirements

The agencies apply their regulations implementing the escrow, forced placement, and flood hazard determination fee provisions of the Act to regulated lending institutions and to loan servicers acting on behalf of regulated lending institutions. Their interpretations follow:

The obligation of a loan servicer to fulfill administrative duties with respect to Federal flood insurance requirements arises from the contractual relationship between the loan servicer and the lender. The lender remains ultimately liable for fulfillment of those responsibilities.

The duties of a regulated lender with respect to Federal flood insurance requirements for a particular loan cease upon the sale of that loan unless the seller agrees to retain responsibility for such requirements under a loan servicing agreement with the transferee owner.

When a loan servicer force places flood insurance, it does so on behalf of the lender in accordance with the loan servicing agreement. If a lender instructs a servicer not to force place flood insurance, the responsibility for that instruction remains with the lender.

Interpreted Federal flood insurance legislation to not impose portfolio review on regulated lending institutions

The agencies do not require a regulated lending institution or servicer acting on its behalf to engage in retroactive or proactive portfolio reviews or any other specific method for carrying out their responsibilities under the Federal flood insurance statutes. Furthermore, the Act does not require lenders to monitor flood map changes, and the agencies did not impose such a requirement by regulation. The Federal agencies believe that each lender is in the best position to tailor its flood insurance policies and procedures to suit its business. They further state that lenders should evaluate and, when necessary, modify their flood insurance programs to comport with both the requirements of Federal flood insurance

statutes and regulations, and principles of safe and sound banking.

Interpreted the applicability of escrow requirements under the Real Estate Settlement Procedures Act (RESPA)

The agencies recognize that there are differences between the scope of the Reform Act’s coverage and the scope of RESPA’s coverage, which raises questions about how the two laws should be applied together. The agencies took the position that (1) the escrow of flood insurance premiums is required whenever the lender escrows other charges associated with the loan, such as taxes, premiums for hazard or fire insurance, or any other fees, but (2) the detailed requirements of RESPA section 10 do not apply unless the loan itself is subject to RESPA.

Voluntary escrow

Regarding a “voluntary” escrow account (where the borrower requests the lender to establish an escrow account), the agencies do not believe that the Reform Act mandates escrow of flood insurance premiums in connection with “voluntary” escrow accounts requested by the borrower.

Other considerations

Escrow accounts established for such taxes as “interest reserve” or “compensating balance” requirements in commercial real estate loans will not be considered to trigger the requirement for establishing an escrow for flood insurance premiums. Escrows for hazard insurance such as fire, storm, wind, or earthquake are the types of insurance that trigger the requirement to escrow flood insurance premiums if such insurance is required on the loan.

Determined that the authority of a regulated lending institution or its loan servicers to charge a reasonable fee for a hazard determination extends to a “life-of-loan” monitoring fee and a post-closure determination fee

The agencies believe that the authority to charge a borrower a reasonable fee for a flood hazard determination does extend to a fee for “life-of-loan” monitoring by the lender, or by a servicer acting on behalf of the lender, or by a third party.

Determined that the purchase of a loan is not the equivalent of the making of a loan

The Reform Act does **not** include a loan purchase in the list of specified tripwires, and the agencies believe that a loan purchase should not require a flood hazard determination. The agencies feel that as a practical matter, a loan purchaser may always require, as a condition of purchase, that the seller determine whether the property securing the loan is located in a SFHA.

Determined that Federal flood insurance requirements apply to subsidiaries of the institutions they supervise

The agencies believe that a National Bank’s subsidiary, State Member Bank’s operating subsidiaries, Savings Association’s operating subsidiaries, Credit Union Service Organizations, and Service Corporations are subject to Federal flood insurance requirements.

Designed notice and recordkeeping requirements

The final rules retain the term “borrower” and clarify that the notice of flood hazards should be provided to the person who is obligated under the loan agreement. Regarding specific guidance for lenders to determine what is a “reasonable time,” the agencies’ final rules do not establish a fixed time period during which a lender provides notice to the borrower; however, they regard 10 days as a reasonable time interval.

Regarding notice requirements for mobile home transactions, the agencies believe that the requirements can be met by lenders if notice is provided to the borrower as soon as practical after determination that the mobile home is or will be located in a SFHA and before completion of the loan transaction.

The agencies’ final rule also indicates that the notice to the servicer may be transmitted in written or electronic format, and permits electronic transmission of the notice to the Director or the Director’s designee.

The rule was published in the Federal Register on Aug. 29, 1996. For a copy of the rule, you can call the FEMA Fax at (202) 646-FEMA and request document number 23109, and it will be faxed immediately to you. Or, you can access the rule through the FEMA Web Site at www.fema.gov/NFIP/nfract.htm. ■

Flood: Not Just Another Homeowner's Peril

by Rita Hollada, CPCU, CIC

Homeowner's Insurance Doesn't Cover Floods! The Cover America campaign is emphasizing that point nationwide in its television and print advertisements for flood insurance. But awareness is only half of the battle. Most people still must be convinced that every homeowner has a possibility of flooding.

Flood is broadly defined as a temporary inundation of normally dry land by water from any source. Take a look at some of the unusual flooding events that have been experienced over the past several months. A rapid thaw of ice and snow caused major flooding throughout the east coast. A broken water main caused 3 feet of floodwater to inundate Manhattan streets. Runoff from heavy rain has devastated large areas of the Midwest once again. It was not a river rising or a tidal storm surge that caused the flooding, but simply too much water in one place at one time, which is classified as water damage and excluded in most homeowner's policy forms.

Flood insurance as provided by the NFIP pays for direct physical loss by or from flood to covered property. Buildings and contents can be insured, but the limitations of the policy must be understood and explained. Flood insurance is limited coverage and cannot be assumed to fully eliminate the effects of the water damage exclusion found in the homeowners policy.

The standard homeowner's policy contains numerous coverage extensions, including automatic coverage for contents and other structures. There is limited coverage for business property on the residence premises as well as full worldwide coverage for personal property. Most importantly, the homeowner's policy pays for the additional expense of living elsewhere when the dwelling is damaged by a peril insured against. None of these automatic extensions of coverage applies to the flood insurance policy.

The standard flood insurance policy covers a single building. Only one extension is made for other structures. Detached garages and carports used for parking vehicles may use 10 percent of the amount of coverage on the dwelling, thereby reducing the dwelling coverage by a comparable

amount. All other structures, such as sheds, garden houses, boathouses, and garage apartments must be insured by a second policy. Personal property, (if household goods), is insured while inside the dwelling or another fully enclosed building on the premises, but business property requires a second policy. Property located at an alternative location, such as a storage facility, requires another flood policy. Personal property in the open, in a basement, or under an elevated floor is not covered at all.

The flood policy has no coverage for indirect loss. Loss of rental income, loss of use, and additional living expenses are not paid by the standard flood insurance policy as they are by homeowners insurance. The financial consequences of water damage can be considerable and must be borne by the insured.

A final difference can be found in the settlement provisions. Flood insurance pays on an actual cash value basis. Certain conditions must be met in order to get a replacement cost settlement on the dwelling structure, including a requirement of residency for 80 percent of the year preceding the loss and an insured amount equal to 80 percent of the dwelling replacement cost. Personal property is always paid on an actual cash value basis.

Flooding can occur anywhere and it can be devastating to families and individual homeowners. Flood insurance is a necessity, but an understanding of the scope and limitations of the standard flood policy is a necessity as well. Flood insurance: it is not just another covered homeowner peril, it is a very special insurance product. ■

RCBAP Fills Flood Insurance Need, *continued from page 11*

Often condo associations will have separate, non-residential buildings that house machinery and equipment, or are exclusively for recreational purposes, or house commercial operations. These must be covered under the General Property Form and, since they are non-residential, they qualify for a maximum of \$500,000 insurance on the buildings and \$500,000 on the contents— all on an ACV basis.

Unlike the Dwelling and General Property policies, the RCBAP is the only flood policy having a co-insurance clause. It is applicable to the building and requires that the amount of insurance at the time of the loss be equal to the lesser of 80 percent or more of the full replacement cost of the building, or the maximum available amount of NFIP insurance. It operates similarly to the co-insurance clauses employed by the private insurance industry:

$$\frac{\text{Insurance carried}}{\text{Insurance required}} \times \text{Amount of loss} = \text{Recovery} - \text{Deductible}$$

The co-insurance clause does not apply to the contents insurance.

In dealing with condominium associations, many states have laws restricting the condominium association building policy from covering certain additions and alterations (part of the building structure) within the unit owners' apartments. The RCBAP, however, covers "...the entire building, for its real property elements, including all units within the building and the improvements within the units." (The term "improvement" is defined in the policy as "...fixtures, alterations or additions comprising a part of the insured building, including the units within the insured building".)

Many condominium buildings often display a great deal of architectural creativity. Consequently, insurance producers and their insureds should be aware of the portion of the definition of "building" that states that it includes, "...2. Additions and extensions attached to and in contact with the building by means of a common wall..." Many buildings may be connected by roof lines and/or walkways. Formerly, these structures might have been treated as a single building. Now, under the common wall concept (which also applies to the Dwelling and General Property forms), they would be separate buildings requiring separate

(continued on page 19)

FEMA Honors Private Sector Partners, *continued from page 1*

years. This year's winners were at the forefront in working toward the FEMA Director's 20-percent goal. The 1995 Arrangement Year award winners are listed below.

Agency of the Year Award

The Agency of the Year award was given to three insurance agencies for their innovative marketing strategies, superior policy growth, adherence to established underwriting guidelines, and participation in flood awareness activities. The winners are listed below in alphabetical order.

- **Aparicio, Walker & Seeling, Inc.**, of Metairie, La.
- **Bruce Clayton Insurance Agency** of Baytown, Tex.
- **Comegys Insurance Corner** of St. Petersburg, Fla.

Administrator's Club

The Administrator's Club award, initiated in 1990, is awarded to insurance companies participating in the NFIP's Write Your Own (WYO) Program. This award is based solely on flood insurance growth. In Sept. 1994, WYO companies were challenged with a 20 percent growth goal between Oct. 1, 1994 through Sept. 30, 1996. Each WYO company was placed in one of five categories, based on their size. Each company with the highest percentage of new growth for the first year of this challenge within their category qualified for the 1996 Administrator's Club. The special trophy was presented to the company with the

highest overall percentage growth with an increase of more than 2,000 new contracts. The 1995 Arrangement Year Administrator's Club winners are listed at the bottom of this page in alphabetical order.

Public Awareness Materials Contest

The Public Awareness Materials Contest winners were selected by the conference participants after viewing all of the flood insurance materials on display. The winners are listed below in alphabetical order.

- **American Bankers Insurance Company**
Poster
- **Bankers Insurance Group**
Newsletter
- **Integrand Assurance Company**
Spanish language item
- **ITT Hartford**
Advertising envelope
- **Liberty Mutual Group**
Specialty item
- **NCSI**
Mailing insert/stuffer
- **Omaha Property and Casualty**
Brochure
- **Prudential**
Kit

- **Selective Insurance Company**
Training item

- **USAA**
Print or video ad

Donald L. Collins Partnership Award

The 1996 National Flood Conference marks the second year that the Donald L. Collins Partnership Award was presented. The award is named for Donald L. Collins, an FIA executive who passed away in 1995. For more than 20 years, Mr. Collins fostered a close working relationship with our private sector partners and was largely responsible for the industry's goodwill toward the NFIP.

This year's award was presented to Michael J. Moye of NationsBanc. Mr. Moye, a long-time partner of the NFIP, is responsible for the establishment of the National Lender Insurance Council. As a result of his efforts, countless borrowers and lenders are protected by flood insurance.

Congratulations to all the winners! FIA appreciates your special efforts to increase the number of people who are protected with flood insurance. If you wish to nominate an agency for next year's Agency of the Year Award, contact Becky Reardon at (301) 918-1439 after January 15, 1997, and request a copy of the Agency of the Year nominating form. For the Public Awareness Materials Contest, watch your mail for information about how to submit your flood insurance materials for next year's conference! The 1997 National Flood Conference will be held in Pittsburgh, Pa. Make sure you take part! **W**

1995 ARRANGEMENT YEAR ADMINISTRATOR'S CLUB



Wade Hardcastle
American Sterling



Rick Restani
California State
Automobile Association



Ken Howard
Nationwide



Scott Shelton
Southern Farm Bureau
(trophy winner)



Reinaldo Amador
Union American



Jane Cook-Checchi
U.S. Security

We Want YOU to Attend Our Annual Conferences!

Are you interested in learning more about the National Flood Insurance Program and all the different groups involved in implementing it? Would you like to learn more about lenders' responsibilities and the role that state and local government officials play? How about what happens before, during, and after a flood disaster? Would you like to get first-hand updates about marketing, program simplification, lender compliance, and other NFIP efforts? Would you like to provide your input on ways to improve the NFIP? Would you like to meet industry leaders and discuss your experiences with them?

You can do all of these things and more at the annual National Flood Conferences. **Come to the 1997 National Flood Conference in Pittsburgh, Pa.** Get involved in learning more about the NFIP and contribute to improving it!

You can help us involve more agents by giving us some feedback. Tell us what would motivate you to come to our next conference by completing the information sheet on page 18 and faxing it to (301) 918-1479, or mailing it to NFIP Bureau and Statistical Agent, 10115 Senate Drive, Lanham, Maryland 20706, Attn.: Becky Reardon. Please fax or mail it no later than Jan. 3, 1997.

Here are a few more details about last year's conference to help provide informed responses on the information sheet.

Cost: \$175 for pre-registration, \$225 for registration at the conference

Duration: Three days, usually with an optional conference opener Sunday night, ending with a luncheon on Wednesday afternoon.

If you would like us to send you information about the upcoming conferences, please fill out the information below and fax it to (301) 918-1479, or mail it to NFIP Bureau and Statistical Agent, 10115 Senate Drive, Lanham, Maryland 20706, Attn.: Becky Reardon, no later than Jan. 3, 1997.

NAME: _____ TITLE: _____

COMPANY: _____

ADDRESS: _____

TELEPHONE NO: () _____ FAX () _____

Information Sheet about Insurance Agents Attending the National Flood Conference

1. I would go to the National Flood Conference if...

- | | |
|--|--|
| <input type="checkbox"/> CEU credits were available | <input type="checkbox"/> I could go one day only |
| <input type="checkbox"/> it were held within ___ miles of where I work | <input type="checkbox"/> it were less expensive |
| <input type="checkbox"/> my company would pay for it | <input type="checkbox"/> training/agent workshops were offered |
| <input type="checkbox"/> other (please list) _____ | |

2. How much would you pay to attend one day of the conference? \$ _____

3. How much would you pay to attend the entire conference? \$ _____

4. How many CEU credits per day would motivate you to attend? _____ CEU credits per day

5. What flood insurance topics would you be interested in hearing about?

- | | |
|--|--|
| <input type="checkbox"/> 30-day waiting period | <input type="checkbox"/> Mortgage Portfolio Protection Program |
| <input type="checkbox"/> Claims | <input type="checkbox"/> National Flood Insurance Reform Act of 1994 |
| <input type="checkbox"/> Community Rating System | <input type="checkbox"/> NFIP Leads Program |
| <input type="checkbox"/> Co-op advertising program | <input type="checkbox"/> Pre- and post-flood disaster activities |
| <input type="checkbox"/> Coverages | <input type="checkbox"/> Preferred Risk Policy/Low-cost policy |
| <input type="checkbox"/> Cover America | <input type="checkbox"/> Program simplification |
| <input type="checkbox"/> Customer service | <input type="checkbox"/> Rating and underwriting |
| <input type="checkbox"/> E&O exposure | <input type="checkbox"/> Reducing flood damage through mitigation |
| <input type="checkbox"/> Legal issues | <input type="checkbox"/> RCBAP |
| <input type="checkbox"/> Lender compliance | <input type="checkbox"/> Other (please list) _____ |
| <input type="checkbox"/> Marketing | _____ |

Answers to Questions About the Coastal Barrier Resources System

To help you better understand the Coastal Barrier Resources System and the sale of flood insurance in these areas, FEMA has prepared the information below.

What is the Coastal Barrier Resources System?

Congress passed the Coastal Barrier Resources Act in 1982 and the Coastal Barrier Improvement Act in 1990. These Acts define and establish a system of protected coastal areas (including the Great Lakes) and Otherwise Protected Areas (OPAs) known as the Coastal Barrier Resources System (CBRS).

The Acts define areas within the CBRS as depositional geologic features (such as a bay barrier, tombolo, barrier spit, or barrier island) consisting of unconsolidated sedimentary materials; subject to wave, tidal and wind energies; and protecting landward aquatic habitats from direct wave attack. The Acts further define coastal barriers as "all associated aquatic habitats, including the adjacent wetlands, marshes, estuaries, inlets and nearshore waters, but only if such features and associated habitats contain few manmade structures and these structures and man's activities on such features, and within such habitats do not significantly impede geomorphic and ecological processes."

The Acts provide protection to CBRS areas by prohibiting most expenditures of Federal funds within the CBRS. These prohibitions refer to "any form of loan, grant, guarantee, insurance, payment, rebate, subsidy or any other form of direct or indirect Federal assistance," with specific and limited exceptions.

How are CBRS areas determined and mapped?

Congress designated the initial CBRS areas in 1982. Subsequent modifications to the CBRS are introduced as legislation to be acted on by Congress, and originate from state and local requests as well as recommendations made by the U.S. Fish and Wildlife Service. After Congress approves additions to the CBRS, the new areas are assigned a unique effective date, after which Federal assistance prohibitions apply.

Once this process is complete, FEMA, in cooperation with the Department of the Interior, transfers CBRS boundaries to Flood Insurance Rate Maps using Congressionally adopted source maps entitled Coastal Barrier Resources System. Flood Insurance Rate Maps clearly depict the different CBRS areas and their effective dates with special map notes and symbologies. It should be noted that although FEMA shows CBRS areas on Flood Insurance Rate Maps, Congress is the only entity that may authorize a revision to CBRS boundaries.

Is Federal flood insurance available in the CBRS?

Below are specific situations where the sale of flood insurance in CBRS areas is or is not prohibited.

- Federal flood insurance is available in a CBRS area if the subject building was constructed (or permitted and under construction) before the CBRS area's effective date.
- For CBRS areas designated by the 1982 Act, the sale of Federal flood insurance is prohibited for structures built or substantially improved after Oct. 1, 1983.
- For subsequent additions to the CBRS, the insurance prohibition date is shown on the Flood Insurance Rate Map.
- For structures located in OPAs, insurance may be obtained if written documentation is provided certifying that the structure is used in a manner consistent with the purpose for which the area is protected.

If an existing insured structure is substantially improved or damaged, any Federal flood insurance policy will not be renewed. If a Federal flood insurance policy is issued in error, it will be canceled and the premium refunded: no claim can be paid, even if the error is not found until a claim is made.

(continued on page 20)

RCBAP, *continued from page 15*

identifications and separate amounts of insurance. This could cause errors and omissions problems for producers, so be sure you are familiar with the style of construction of the condominiums you are insuring.

With the advent of the RCBAP, the old "Condominium Master Policy," written on the General Property form at a maximum building amount of \$250,000, was eliminated. Therefore, if a condo association did not want to carry the RCBAP, it was left with two choices, neither of which we consider favorable:

1. Don't carry flood insurance at all!
2. Have each unit owner carry a policy in his or her name with coverage on the building.

In the first case, the lack of protection could be catastrophic (not to mention the fiduciary responsibility of the condominium's Board of Directors after making such a decision). In the second case, trying to get unit owners to do anything with any degree of unanimity is next to impossible. Consequently, there would be gaps that would create chaos when an assessment for flood damage was made and some of the unit owners had not purchased the individual flood policies. Trying to arrive at a proper limit of insurance would be equally difficult with the many policies involved.

The RCBAP is an important insurance product and one that fills a tremendous need. It provides the protection typically required as a result of the location of so many of these types of occupancies: i.e., near the water's edge; on the beach; overlooking lakes, rivers, and streams; and just plain in floodprone areas! With the clues above, study this policy and familiarize yourself with its features. As we said at the outset, "It's a good one." ■



Flood Insurance Information at Your Fingertips

With fax machines, computers, and the Internet, information is available to almost anyone in a matter of minutes. The Federal Emergency Management Agency has been taking advantage of these technologies to make sure you can get the information you need quickly.

FEMA Fax

Through the FEMA Fax, you can have flood insurance information, Federal disaster information, fact sheets, press releases,

World Wide Web

A wealth of information can be found about anything and everything on the World Wide Web. FEMA's web site is

DOCUMENT NO.	TITLE
23005	How the NFIP Works
23006	Myths and Facts About the NFIP
23007	What You Need to Know About Federal Disaster Assistance and Federal Flood Insurance
23014	List of Vendors Providing Flood Insurance Rating Software
23017	Agent's Sign up form for NFIP Leads Program
23018	Cover America Campaign materials order form
23019	Monthly Cover America update
23020	Memo: Clarification of Residential Condo Association Policy
23021	Quick Facts (Dated June 30, 1996)
23022	NFIP Policy Issuance 6-95
23023	NFIP Policy Issuance 7-95
23024	NFIP Public Awareness Materials, NFIP Supply, and NFIP Flood Insurance Manual Order Forms.
23100	Standard Flood Hazard Determination Form (SFHDF)
23101	Federal Regulator's Ruling on Use of SFHDF
23102	Review of Determinations for Required Purchase of Flood Insurance
23103	Standard Flood Hazard Determination Form and Instructions
23104	NFIP Policy Increase/Waiting Period
23105	Mortgage Portfolio Protection Program (MPPP), 60 FR 4488 (Aug. 29, 1995)
23106	NFIP Policy Issuance 8-95, 30-day waiting period
23107	How to Request a Lender Flood Hazard Determination Review
23108	Notification of Change in Servicer
23109	Regulator's Final Rule regarding National Flood Insurance Reform Act of 1994

considered to be among the top 5 sites visited most often. We have begun to include FEMA's web address on the Cover America advertisements and materials.

Here is the flood insurance information that is currently available on FEMA's web site by going to www.fema.gov:

- Summary of the Federal Insurance Administration
- Summary of the NFIP
- NFIP Community Status Book
- List of WYO companies that signed up to be included on our web site
- Myths and Facts About the National Flood Insurance Program
- What You Need to Know About Federal Disaster Assistance and Federal Flood Insurance
- How the NFIP Works
- Standard Flood Hazard Determination Form and Instructions
- Regulators' final rule regarding the National Flood Insurance Reform Act of 1994, specifically at www.fema.gov/NFIP/nfract.htm.

We are in the process of designing a special NFIP section within FEMA's site. Once this has been completed, you will find NFIP information organized from flood insurance to floodplain management to risk identification in one place.

We encourage you to use the FEMA Fax and the FEMA web site for the latest information about the NFIP. We have a virtual world of information about flood insurance just waiting to be accessed! ■

and more sent to your fax machine in minutes. Listed above are flood insurance materials that are currently available through the FEMA Fax.

To request any of these or to have an index of all the information available on the FEMA Fax sent to your fax machine, call (202) 646-FEMA. A recorded message takes you through the simple steps to have up to three documents faxed to you. You can also have the index of all available information faxed to you for future needs.

Answers to Questions, *continued from page 19*

What is Substantial Improvement or Substantial Damage?

Substantial improvement and substantial damage are defined in Part 59 of the National Flood Insurance Program Regulations. Substantial improvement is when the total cost of any reconstruction, rehabilitation, addition, or any improvement equals or exceeds 50 percent of the market value of the structure. Substantial damage is when the total cost to repair a structure to its before-damage condition equals or exceeds 50 percent of the structure's market value before the damage occurred.

For more information or answers to other questions, contact the Coastal Barrier Coordinator at the U.S. Fish and Wildlife Service for your state at one of the numbers below.

- (413) 253-8614 CT, DE, MA, ME, MD, NJ, NY, RI, VA
 (404) 679-7086 AL, FL, GA, LA, MS, NC, PR, SC, VI
 (612) 725-3536 MI, MN, OH, WI
 (505) 248-6786 TX ■

Cover America Campaign, *continued from page 1*

May 1995. Our first priorities were to conduct market research to design an effective message, develop and implement a media plan to increase awareness quickly, and produce tie-in materials to help NFIP stakeholders, like insurance companies and agents, make the campaign their own. And, here's what happened.

Market Research For Creative Development

For our first market research effort, we conducted focus groups and in-depth individual interviews across the country. We targeted homeowners, renters, and business owners who were and were not required to have flood insurance, and who did and did not have a policy; insurance agents; WYO companies; lenders; real estate agents; and state and local officials.

In the focus groups, people told us that they wanted to see flood scenes, but not houses that have been washed away. They wanted facts. They wanted to have a sense of hope that if a flood happened to them, they would be able to recover. And they wanted the truth and felt that the tag line, "We can't replace your memories, but we can help you build new ones," was honest.

Based on the results of the focus group research, we produced the concepts for the first television commercial and print ads. These concepts were presented in a second round of focus groups, which resulted in the commercials and ads you have all seen.

General Awareness Phase

The first phase of the campaign, from October 1995 through March 1996, was designed to increase awareness. The media plan that the NFIP Marketing and Advertising Servicer prepared reached 65 percent of all U.S. households 40 times through cable television alone in the first 6 months.

Our general awareness commercial was aired for the first time on The Weather Channel on Wednesday, Oct. 4 at about 11:30 a.m. On this day, Hurricane Opal was bearing down on Florida, and many of us were watching The Weather Channel. It really was great timing!

From October 1995 through March

1996, the first commercial appeared on nine national cable stations. In January 1996, we began showing this spot in 44 local markets on the ABC, CBS, NBC, and Fox affiliates. We retired our first commercial in March 1996.

Also in October 1995, our first print ad appeared in the Oct. 9, 1995 issue, of *Time* magazine. To create synergy among the different media, we used images from the television commercial for the print ads we developed. These flood insurance print ads appeared in 10 national consumer magazines, 5 national business magazines, and 4 national insurance trade magazines.

Response-Oriented Phase

In February of this year, we initiated our response-oriented phase of the campaign with two new television commercials. These commercials are designed to do more than create awareness. They motivate people to take action. One has a strong emotional appeal and the other is more logical, comparing flood insurance to other ways people choose to protect themselves. These spots have been aired nationally on 36 national cable stations, as well as on national and local ABC, CBS, and NBC stations.

In May, we initiated our response-oriented print advertisements. Again, we used images from the television commercials to create synergy among the various advertising vehicles. We also added an on-page coupon for readers to cut out and send in to get more information. Our print ads have appeared in 19 consumer magazines, 5 business magazines, and 4 insurance trade magazines. In three of the consumer magazines, we tested a postage-paid business reply card.

The call-to-action in every NFIP print ad and television commercials is, "Call your insurance company, agent, or 1-800-611-6123 ext. 000." And all the ads, commercials, and other materials include our tag line, "We can't replace your memories, but we can help you build new ones."

Co-op Advertising Phase

Through the NFIP co-op advertising program, insurance companies and agents share the cost of advertising with us on

television and in print. As we developed our offers, we talked with insurance agents and companies to determine their needs and normal business practices for this type of program.

First Offer

The first offer was available from January through June 1996. It was a 50/50 cost share for national television cable, local television spot, newspaper, or Yellow Pages display advertising.

Second Offer

Our current offer, available from July through December 1996, has two options:

1. Our insurance partner pays for three print ads (or any amount that totals 36 column inches) or a 1/4 page Yellow Pages display ad. In turn, the NFIP pays for 1 week of the NFIP television commercial with the agent or company name, logo, and telephone number in any market selected by the partner.
2. The NFIP and the insurance partner split a 50/50 cost share for print ads or Yellow Pages display ads

As of Sept. 30, 1996, almost 900 flood insurance print ads and 46 television modules have run with our insurance industry partners names. If you want more information about the co-op program, call an NFIP co-op manager toll-free at 1-800-564-8236.

Yellow Pages

Yellow Pages directories are a great way to reach people locally, and they give people a way to get the information they want when they want it. So, we have been working with Yellow Pages directories across the country to create a special "flood insurance" category under the "insurance" heading. Currently the "flood insurance" heading is in 9 percent of all directories. By September 1997, we anticipate that this heading will be in 91 percent of all directories. So far, we have selected 244 directories in 43 states to have the NFIP trademark listing with the toll-free number. This trademark listing has been distributed through Yellow pages directories to 12 million households.

(continued on page 22)

Cover America Update

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Consumer Mailings

Another way we are reaching people in local areas is through the mail. At the beginning of June, we sent an informational package about the NFIP to 200,000 consumers, in 18 counties, who did not have flood insurance. The package consisted of a brochure titled "Never Say Never," a reply card, and a special envelope. As of August 1996, we have received a 1 percent response rate which is very good.

Our second consumer mailing was sent in December, to 200,000 consumers in 20 counties. We will report the results in the next issue.

Public Relations Efforts

We also have Public Relations efforts underway to reach consumers, business owners, and industry members. Through these efforts, we have reached an audience of more than 12.5 million.

Media Tours

To publicly kick off the campaign, we conducted a satellite media tour on Oct. 20, 1995. Then Federal Insurance Administrator, Elaine A. McReynolds, was interviewed by 18 television stations across the country via satellite. These interviews were shown at a total of 34 times and reached an audience of 1.3 million.

We conducted a second satellite media tour on Jul. 18, 1996, featuring Spence Perry, then Acting Deputy Administrator. He was interviewed by 17 stations, which were aired 28 times reaching an audience of more than 1.7 million. And, on Jul. 29, 1996, we conducted a radio media tour, where Mr. Perry was interviewed by 21 stations and reached an audience of about 3 million.

Articles for trades and consumers

Another way we're reaching our audiences is through articles. We are targeting consumer publications, insurance and lend-

ing industry publications, and others. For consumers, we are writing "how-to" stories about flood insurance. To target insurance, lending, and other trades, we are preparing articles about specific flood insurance issues.

NFIP Booths/Exhibits

The new NFIP exhibit debuted at the 1996 National Flood Conference. This exhibit can be changed to make three different versions, one for consumers, one for insurance agents, and one for lenders. Starting in October 1996, we plan to display the consumer exhibit at consumer home shows across the country.

Speakers Kit

We are working on a speakers kit about the NFIP for NFIP Stakeholders to use for any audience. It will contain generic points about the NFIP, with special sections targeted to consumers, insurance agents and companies, lenders, and state and local officials.

NFIP Telephone Response Center

So, where does all of this activity come together? At the NFIP Telephone Response Center, where all calls for more information are directed. This facility helps us measure the response to the advertising and marketing efforts.

Service Representatives at the Telephone Response Center provide information to callers and refer callers to an agent who writes flood insurance. These referrals are either to the caller's current agent or company, or to an agent who has signed up for the NFIP Leads Program.

NFIP Leads Program

When someone calls the Telephone Response Center and needs an agent who writes flood insurance, we are able to refer that caller to an agent in his or her area through the NFIP Leads Program. As of September 1996, we have nearly 25,000 agents signed up for this program.

Here's how it works. When someone calls the toll-free number who would like

ood insurance but does not have an agent or company, or needs the name of an agent who writes it, we refer the caller to an agent in his/her zip code who has signed up for the leads program. However, before we refer a caller to one of the leads program agents, we determine if they already have an agent or company. If they do, and most of the callers do, we suggest that they contact their current agent or company to get a good insurance policy.

Results

Cover America has achieved extraordinary results so far, especially when you consider that the campaign is only a little over a year old!

Responses and Leads

From October 1995 through September 1996, we received nearly 100,000 responses. Close to 90,000 were calls to the Telephone Response Center. Almost

(continued on page 23)

A flood isn't the worst thing that can happen to you.

Do you want to be the one to tell them their homeowner's insurance doesn't cover floods?

Not being insured for...

When disaster strikes, you are one of the 70 million Americans who depend on you to make sure they're covered against the possibility of flood damage through the National Flood Insurance Program.

Here's what you can do:

- **Get your own coverage:** Coverage has been increased to \$250,000 on the building and \$100,000 on contents. In combination, coverage can be as high as \$350,000 for total loss and recovery. That means your possessions could be replaced.
- **We can't replace your insurance, but we can help you build new ones.**

1-800-611-6123...000

Let us help you understand how the National Flood Insurance Program can protect your home and family.

Call today! 1-800-611-6123...000

NFIP

Monthly Updates

To make sure you and other NFIP stakeholders know what is going on with Cover America, we have been preparing monthly updates that are available on the FEMA Fax. To have the update faxed directly to your machine, call 1-202-646-FEMA, and request document number 23019.

Cover America Update, *continued from page 22*

all of these callers were referred either to the caller's current agent or company or to one of the leads program agents. More than 7,700 of these callers have been referred to one of the leads program agents, who are alerted by telephone or fax that they have a lead.

In 10-day follow-up calls to almost 3,650 inquirers, we have found that, close to 20 percent (735) bought a policy, almost 35 percent (1,299) did not buy a policy, and a little more than 45 percent (1,616) are still undecided. With so many people undecided, there is still potential for agents to complete a great number of flood insurance sales.

Another way we determine how many callers bought flood insurance is by matching the caller information to the policyholder database to determine how many people buy a policy. So far, the results mirror the results from the call backs.

Research

The second way we measure results is through evaluative research. Last fall, we conducted a benchmark survey to establish a baseline from which to measure future survey results. To assess how we have changed perceptions and attitudes, we are conducting tracking surveys across the country with 1,200 homeowners and 600 business owners.

From the benchmark to the first tracking survey, we have found that awareness has increased as much as 16 percent. Of those who remember flood insurance advertising, more people recall the television ad than any other. However, while people are becoming more aware of floods, most still have an "it won't happen to me" attitude.

One of the questions we ask in our surveys is who would pay for damage to your home or business if a flood were to hit. We have found that most people (75 percent) look to their insurance company to pay for damages. Very few (3 percent) say that they would look to the government to pay for their damages after a flood.

People surveyed listed insurance companies and agents as their first source for assistance after a natural disaster. The government was listed last. Also, those

surveyed listed their insurance agent as providing the most reliable information about federally backed flood insurance.

This underscores the importance of providing accurate information to your customers. Tell your customers that everyone has some degree of flood risk and that everyone is eligible to buy flood insurance, as long as their property is located within a participating NFIP community. This way, you won't lose flood insurance sales or leave your customers exposed to uninsured flood losses.

We also ask people who have flood insurance why they bought it. At this point, our research shows that it's not education or income level that determines who buys it, instead, it is their knowledge of their flood risk. Fifty-eight percent say they have flood insurance because they are in a flood zone or because they would rather be safe than sorry. Thirty-two percent say they have it because their lender requires it. And 62 percent of those surveyed agreed that flood insurance is a wise investment.

When survey respondents say that they do not have flood insurance, we ask why. The most common response is because there is no need. We have been successful, however, in reducing this perception by 32 percent! The second most common response is that they don't live in a high-risk area, and therefore think they are unable to buy it. The response cited least is that flood insurance is too expensive.

Increasing awareness and changing thoughts and patterns are a large part of what Cover America is designed to do. The more effective we are, the more sales we will see. Remember, it takes time for these changes to occur.

Where We Go From Here

While we have accomplished many things, there are even more on the horizon. We are going to continue with many of the efforts we initiated in the past year and are planning some new activities. Here are

some of those under consideration for the coming year:

- Target state and community officials, insurance agents, and others
- Help other groups use our information to reach their own constituents and customers
- Use radio to target Hispanic and other underserved audiences

We encourage agents to take advantage of Cover America. Make it your campaign by signing up for the leads program; getting your name and number in front of your potential customers through the co-op advertising program; and using the various tie-in materials like the "Never Say Never" brochure, the stuffers, and posters to reach your customers who don't have flood insurance. We have almost 100,000 responses from people who are interested in buying flood insurance, and our research shows that you are the trusted source of information about flood insurance.

Through Cover America, we are increasing awareness and generating leads for you. Now, it's up to you to close the sale! ■

Premiums by Credit Card Paying Off

One of the initiatives launched in 1995 as part of Program Simplification, was to permit the payment of NFIP premiums by credit card. Since its inception this initiative has met with great success. Premiums paid by credit card, on a monthly bases, is fast approaching \$1 million, with 25 companies now utilizing the credit card payment mechanism. As of August 1996, the total written premium paid by credit card has now exceeded \$4 million.